**Areas of Significant Audit Finding**

In its Handbook for the Post-Audit Process, the U.S. Department of Education has identified several areas of grants management with audit violations that it deems “significant”. A violation results in a formal resolution agreement dictating changes in an education agency’s procedures, but department can require monetary repayment for extreme violations of fiscal policy.

They include:

1) Time Distribution - This is the most frequently cited audit violation, representing roughly 95 percent of audit findings, whether from the OIG or A-133 single audits. Time Distribution is the process by which staff members keep track of the time they spend on each grant program, so personnel costs can be allocated back to the relevant funding source in proportion to the benefits received. Time distribution recording can take the form of semi-annual time certifications for employees working 100% of their time on one federal program or employee time and effort reports substantiated with personnel activity logs for employees splitting time on more than one program/cost activity.

2) Maintenance of Effort - This is the determination that the combined effort per student or the aggregate expenditure of the district from state and local sources in the preceding year was not less than (90 or 100%) of the relevant amount for the second preceding year. For example, if a district fails to meet the 90% threshold for any fiscal year, the state must reduce the amount of funds allocated under the affected programs in the exact proportion to which the district fails to meet the 90% mandate. For IDEA, the MOE level is 100%, any shortfall may result in a repayment of the shortfall with local funds.

3) Supplement, not Supplant - The-supplement-not-supplant provision requires that federal funds augment the regular educational program, not substitute for funds or services that otherwise would be provided during the time period in question. To overcome a presumption of supplanting for an activity formally funded with local money, a district must be able to provide contemporaneous documentation that it would not have had other local or state funds to support the same activity.

4) Unallowable Costs - Such items a alcoholic beverage, iPods, pool tables, and crystal vases are just a few examples of items that cannot be justified under federal rules for allowable costs.

5) Illegal Procurement Practices - When the person who is requesting the goods, supplies or services is the person who is signing the checks you don’t have any segregation of responsibilities or duties. Other procurement issues include districts not having adequate purchasing procedures in place or simply do not follow establish purchasing procedures.

6) Serving Ineligible Students - The program has distinct goals and constraints, and funds must be used within those parameters.

7) Misuse or Lack of Accountability of Equipment/Materials - The requirements for equipment are covered in EDGAR Section 80.32. Basically, it requires that district must tag and inventory meeting the “capitalization threshold”. More recently, auditors have made clear they expect the district to tag any technology items that are “pilferable” however inexpensive. Technology items such as cameras costing as little as $50 or $60 are “pilferable” and therefore need to be tagged.

8) Obligations Beyond the Period of Availability - Basically, the funds can only be obligated after the obligation period begins and before the obligation period ends. Funds spent outside of the window, could require the return of money.

9) Excess Cost - Under IDEA, districts must provide at least the same resources as they would normally spend on a student in the general population, IDEA then covers costs above that level.

10) Lack of Appropriate Recordkeeping - Maintaining appropriate records is very important. Inadequate record keeping could result in the payback of unsubstantiated costs. At the very least, it is much easier to do it right the first time and have the records than to reconstruct the paper work.

11) Records Retention Problems - EDGAR says education agencies must hold all records - including canceled checks and personnel activity books for three years after the last day of the obligation of the grant award. But auditors can go back five years because there is a five year statute of limitations, so agencies should retain records for five full years.

12) Large Carryover Balances - Programs may or may not limit the amount of year over year carryover permitted. However, the fact a budget was submitted and you are not coming close to meeting your obligations over a 12 month period under that budget is a material weakness in the operation of your program.