



BY STEVEN POWELL  
*Port Orchard Independent*

# South Kitsap audit: Federal wage requirements lacking

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In the most recent audits of government entities in Kitsap County, the state auditor's office came up with a number of findings.

Many had to deal with not following required procedures regarding federal COVID funds. In each case, the districts said they were unaware of the requirements.

## South Kitsap

In 2022, the South Kitsap School District spent more than \$10.89 million of its ESF awards from three federal programs.

The district hired a contractor to repair the roof at the high school and one of the elementary schools. The district paid the contractor \$867,570 from its ESSER II award for work the subcontractors did. The audit found the district did not have adequate internal controls for ensuring compliance with federal prevailing wage requirements.

Specifically, the district did not collect weekly certified payroll reports from subcontractors to confirm they paid laborers proper prevailing wages. The district relied on the subcontractors to submit weekly certified payrolls to the website of the state Department of Labor and Industries. Although staff said they checked that weekly certified payrolls were uploaded to the L&I system before the

district paid the contractor, that process was not documented.

"Without adequate internal controls, the district cannot demonstrate it complied with federal wage rate requirements. The district could also be liable for paying any additional wages if the subcontractors did not pay prevailing wage rates."

The auditors recommend the district develop internal controls to ensure compliance with federal wage rate requirements. The district's response said it was unaware of the requirements.

In a follow-up to a previous audit, the state says the district made appropriate corrections to the following finding.

That audit had said the Coronavirus Aid, Relief, and Economic Security (CARES) Act allowed districts to claim for lost revenue related to child food services for the 2020-2021 school year. To receive funds for lost revenue, the district was required to submit claims to the Office of Superintendent of Public Instruction's system, which operated on a reimbursement basis.

In 2021 the district submitted claims for lost revenues for food services under its ESSER I subprogram award. However, the district's internal controls were inadequate for ensuring its records identified specific, allowable ESSER expenditures to support amounts requested for reimbursement.

The audit found the district requested reimbursement

for \$382,196 of lost revenues. Since the district's records did not identify allowable ESSER expenditures to support the costs, the amounts were determined to be unallowable.



Office of the Washington State Auditor  
Pat McCarthy

## **Financial Statements and Federal Single Audit Report**

# **South Kitsap School District No. 402**

For the period September 1, 2021 through August 31, 2022

### **SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**South Kitsap School District No. 402**

**September 1, 2021 through August 31, 2022**

**2022-001 The District did not have adequate internal controls for ensuring compliance with wage rate requirements.**

**Assistance Listing Number and Title: 84.425, COVID-19 Education Stabilization Fund**

**Federal Grantor Name: U.S. Department of Education**

**Federal Award/Contract Number: N/A**

**Pass-through Entity Name: Office of Superintendent of Public Instruction**

**Pass-through Award/Contract**

**Number: 84.425W-0459610, 84.425D- 0120528, 84.425U-0137220, 84.425U-0138219, 84.425D-0142219, 84.425U-0712124 and 84.8425W-0459033**

**Known Questioned Cost Amount: \$0**

## Background

The objectives of the Education Stabilization Fund (ESF) program are to prevent, prepare for, and respond to the COVID-19 pandemic. In fiscal year 2022, the District spent \$10,893,556 of its ESF awards. This included \$4,246,316 in the Elementary and Secondary School Relief Funds (ESSER II) subprogram (84.425D), \$6,638,991 in the American Rescue Plan Elementary and Secondary School Emergency Relief (ARP ESSER/ESSER III) subprogram (84.425U), and \$8,249 in the American Rescue Plan Elementary and Secondary School Emergency Relief – Homeless Children and Youth (ARP – HCY I and II) subprogram (84.425W).

Federal regulations require award recipients to establish and follow internal controls that ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established controls.

Under federal wage rate requirements, also known as the Davis-Bacon Act, contractors and subcontractors that work on projects financed with more than \$2,000 of federal money must pay laborers and mechanics wage rates that the U.S. Department of Labor considers being similar to what local workers have been paid for similar projects.

For construction contracts subject to these wage rate requirements, the District must include a provision that the contractor and subcontractor comply with those requirements and the Department of Labor's regulations. This includes a requirement for the contractor and its subcontractors to submit to the District weekly, for each week in which any contract work is performed, certified payroll reports. These reports must include a copy of the payroll and a signed statement of compliance.

## Description of Condition

The District hired a contractor to repair the roof at the high school and one of the elementary schools. During the 2021–2022 school year, the District paid the contractor \$867,570 from its ESSER II award for work the subcontractors performed on this project.

Our audit found the District did not have adequate internal controls for ensuring compliance with federal prevailing wage requirements. Specifically, the District did not collect weekly certified payroll reports from subcontractors to confirm they paid laborers proper prevailing wages. We consider this deficiency in internal controls to be a material weakness, which led to material noncompliance.

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

## Cause of Condition

The District relied on the subcontractors to submit weekly certified payrolls to the website for the Washington State Department of Labor and Industries (L&I). Although staff said they checked that weekly certified payrolls were uploaded to the L&I system before the District paid the contractor, this process was not documented. Further, staff did not know the District needed to obtain all certified payroll reports each week.

## Effect of Condition

Without adequate internal controls that ensure it collects all weekly certified payroll reports, the District cannot demonstrate it complied with federal wage rate requirements. The District could also be liable for paying any additional wages if the subcontractors did not pay prevailing wage rates to laborers working on the contract.

While the contractor was not required to submit any certified payroll reports during the period, we tested two subcontractors and found the District should have obtained 12 weekly certified payroll reports, but did not collect any during the audit period. Although the District subsequently collected all weekly certified payroll reports that the subcontractors submitted to the L&I system, all 12 of them only referenced state requirements and did not include federal prevailing wage rate requirements.

## Recommendation

We recommend the District develop internal controls to ensure compliance with federal wage rate requirements. This should include implementing effective monitoring processes to collect and review all weekly certified payroll reports timely from any contractors and subcontractors.

## District's Response

The District understands the finding and appreciates the Auditor bringing this to our attention. Having never used Federal funds for public works projects in the past, the District was unaware of the requirement to obtain weekly certified payroll reports from all contractors working on the project. We have now reviewed the guidance provided by the Auditor, understand this requirement and have put procedures into place to ensure compliance in the future.

## **Auditor's Remarks**

**We thank the District for its cooperation throughout the audit and the steps it is taking to address these concerns. We will review the status of the District's corrective action during our next audit.**

### **Applicable Laws and Regulations**

**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, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.**

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

**Title 29 CFR, Section 3.3 – Weekly statement with respect to payment of wages, and Section 3.4 – Submission of weekly statements and the preservation and inspection of weekly payroll records, establish requirements for contractor or subcontractor submission of weekly certified payroll reports.**