

SECTION III RECURRING AUDIT ISSUES

Useful Information

A. INTRODUCTION

The Seattle Public Schools is faced with managing its grant programs and activities under increasing complex regulations, increased expectations, and with closer scrutiny by the Federal and State governments and the general public. Such increased scrutiny is occurring at a time of dwindling administrative resources dedicated to monitor and insure that grant funds are being used appropriately and in a “compliant matter” with the terms and conditions of the grant award documents.

With the implementation of the OMB Circular A-133 Federal Single Audit Regulations for local educational agencies and with the changes to OMB Circular A-87 – Cost Principles, we expect increased scrutiny of both our direct and indirect charges to our grant and revenue-producing agency service agreements and contracts.

This material is provided to briefly describe the audit and monitoring structure of the District and to provide examples of audit exceptions (findings) recurring in local educational agencies throughout the State under the administration of Federal, State and other grant programs.

B. AUDIT STRUCTURE

As part of a coordinated audit/monitoring approach, the Accounting Office and the Grants Office are working closely with the State Auditor’s Office and the State Office of Public Instruction to:

1. Understand the scope and content of Federal and State auditing and monitoring of the District’s grant program.
2. Self-monitor District compliance to the scope and content of Federal and State auditing and monitoring activities.
3. Coordinate and facilitate Federal and State audit and monitoring activities in the District.
4. Respond, on behalf of the Superintendent, to Federal and/or State audit or monitor findings.
5. Monitor steps taken by the District to resolve audit and monitor findings.

Federal and State audit and monitoring activities include both a financial review and a program review. The review is conducted to determine the “compliance status” of the District’s practices and procedures in carrying out the mandates of Federal and State statutes and regulations.

C. DISTRICT EXPECTATIONS

It is the goal of the District to remove or eliminate exposure to Federal or State audit findings of a fiscal or program nature. The District, partially as a direct result of the Moss Adams Recommendations and good practices, has taken aggressive steps to strengthen the District’s

integrated grant management program in an effort to eliminate the potential of future audit findings and payback of funds.

Central administrators and program managers are expected to take necessary steps to insure that they are operating grant supported programs in full compliance with the Federal and State statutes and regulations and with the stated terms and conditions of each individual grant program.

D. COMMON AUDIT FINDINGS (Fiscal)

1. Summary of Findings

a. Payroll

1. Payment of salaries based upon funding instead of actual effort.
2. Hourly employees were paid with no documentation of hours worked.
3. Hourly employees were not paid based on actual hours worked.
4. Grant was “cross charged” rather than proper payroll or accounting paperwork submitted.
5. Inconsistent treatment of grant support services.
6. Deficient Salary Certification Reports (not signed, not submitted, no direct knowledge of work performed).

b. Purchasing

1. Purchase did not directly benefit grant.
2. Inadequate documentation of approval.
3. Costs normally treated as indirect costs were directly charged to grants.
4. Direct costs were not allocated to benefiting grants on a reasonable basis.

c. Improper Use of Cost Transfers

2. Specific Findings

Compliance: Salaries/Personnel

INCORRECT PRACTICE	CORRECT PRACTICE
<p>1. Charging of salaries was based upon funding instead of actual effort because of the following reasons:</p> <ul style="list-style-type: none"> a. To use up surplus monies or avoid deficits. b. Grant period ended or grant funds were used up before completion of the project. c. Funds were not received before the start of the grant period. 	<p>1. Charging of salaries must be based upon actual effort and payment must be made in the corresponding pay period.</p>
<p>2. Hourly wages paid with no documentation of hours worked and payment for hours not worked.</p> <p>The managers reluctance to process Personnel Action forms and Retroactive Salary Transfers resulted in:</p> <ul style="list-style-type: none"> a. Salaries charged to sponsored projects were not for those individuals that performed actual work that benefited the project. b. Salaries were charged in the wrong service period. 	<p>2. Payment of wages must be based upon actual hours worked and payment and hours must be properly documented and approved.</p>
<p>3. Grant was “cross charged”, i.e., costs charged to project based upon funding, convenience or to “payback” departmental accounts for coverage of deficits.</p>	<p>3. Use proper accounting and payroll forms such as Request for Transfer of Expenditure, Deficit Transfer Request and Retroactive Salary Transfer Request.</p>
<p>4. Inconsistent treatment of grant support services, such as clerical support, computer programming and supplies.</p> <p>Costs normally treated as indirect were directly charged to sponsored projects without proper justification and approval.</p>	<p>4. Departmental services must be charged using a reasonable, consistent method (either direct or indirect) and be charged based upon actual services performed or units used.</p>
<p>5. Deficient Salary Certification Report, i.e., not signed, not submitted or not signed by individuals with direct knowledge of work performed.</p>	<p>5. Salary Certification Reports must be submitted to the Accounting Office by the date noted on the form. They must be signed by the principal or individual with direct knowledge of work performed by individuals paid on the research project.</p>

Compliance: Purchase of Goods and Services

INCORRECT PRACTICE	CORRECT PRACTICE
1. Goods and Services purchased that did not directly benefit the project, were received outside the project period or were charged for amounts not proportionate to the benefits received. The most common reason for this is to use up surplus monies.	1. All goods and services allocated as direct costs <u>must</u> have a direct benefit to the project and received during the project period.
2. Office supplies, basic telephone, subscriptions and memberships charged directly without proper justification and approval.	2. Normal “indirect” costs may only be charged in circumstances that have been properly justified and approved.
3. Inadequate documentation of approval. Purchase documents were not approved in accordance with the requirements of OMB Circular A-87.	3. The program manager or designee, with firsthand knowledge of project and work performed, must indicate approval for goods and services, including payroll prior to the transactions.
4. Improper or not “reasonable” basis used to allocate shared direct costs. Examples include supplies, equipment, rent for off-campus facilities, etc.	4. Distribute costs between two or more projects based upon “proportional benefit” or “interrelationship.”
5. Failure to obtain required grant agency’s approval.	5. Written prior approval must be obtained to incur any cost that requires prior approval as per grant agency’s rules and regulations and/or grant terms and conditions.
6. Improper use of Cost Transfer Invoices. Costs not allowed or costs that did not directly benefit the grant agency’s agreements were transferred from one budget to another to avoid restrictions imposed by law or by the grant agency’s agreement.	6. Cost Transfer Invoices may only be used to purchase goods and services that directly support the project.