

North Kitsap School District No. 400

General

Code: 03NorthKitsap-AC19-SA19
Name: North Kitsap School District No. 400
Group: Port Orchard
Type: 03-School District
Location: Kitsap
Scope: Accountability, Financial, SA

Team

Lead: Leah Glazener
Manager: Melinda Seibert

Procedures

C.4.PRG - Impact Aid - 84.041

Procedure Step: A-B Activities Allowed/Allowable Cost
Prepared By: MAS, 6/18/2020
Reviewed By: CJE, 6/22/2020

Purpose/Conclusion.*

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Purpose:

To determine if internal controls provide reasonable assurance that 1) Federal awards are expended only for allowable activities, 2) the costs of goods and services charged to Federal awards comply with the applicable cost principles, and 3) Federal awards are obligated within the appropriate period, and to test compliance with those requirements.

Conclusion:

We determined internal controls **do not** provide reasonable assurance that activities allowed/allowable cost requirements are met, and tested compliance with those requirements.

Based on our testing, we identified the following **control deficiencies, questioned costs, and/or noncompliance**, which we carried to the Major Federal Program worksheet Major Federal Program - Local teams:

- As detailed in the ROWD, the District completed journal entry 18-0722 moving \$82,189.38 in salary and benefit costs from federal special education (Program 24) to federal impact aid (Program 29). No specific costs were moved for a specific staff member. The District was unable to provide time and effort documentation for Program 29 for any of the staff charged to the specific program code the costs were moved from (specifically Program 2436). The District could provide time and effort for Program 24 (indicating the staff worked with Special Education students) but not Program 29 (so does not indicate students worked with were Federally Connected). This resulted in \$61,101.06 in questioned costs.

See LOR Summary for our evaluation of reporting level and The District did not have adequate internal controls to ensure compliance with federal Impact Aid program cost principles for our recommendation.

Record of Work Done.

Inherent Risk of Noncompliance

In accordance with AU-C sec. 935, we have considered inherent risk factors that apply to this compliance requirement and assess the inherent risk of noncompliance at **LOW**.

Understanding of Internal Controls

In obtaining our understanding of internal controls over compliance, we considered the five components of internal control per AU-C sec. 315 (control environment, risk assessment, control activities, information and communication, and monitoring). See the Permanent File folder for additional documentation of our overall COSO evaluation.

Per review of the Vouchers for Impact Aid, we determined \$1,215,276 (or 86%) of the amount received by the District is 7003(b) funds or Basic Support payments. Per the 2019 compliance supplement, funds made available under section 7003(b) usually become part of the general operating fund. These funds are available as general aid for free public education and may be used for current operating expenditures or capital outlays in accordance with state laws. The auditor is not expected to perform any test with respect to the expenditure of these funds. Section

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7003(b) funds are not subject to allowable cost/cost principle requirements.

The remaining \$196,566 (or 14%) are Section 7003(d) funds for Federally Connected Children with Disabilities payments. Per the 2019 compliance supplement, Districts must use payments from 7003(d) funds to conduct programs or projects for the free appropriate public education of the federally connected children with disabilities who generated those funds. Allowable costs include expenditures reasonably related to the conduct of programs or projects for the free appropriate public education of children with disabilities, including program planning and evaluation and acquisition costs of equipment (except if the equipment would not be held by the District). Costs for school construction are not allowable.

Per review of FAP, all costs but \$362 are payroll and benefit costs. Based on this information, we determined accounts payable (A/P) controls are not direct and material and payroll controls are. To gain an understanding of internal controls over activities allowed/allowable costs we spoke with Financial Services Manager, Renata Sorna and Special Services Director, Lori Buijten.

Renata explained that all revenues and expenditures for Special Education services for Impact Aid are recorded in Program 2900. Revenues and Expenses for program 2900 are treated in the same manner as all other Special Education program revenues/expenses. The Special Services Department is responsible for use and monitoring of these funds.

Lori approves all Special Education Program purchases/expenses, including those in Program 2900 (SPED Impact Aid). Lori reviews all payroll expenditures to ensure costs are for allowable activities.

Starting during the 2018-19 school year, Lisa Pruett is the Payroll Coordinator and responsible for all time and effort for the program. In the 18/19 school year, the staff assigned to the SPED program worked on a fixed schedule and worked exclusively in the SPED program. Lisa prepares the semi-annual certification for Special Ed for all the classified (non-teaching) employees which are the only employees charged to the program. Lisa prepares the first certification for months September through January and the second one for February through June. Twice a year, she receives an updated list from the district payroll office detailing all staff charged to the Special Ed program. Using this list, she maintains her own list of Special Ed staff to ensure all staff included on the payroll report are included on her list and receive a certification. Using the list, Lisa ensures all staff not only receive the semi-annual certifications, but also that the staff have signed and returned the certifications. All completed certifications are maintained in a binder.

The District relies on the Skyward Payroll module to correctly calculate gross and net pay and retain cost allocation breakdown established in the profile tables. If error or changes are noted during the certification process (i.e. a staff member's schedule changes), Lisa will send the updated information to the Payroll department so the the appropriate corrections can be done. In some instances, substitute teachers are charged to program, and when this is the case, they complete a daily timesheet. The timesheets are maintained at the buildings. There were no substitute teachers charged to the grant in the 2018/19 school year.

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Key Controls:

1. **Payroll Expenditure Calculation:** The District relies on the Skyward Payroll module to correctly calculate gross and net pay and retain cost allocation breakdown established in the profiles and tables.
2. **Time and Effort:** To ensure appropriate time and effort is obtained from all staff charged to Program 29, twice a year, the Payroll Coordinator, Lisa Pruett, reviews all staff with charges to the program and compares it to her employee tracking spreadsheet. She then obtains the appropriate time and effort support (semi-annual or monthly) for each, tracking the documentation on her spreadsheet.

Evaluation of Results:

We did not identify any control deficiencies.

Preliminary Control Risk Assessment

Based on our understanding of key internal controls, we assess preliminary control risk at:

Activities Allowed & Cost Principles **LOW**

Internal Control Testing

1. **Payroll Expenditure Calculation: The District relies on the Skyward Payroll module to correctly calculate gross and net pay and retain cost allocation breakdown established in the profiles and tables.**

Change Management was deemed the most relevant General IT Control to impact the cost allocation and payroll calculation. This process is the responsibility of WSIPC and individual Districts do not have a significant impact or involvement on the process. Therefore, Change Management is not applicable for this District. Documentation and work performed on Change Management can be found at C1CentralSchools-SP19. See IT Control Testing - Skyward Payroll Calculation.

2. **Time and Effort: To ensure appropriate time and effort is obtained from all staff charged to Program 29, twice a year, the Payroll Coordinator, Lisa Pruett, reviews all staff with charges to the program and compares it to her employee tracking spreadsheet. She then obtains the appropriate time and effort support (semi-annual or monthly) for each, tracking the documentation on her spreadsheet.**

We reviewed semi-annual time and effort certifications for Stephen Kunkel and noted no exceptions. This was the only staff member included in Lisa's tracking that was charged to Program 29. We did not identify any other direct payroll costs charged to Program 29. However, we noted journal entry 18-0722 moving \$82,189.38 in salary and benefit costs from federal special education (Program 24) to federal impact aid (Program 29). No specific costs were moved for a specific staff member. The District was unable to provide time and effort documentation for Program 29 for any of the staff charged to the specific program code the costs were moved from (specifically Program 2436). The District could provide time and effort for Program 24 (indicating the staff worked with Special Education students) but not Program 29 (so does not indicate students worked with were Federally Connected).

Evaluation of Results:

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We identified the following control deficiency:

As detailed above, the District completed journal entry 18-0722 moving \$82,189.38 in salary and benefit costs from federal special education (Program 24) to federal impact aid (Program 29). No specific costs were moved for a specific staff member. The District was unable to provide time and effort documentation for Program 29 for any of the staff charged to the specific program code the costs were moved from (specifically Program 2436). The District could provide time and effort for Program 24 (indicating the staff worked with Special Education students) but not Program 29 (so does not indicate students worked with were Federally Connected).

1. Using the decision matrix (Major Federal Program - Local teams) we determined the likelihood of noncompliance is more than remote and the magnitude of potential noncompliance on the program as a whole is less than material. The District was unable to provide adequate support for \$82,189.38 in impact aid charges, which is approx. 5.8% of total impact aid expenses.
2. Since the control deficiency lead to noncompliance exceeding 5% of total grant expenditures, we will document our final control risk at HIGH. We evaluated the level of reporting at LOR Summary and documented our recommendation at The District did not have adequate internal controls to ensure compliance with federal Impact Aid program cost principles.

Final Control Risk Assessment

We assess final control risk at:

Activities Allowed & Cost Principles **HIGH**

Risk of Material Noncompliance

We assess the risk of material noncompliance at:

Activities Allowed & Cost Principles **HIGH**

Compliance Testing

A. Direct Costs

We determined we will use a haphazard method for selecting transactions since transactions are very minimal. Costs consist of:

\$100,135.00 (50.9% of 7003(d) expenditures) - Salary and Benefit costs for Stephen Kunkel
\$82,189.38 (41.8% of 7003(d) expenditures) - JE 18-0722
\$14,241.81 (7.2% of 7003(d) expenditures) - Misc. expenditures
\$196,566.19 - TOTAL 7003(d) expenditures

1. Selected Expenditures:

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We selected Mr. Kunkel's salary and benefit costs and JE 18-0722 for testing as these represent 92.8% of 7003(d) expenditures. We tested selected expenditures for compliance with the activities allowed and the Uniform Guidance cost principles using the A-B Expenditure Testing spreadsheet attached at [A-B - Expenditure Testing](#). All of the attributes are included on the spreadsheet. The District was able to provide adequate time and effort support indicating Mr. Kunkel worked in program 29 full time. However, JE 18-0722 did not move specific costs for a specific staff member. The District was unable to provide time and effort documentation for Program 29 for any of the staff charged to the specific program code the costs were moved from (specifically Program 2436). The District could provide time and effort for Program 24 (indicating the staff worked with Special Education students) but not Program 29 (so does not indicate students worked with were Federally Connected). See below for our evaluation of results.

However, the District did provide some support to reduce questioned costs. Below are our steps to confirm questioned costs:

The District moved \$82,189.38 in salary and associated benefit costs from account 2436. We obtained a report from FAP (by detailed account code) and identified eight staff members charged to account 2436. The District was able to determine three of these staff members, all paraeducators, worked with federally connected children. The District completed a calculation and provided support, such as staff schedules and payroll information. See [CONFIDENTIAL - Questioned Costs Calculation](#). We reviewed and verified each component used in the calculation and determined the calculation was adequately supported. We additionally reviewed this calculation with Single Audit Specialist, Felicia Den Adel and found it to be reasonable. Based on our conclusions, we determined the District could support \$21,088.32 of the \$82,189.38 costs that were moved, leaving \$61,101.06 in questioned costs.

2. [Applicable Credits](#):

Not applicable - The District does not receive funding from this program based on reimbursement of costs but based on the number of Federally Connected children. While the District still needs support to show 7003(d) funds are spent on Federally Connected children with disabilities, credits would not effect amounts received. As noted above, we tested \$182,324.38 or 92.8% of 7003(d) funds. The remaining amount that was not tested, totaling \$14,241.81, is only 7.2% of 7003(d) funds and only 1% of total Impact Aid funds, so is not material. We will pass on further review.

3. [Impact of improper payments or unallowable costs](#)

Improper payments identified above are the result of salary and benefit costs that were moved by journal entry to Program 29 without adequate support. There are no other "directly associated" costs to consider.

B. Indirect Costs

Not applicable, there were no indirect costs for this program.

Evaluation of Results:

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We identified the following noncompliance:

As detailed above, the District completed journal entry 18-0722 moving \$82,189.38 in salary and benefit costs from federal special education (Program 24) to federal impact aid (Program 29). No specific costs were moved for a specific staff member. The District was unable to provide time and effort documentation for Program 29 for any of the staff charged to the specific program code the costs were moved from (specifically Program 2436). The District could provide time and effort for Program 24 (indicating the staff worked with Special Education students) but not Program 29 (so does not indicate students worked with were Federally Connected).

1. Using the decision matrix (Major Federal Program - Local teams) we determined the magnitude of actual noncompliance on the program as a whole is less than material. The District was unable to provide adequate support for \$82,189.38 in impact aid charges, which is approx. 5.8% of total impact aid expenses.
2. Based on discussions with the District, the noncompliance occurred because Finance Department staff were not aware of requirements and thought program 24 time and effort would be sufficient since it shows staff worked with Special Education students. They did not realize support would also need to show these students were federally connected as well.
3. As noted above, we tested \$182,324.38 or 92.8% of 7003(d) funds. The remaining amount that was not tested, totaling \$14,241.81, is only 7.2% of 7003(d) funds and only 1% of total Impact Aid funds, so is not material. Noncompliance was identified with the journal entry; no other journal entries were identified.
4. We continue to assess final control risk at HIGH. See our evaluation of reporting level at LOR Summary and our recommendation at The District did not have adequate internal controls to ensure compliance with federal Impact Aid program cost principles..