

SINGLE AUDIT – MOST COMMON FEDERAL AWARD FINDINGS

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Overview of 2010-11 Audit Findings

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- 174 Federal Single Audit Findings
- 108 Different School Districts, CESAs and 2r Independent Charter Schools

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Overview of 2010-11 Audit Findings

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- Allowable Cost
 - 143 Time and Effort Findings
- Fiscal Management
 - No Separate Ledger Accounts
 - Review and Signoff of Claims
 - Project Detail Does Not Support Final Claim
 - Claim Did Not Agree With General Ledger
 - Claims in Excess of Eligible Cost
 - Costs Claimed Did Not Have Supporting Documentation

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Overview of 2010-11 Audit Findings

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- Code of Federal Regulations; Title 34: Education
 - PART 80—Uniform Administrative Requirement for Grants and Cooperative Agreements to State and Local Governments
 - ✦ Financial management systems standards:
 - (1) Financial reporting
 - (2) Accounting records
 - (3) Internal control
 - (4) Budget control
 - (5) Allowable cost
 - (6) Source documentation
 - (7) Cash management

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AUDIT PROCESS

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Audit Process in General

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- U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement
 - Compliance supplement to assist auditors in performing the required audits
 - ✦ Each federal program has specific requirements
 - ✦ Auditors do not need to research laws and regulations for each program
 - ✦ Understanding the objectives, procedures and compliance requirements of each program

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Audit Process in General

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- U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement
 - Use of the supplement is mandatory
 - Identifies important compliance requirements that the Federal government expects to be included in the audit

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When is the auditor required to perform a federal single audit under OMB Circular A-133?

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- LEAs that expend \$500,000 or more in a year in Federal awards shall have a single audit conducted for that year.
- The determination of when an award is expended should be based on when the activity related to the award occurs.
- When a school is not subject to a single audit, they are still subject to compliance with the federal award
- DPI performs fiscal monitoring

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When is the auditor required to audit a specific federal program?

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- Auditors use a risk-based approach in determining which programs will be audited in the current year for compliance
 - Internal controls over federal awards
 - Dollar amount of award
 - Evaluate risks associated with the grant
 - Past experience with auditing the award
 - Past experience with auditing the client
 - Coverage of expenditures

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Audit Findings Required to be Reported

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- Significant deficiencies in internal control over major programs
- Material noncompliance with laws, regulations, contracts, or grant agreements related to a major program
- Known questioned costs >\$10,000 for a type of compliance requirement for a major program
- Likely questioned costs >\$10,000 for a type of compliance requirement for a major program

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Audit Findings Required to be Reported

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- Known questioned costs >\$10,000 for a Federal program not audited as a major program
- Circumstances for an unqualified opinion (if not already reported as a finding)
- Known fraud affecting a Federal award, unless otherwise reported as a finding
- Instances where the district materially misrepresents the status of any prior audit finding

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Audit Finding Detail

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- Enough detail that district can write a corrective action plan and DPI can arrive at a management decision
 - Federal program and specific Federal award identification including
 - ✦ CFDA title and number
 - ✦ Federal award number and year
 - ✦ Name of Federal agency
 - ✦ Name of pass-through entity

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Audit Finding Detail

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- Criteria or specific requirement upon which the audit finding is based
 - Including statutory, regulatory, or other citation
- Condition found
 - Including facts that support the deficiency identified in the audit finding
- Identification of questioned costs and how computed
- Enough information for judging the prevalence and consequences of the finding
 - (i.e. isolated instance or a systemic problem)

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Audit Finding Detail

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- Possible asserted effect
 - Provide sufficient information to the district and to DPI so they can determine cause and effect and facilitate proper corrective action
- Recommendations to prevent future occurrences
- View of responsible officials of the school when there is disagreement with the finding
- Reference numbers

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Year ended June 30, 2011
(Continued)

C. Federal and State Award Findings and Questioned Costs

2011-2: Time and Effort Reporting

US Department of Education:

- 84.215 Physical Education Program
- 84.387 ESEA Title II-A,
- 84.010 & 84.389 Title I, Part A Cluster
- 84.027, 84.173, 84.391 and 84.392 Special Education Cluster

Condition and Criteria: Federal award guidelines state and employee who works, in whole or in part, on a federal program or cost objective must document their time and effort spent working on each federal program or cost objective. An employee who works solely on a single cost objective must furnish a semi-annual certification that he/she has been engaged solely in activities that support the single cost objective. An employee who works on multiple activities or cost objectives must complete a personnel activity report which demonstrates the amount of actual time spent working on the federal grant objectives, on at least a monthly basis. The District was unable to provide sufficient time and effort reporting documentation for any employees who were funded by a federal program.

Questioned Costs: Due to no time and effort reporting, the following tested salary and benefits are considered questioned costs:

Physical Education Program	\$	43,247
ESEA Title II-A		328,793
Title I, Part A Cluster		521,753
Special Education Cluster		670,725

Special Education Cluster 670,725

Effect: The District is not in compliance with the federal requirement of time and effort reporting for employees who work on Federal programs.

Cause: The District did not establish time and effort reporting.

Auditor's Recommendation: We recommend that the District implement a process to track employees' time and effort worked on federal programs. An employee who works solely on a single cost objective must furnish a semi-annual certification that he/she has been engaged solely in activities that support the single cost objective. An employee who works on multiple activities or cost objectives must complete a personnel activity report which demonstrates the amount of actual time spent working on the federal grant objectives, on at least a monthly basis.

District's Response: The District was not aware of the time and effort reporting requirements. The District will implement time and effort reporting in accordance with OMB Circular A-87, effective fiscal year 2011-2012 and will maintain time and effort reporting for all employees charged to federal grants.

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COMMON AUDIT FINDINGS 2011-12



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Audit Procedures that Identify Federal Grant Findings

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- OMB Circular A-133 requires auditors:
 - Obtain an understanding of the internal controls in place over federal grants
 - Test the internal controls
 - ✦ How does an auditor test controls?

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Internal Control Deficiencies

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- Common Control Deficiencies
 - Segregation of Duties
 - Preparation of financial statements and schedule of financial assistance
 - Material Adjustments

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Segregation of Duties

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- Example:
 - 3 staff in business office
 - (Bookkeeper/Accountant, Superintendent, Secretary)
 - ✦ Accountant enters the employee information into the payroll system
 - ✦ Accountant enters time sheets into payroll system
 - ✦ Accountant runs the payroll
 - ✦ Accountant sends off electronic payment
 - ✦ Accountant reconciles the bank account
 - ✦ Accountant prepares W-2s

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Segregation of Duties – Types of Corrective Action

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- Segregation of Duties:
 - Review of payroll report by a party independent of the processing and reporting procedures
 - ✦ Who enters employee information?
 - ✦ Who runs the payroll?
 - ✦ Who reviews the payroll register?
 - ✦ Who reviews the W-2's?
 - ✦ Who performs or reviews the bank reconciliation?
 - Secretary may be able to assist in one of the duties
 - Superintendent may be able to provide review
 - Board and Management knowledge of matters relating to the district

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Preparation of Financial Statements

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- Auditing Standards are making it harder for auditors to justify creating the financial statements
- Standards are influenced by large accounting firms that don't have little 3 people offices
- Yellow Book Independence Documentation
 - Auditor must document reasoning that preparing the financial statement does not impair their independence

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Preparation of Financial Statements

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- District personnel review the financial statements and approve them
- District personnel who prepare the schedule of federal and state assistance
 - ✦ Needs to have the knowledge, skills, and experience to be able to discern whether the non-audit service was done correctly

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Types of Compliance Requirements

24	IDEA Grants	Title I Grants
Activities Allowed or Unallowed	Yes	Yes
Allowable Costs/Cost Principles	Yes	Yes
Cash Management	Yes	Yes
Davis-Bacon Act	Yes	No
Eligibility	No	Yes
Equipment and Real Property Management	Yes	Yes
Matching, Level of Effort, Earmarking	Yes	Yes
Period of Availability of Federal Funds	Yes	Yes
Procurement and Suspension and Debarment	Yes	Yes
Reporting	Yes	Yes
Subrecipient Monitoring	Yes	Yes
Special Tests and Provisions	Yes	Yes

Types of Compliance Requirements

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- **Activities Allowed or Unallowed**

- Unique to each program
- Found in the provisions of the contract or grant agreement

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Types of Compliance Requirements

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- **Allowable Costs/Cost Principles**

- OMB cost principles circular A-87
 - ✦ applies to all Federal awards
 - ✦ establishes principles and standards for determining allowable direct and indirect costs for Federal awards

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Types of Compliance Requirements

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- **Allowable Costs/Cost Principles**

- Compensation for Personnel Services (includes salaries, wages, and fringe benefits)
 - ✦ Compensation considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit
- ✦ Time and Effort Reporting
 - Allowable if costs are reasonable, comparable for similar work, and charges are supported with time distribution records or other documentation as stipulated in OMB A-87.

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Allowable Costs/Cost Principles (Time and Effort Reporting)

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- **Time and Effort Reporting**

- ✦ Finding
 - Required documentation of time and effort for single and multiple cost objective employees was not accurate
- ✦ Question Cost
 - \$26,000
- ✦ Cause
 - Controls and procedures of the district did not ensure they were in compliance with OMB Circular A-87
- ✦ Auditor Recommendation
 - District review and modify their controls and procedures relating to time and effort
- ✦ District Response
 - Agreement and will review and modify

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Allowable Costs/Cost Principles (Time and Effort Reporting)

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- Time and Effort Reporting
 - DPI Response for 2010-11 findings
 - The District needs to implement a procedure for the preparation of semi-annual certifications or personnel activity reports as soon as they receive the auditor finding.
 - DPI will be following up with a notification that monitoring will occur for verification of personnel claimed on the grant in the 2011-12 school year.

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Allowable Costs/Cost Principles (Highly Qualified Teacher)

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- Highly Qualified - Follow up on a Prior Year Finding
 - ✦ Title I - one teacher did not meet the definition of highly qualified
- Cause
 - ✦ Established controls and procedures did not ensure teachers hired for core academic courses met the definition of highly qualified at an alternative school with programs supported by Title I Part A funds

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Allowable Costs/Cost Principles (Highly Qualified Teacher)

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- Questioned Costs
 - ✦ \$66,334
- Auditor Recommendation
 - ✦ Review the current policies and procedures
- District Response
 - ✦ No disagreement
- This finding was repeated in the current year

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Allowable Costs/Cost Principles (Excess Cost for Special Education)

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- ✦ Criteria
 - Funds provided for special education(IDEA) may only be used for excess cost of providing the services
- ✦ Finding
 - District's entire cost of standardized testing was allocated to special education
 - Remodeling costs for which the District could not provide evidence that the remodeling would not have taken place without the special education program

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Allowable Costs/Cost Principles (Excess Cost for Special Education)

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- ✦ Questioned Costs
 - \$10,926
- ✦ Recommendation
 - All purchases related to IDEA are made connected with specific items of the needs of individual students rather than allocated among program
 - Provide additional training to personnel responsible for requesting and determining appropriate program expenditures
- ✦ Corrective Action Plan

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Allowable Costs/Cost Principles (Excess Cost for Special Education)

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- ✦ Corrective Action Plan
 - District feels it is appropriate to allocate a portion of the fees when special education students are using the service. District will contact DPI when using IDEA money for extraordinary expenses

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Eligibility

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- ✦ Finding
 - Title I – LEA must determine which school attendance areas are eligible to participate in Title I Part A. The school was not able to provide the low income targeting data report used to complete the eligibility report required by DPI for the federal grant

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Eligibility

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- ✦ Cause
 - Due to staff turnover, District did not retain the low income targeting data report used to complete the eligibility report. The system used is live and cannot reproduce low income targeting data report used to determine eligibility at that point in time. The District is able to substantiate a current report from their data system
- ✦ Auditor Recommendation
 - District establish procedures to retain a copy of the data used to prepare the eligibility report

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Eligibility

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✦ Finding

- Child Nutrition Cluster – District allowed a student free meals when based on the auditors recalculation; the student should have received reduced meals

✦ Cause

- District has proper procedures in place, however the application was entered into the system as bi-weekly income being the yearly income

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Eligibility

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✦ Auditor Recommendation

- District has implemented a control process to ensure that the District properly enters income into the computer system

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Eligibility

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✦ Finding

- Special Education – District unable to show support (IEP or overall file) for one student charged to IDEA, Part B funds

✦ Cause

- Turnover in the position in charge of special education and the IEP and file was misplaced

✦ Auditor Recommendation

- Implement a review process to ensure the district is only claiming students with a current IEP as well as ensure all information is being obtained for students who are receiving special education services.

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Staff Turnover

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✦ Common theme – Staff turnover

✦ Important:

- Written Policies and Procedures
- More than one individual performing a duty
- Appropriate review

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Types of Compliance Requirements

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Matching, Level of Effort, Earmarking

- Level of Effort includes requirements for
 - ✦ (a) a specified level of service to be provided from period to period,
 - ✦ (b) a specified level of expenditures from non-Federal or Federal sources for specified activities to be maintained from period to period, and
 - ✦ (c) Federal funds to supplement and not supplant non-Federal funding of services

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Level of Effort

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- Supplement Not Supplant - applies to Title I but not IDEA
 - ✦ May use Federal funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for the education of participating students. In no case may a school district use Federal program funds to supplant—take the place of—funds from non-Federal sources.
 - ✦ Federal funds are used to implement programs and services that would not be available if it were not for these federal funds

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Level of Effort

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- Maintenance of Effort applies to IDEA and Title I
 - ✦ Funds received cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year

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Maintenance of Effort

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- ✦ Finding
 - Special Education - District did not meet any of the four tests of maintenance of effort
 - ✦ Questioned Cost
 - \$33,647

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Maintenance of Effort

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- ✦ Cause
 - Reduction in benefits due to ACT 10 and receiving additional School Based Services/Medical Assistance payments from prior years that were unexpected
 - Exception?
- ✦ Auditor Recommendation
 - Monitor MOE requirement more regularly during the year

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Maintenance of Effort

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- ✦ Finding
 - Special Education - District did not meet any of the four tests of maintenance of effort
- ✦ Questioned Cost
 - \$140,741

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Maintenance of Effort

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- ✦ Cause
 - Reduction in benefits due to ACT 10, decreases in special education enrollment, staff turnover
 - Exception?
- ✦ Auditor Recommendation
 - Periodic reviews of actual expenditures compared to budget as well as analysis of staff and enrollment projections to the program should be performed

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Types of Compliance Requirements

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- **Period of Availability of Federal Funds**
 - The federal award may specify a time period during which the Federal funds may be used.
 - Charge to the award only costs resulting from obligations incurred during the funding period (any pre-award costs must be authorized by the Federal awarding agency)
 - If the Federal program authorizes, unobligated balances may be carried over and charged for obligations of a subsequent funding period.

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Types of Compliance Requirements

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• Period of Availability of Federal Funds

- Obligations –
 - ✦ Occur during a given period that will require payment during the same or a future period
 - Orders placed (PO)
 - Contracts
 - Goods and services received
 - Similar transactions

- All obligations incurred under the award should be paid no later than 90 days after the end of the funding period

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Period of Availability of Federal Funds

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• When is an obligation made?

Obligation is for	Obligation is made
Real or personal property	Date of a binding written commitment to acquire
Employee personal services	Service is performed
Contracted personal services when not an employee	Date of a binding written commitment to obtain the services
Work other than personal services	Date of a binding written commitment to obtain the work
Public Utility services	Receives the service
Travel	Travel is taken
Rental of real or personal property	Use of the property

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Period of Availability

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- Finding
 - Title I – District may charge to the award only costs resulting from obligations of the funding period
- Cause
 - District claimed costs for items which will be used after the grants period of availability
- Effect
 - District may be forced to pay back the cost of the unallowable items

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Period of Availability

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- Recommendation
 - District should verify if costs are related to the current year or subsequent year when determining costs to include on the current year claims report
- District's Response
 - Year end final claim was corrected by the District so that no pay back of costs was required

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Reporting (Fiscal Management)

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- **Finding**
 - District's year-end project detail for the IDEA grant does not support its final grant claims. The district claimed more than the general ledger details supported
- **Cause**
 - District did not reconcile its grant claims to expense project detail
- **Effect**
 - Expenses claimed on the grant claims may not be correct

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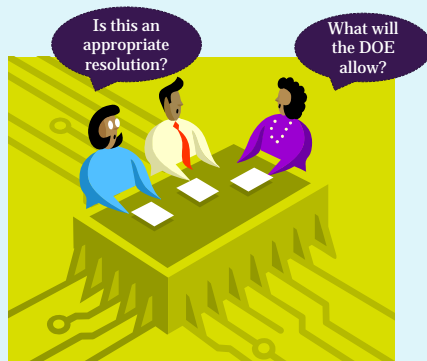
Reporting (Fiscal Management)

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- **Questioned Cost**
 - \$21,600
- **Recommendation**
 - District should reconcile grant claims with the general ledger
- **District's Response**
 - District will reconcile claims with general ledger. In addition, District will keep more accurate and complete information regarding the IDEA grant and supporting documentation will be kept in a file for the grant.

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DPI PROCESS



DPI Follow-up and Resolution to Federal Audit Findings

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- **Audit Finding filed with DPI**
- **DPI School Finance Auditors Review**
- **School Finance Auditor provides appropriate program staff with the finding**
- **Program staff follow up with district**
 - Resolution required
 - Follow up in subsequent year
 - Fiscal Monitoring

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OMB Circular A-133

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- Requires the State as the pass-through agency to issue a management decision on audit findings within six months after receipt of the audit report and ensure that appropriate and timely corrective action is taken.
- The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected action to repay disallowed costs, make financial adjustments or take other action.
- Prior to issuing the management decision, the State may request additional information or documentation
- The management decision should describe any appeal process available

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Contact

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