

## SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### North Kitsap School District No. 400 September 1, 2018 through August 31, 2019

**2019-001    The District did not have adequate internal controls to ensure compliance with federal Impact Aid program cost principles.**

<b>CFDA Number and Title:</b>	84.041 – Impact Aid
<b>Federal Grantor Name:</b>	U.S. Department of Education
<b>Federal Award/Contract Number:</b>	N/A
<b>Pass-through Entity Name:</b>	N/A
<b>Pass-through Award/Contract Number:</b>	N/A
<b>Questioned Cost Amount:</b>	\$61,101

***Description of Condition***

The objective of the Impact Aid program is to provide financial assistance to local educational agencies whose local revenues or enrollments are adversely affected by federal activities. These activities include the federal acquisition of real property or the presence of children residing on tax-exempt federal property or residing with a parent employed on tax-exempt federal property (“federally connected” children). Payments are made based on the number of federally connected children reported on an annual application, with additional funds provided for certain federally connected children with disabilities. During the 2018-19 school year, the District received \$1,411,842 in Impact Aid funds. Of this amount, it received \$195,566 for federally connected children with disabilities.

Much of the funding received was not subject to allowable costs/cost principles requirement. However, those requirements are applicable to the funding it receives for federally connected children with disabilities to conduct programs or projects for the free appropriate public education of the federally connected children with disabilities who generated those funds.

The District used the funding received for federally connected children with disabilities to pay the salaries and benefits of special education staff. Of the total \$195,566 in payroll costs, the District posted a journal entry to transfer \$82,189 in

costs from the Federal Special Education program to the Impact Aid program. We reviewed the payroll transactions to determine if the District supported salaries and benefits charged to Impact Aid with adequate time and effort documentation as required by federal regulations. The District provided time-and-effort documentation to show staff worked with children with disabilities but did not show that those students were federally connected.

Federal regulations require recipients of federal funds to establish and follow internal controls to ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of program controls. We found the District's internal controls were not adequate to ensure compliance with the allowable costs principles applicable to funding received to support federally connected special education students. We consider this deficiency in internal controls to be a significant deficiency.

This issue was not reported as a finding in the prior audit.

### ***Cause of Condition***

District staff were aware of time-and-effort requirements and thought the time-and-effort documentation used in the Federal Special Education program would be sufficient to meet Impact Aid program requirements. Staff were not aware that when it charged the payroll costs to the Impact Aid program, the time-and-effort documentation must demonstrate the charged costs served only federally connected children with disabilities.

### ***Effect of Condition and Questioned Costs***

Although the District did not have adequate time-and-effort documentation for the \$82,189 in payroll costs charged to the Impact Aid program, the District provided alternative documentation to show special education staff worked with federally connected children with disabilities, supporting payroll costs of \$21,088. The District did not provide support that staff worked with federally connected students for the remaining \$61,101 in payroll costs. Therefore, we are questioning these costs. The District's noncompliance with grant requirements could jeopardize future federal funding and might require it to return federal funds to the grantor.

### ***Recommendation***

We recommend the District establish and follow adequate internal controls and monitoring to ensure it complies with all federal compliance requirements for its Impact Aid grant. This includes obtaining adequate time-and-effort documentation to support staff worked with federally connected children with disabilities.

### ***District's Response***

*North Kitsap School District personnel in the Special Education Department and the Business Department did not fully understand the requirements for documentation of the Federal Impact Aid funding for federally connected special education children. Thus the documentation to connect expenditures using a detailed account code string to specific federally connected children was not completed. However, regardless of the insufficient documentation, the North Kitsap School District incurred more total expenditures for Special Education Children, including federally connected children, far in excess of the revenues received from all state and federal sources. Local levy revenues of \$1,292,388 were used to supplement Special Education revenues from state and federal sources. While the Federal Impact Aid revenues received does not have all the documentation required, the federal revenues were utilized to support the Special Education needs of the federally connected Special Education children.*

### ***Auditor's Remarks***

We appreciate the District's commitment to resolve the finding and thank the District for its cooperation and assistance during the audit. We will review the corrective action taken during the next regular audit.

### ***Applicable Laws and Regulations***

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Audition Standards, section 935, Compliance Audits, paragraph 11.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

Title 2 CFR Part 200, Uniform Guidance, section 303 Internal controls, establishes internal control requirements for management of Federal awards to non-Federal entities.

Title 2 CFR Part 200 Uniform Guidance, Subpart E, Cost Principles, – establishes requirements for determining allowable costs and supporting costs allocated to federal programs.

Office of Superintendent of Public Instruction (OSPI) Addendum to Bulletin 048-17, Federal Fiscal Policy, establishes requirements for documenting time-and-effort for employees that work in federal programs.