

**AUDIT REPORT
OF
EDUCATIONAL SERVICE UNIT NO. 6
SEPTEMBER 1, 2012 THROUGH AUGUST 31, 2013**

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the Auditor of Public Accounts.**

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Issued on May 15, 2014

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EDUCATIONAL SERVICE UNIT NO. 6

EXIT CONFERENCE

An exit conference was held March 6, 2014, with Educational Service Unit No. 6 to discuss the results of our examination. Those in attendance for Educational Service Unit No. 6 were:

NAME	TITLE
Dr. Daniel Shoemake	Administrator
Vicki Taylor	Director of Business Services
Nichole Hall	Human Resources Specialist
Rosie Drake	Accounting Manager



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EDUCATIONAL SERVICE UNIT NO. 6

INDEPENDENT AUDITORS' REPORT

Educational Service Unit No. 6
Milford, Nebraska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Educational Service Unit No. 6, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise Educational Service Unit No. 6's basic financial statements, as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of Educational Service Unit No. 6's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Educational Service Unit No. 6, as of August 31, 2013, and the respective changes in financial position thereof for the year then ended in conformity with the cash basis of accounting described in Note 1.

Other Matter

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Educational Service Unit No. 6's basic financial statements. The Budgetary Comparison Schedule – Cash Basis and the Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Budgetary Comparison Schedule – Cash Basis and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule – Cash Basis and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2014, on our consideration of Educational Service Unit No. 6's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Educational Service Unit No. 6's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

May 2, 2014



Pat Reding, CPA, CFE
Assistant Deputy Auditor

EDUCATIONAL SERVICE UNIT NO. 6
STATEMENT OF NET POSITION - CASH BASIS
AUGUST 31, 2013

	Governmental Activities
ASSETS	
Cash in banks	\$ 178,032
Investments	1,776,594
Certificates of Deposits	234,462
Funds held by County Treasurers	301,450
TOTAL ASSETS	\$ 2,490,538
LIABILITIES	\$ -
NET POSITION	
Unrestricted	\$ 2,490,538
TOTAL LIABILITIES AND NET POSITION	\$ 2,490,538

The accompanying notes are an integral part of the financial statements.

EDUCATIONAL SERVICE UNIT NO. 6
STATEMENT OF ACTIVITIES - CASH BASIS
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2013

	<u>Cash</u> <u>Disbursements</u>	<u>Program Cash Receipts</u> Charges for Services	Operating Grants and <u>Contributions</u>	Net Receipts (Disbursements) and Changes in Net Position Government <u>Activities</u>
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental Activities:				
Services to Schools	\$ 4,242,350	\$ 3,279,197	\$ -	\$ (963,153)
Technology and Media Services	955,772	683,854	-	(271,918)
Staff Development	727,812	-	-	(727,812)
General Administration	527,584	-	-	(527,584)
Federal Programs	575,826	-	642,397	66,571
Operation and Maintenance	220,624	-	-	(220,624)
Total Governmental Activities	<u>\$ 7,249,968</u>	<u>\$ 3,963,051</u>	<u>\$ 642,397</u>	(2,644,520)
General Receipts:				
Taxes				1,409,942
State Aid				801,534
Interest Income				3,259
Other Local & Non-Program Receipts				<u>130,111</u>
Total General Receipts				<u>2,344,846</u>
Change in Net Position				(299,674)
Adjusted Net Position - Beginning (Note 9)				<u>2,790,212</u>
Net Position - Ending				<u><u>\$2,490,538</u></u>

The accompanying notes are an integral part of the financial statements.

EDUCATIONAL SERVICE UNIT NO. 6
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE
GOVERNMENTAL FUND
AUGUST 31, 2013

	<u>GENERAL FUND</u>
ASSETS	
Cash and Investments	\$ 2,189,088
Cash Held by County Treasurers	<u>301,450</u>
TOTAL ASSETS	<u><u>\$ 2,490,538</u></u>
FUND BALANCE:	
Unassigned	<u>\$ 2,490,538</u>
TOTAL CASH BASIS FUND BALANCE	<u><u>\$ 2,490,538</u></u>

The accompanying notes are an integral part of the financial statements.

EDUCATIONAL SERVICE UNIT NO. 6
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
 CHANGES IN CASH BASIS FUND BALANCE - GOVERNMENTAL FUND**
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2013

	GENERAL FUND
RECEIPTS	
Program	
Property Taxes	\$ 1,409,942
Federal Grants	642,397
State Grants and Contracted Services	464,257
State Core Services	337,277
Local	
Interest	3,259
Special Education Contracts	2,935,563
Flow-Through Services	683,854
Total Program Revenue	6,476,549
Nonprogram	
Cooperative Purchasing	343,634
Miscellaneous	130,111
Total Nonprogram Revenue	473,745
TOTAL RECEIPTS	6,950,294
DISBURSEMENTS	
Program	
Special Education Services	3,265,205
Production and Miscellaneous Services	419,983
Repair of Equipment	165,603
Board of Education	19,516
Administration and Business	508,067
Graphic Design	45,626
Delivery Services	10,474
Operation and Maintenance of Plant	220,624
Staff Development	727,812
Technology and Media Services	910,146
Total Program Disbursements	6,293,056
Federal Grants	
Program Disbursements	575,826
Nonprogram	
Cooperative Purchasing	381,086
TOTAL DISBURSEMENTS	7,249,968
EXCESS OF RECEIPTS OVER DISBURSEMENTS	(299,674)
ADJUSTED FUND BALANCE, beginning of year (Note 9)	2,790,212
TOTAL FUND BALANCE, end of year	\$ 2,490,538

The accompanying notes are an integral part of the financial statements.

EDUCATIONAL SERVICE UNIT NO. 6
STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
 AUGUST 31, 2013

	Cafeteria Plan Fund
ASSETS	
Cash and Cash Equivalents	\$ 11,612
Total Assets	\$ 11,612
NET POSITION	
Held in Trust for Employees	\$ 11,612
Total Net Position	\$ 11,612

The accompanying notes are an integral part of the financial statements.

EDUCATIONAL SERVICE UNIT NO. 6
STATEMENT OF CHANGES IN FIDUCIARY
NET POSITION - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED AUGUST 31, 2013

	Cafeteria Plan Fund
ADDITIONS	
Participant Contributions	\$ 76,527
Interest	5
Total Additions	76,532
 DEDUCTIONS	
Payments to Participants	78,882
Total Deductions	78,882
Change in Net Position Held in Trust for Employees	(2,350)
CASH BASIS NET POSITION - BEGINNING	13,962
CASH BASIS NET POSITION - ENDING	\$ 11,612

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended August 31, 2013

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Educational Service Unit No. 6 (ESU No. 6) is presented to assist in understanding the ESU No. 6 financial statements. The financial statements and notes are representations of ESU No. 6's management, which is responsible for their integrity and objectivity. These accounting policies conform to the cash basis of accounting and have been consistently applied in the presentation of the financial statements.

A. Description of Activities

ESU No. 6 operates under a board/administrator form of government. ESU No. 6 provides services to school districts in the following Nebraska counties, as identified by State law: Butler, Cass, Clay, Fillmore, Gage, Hamilton, Lancaster, Otoe, Polk, Saline, Saunders, Seward, Thayer, and York.

B. Entity

ESU No. 6 is a governmental entity established under and governed by the laws of the State of Nebraska. In evaluating how to define ESU No. 6 for financial reporting purposes, all potential component units have been considered. The basic—but not the only—criteria for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. Based upon the above criteria, the accompanying combined financial statements include all funds for which ESU No. 6 has oversight responsibility.

C. Basis of Accounting

ESU No. 6's policy is to prepare its financial statements on the cash basis, which is consistent with the requirements of both the Commissioner of Education and the Nebraska Department of Education. Under the cash basis of accounting, revenues are recognized when collected rather than when earned, and expenses are recognized when paid rather than when incurred. Consequently, these financial statements are not intended to present financial information in accordance with generally accepted accounting principles. Property taxes collected by the County Treasurers are recognized as revenue upon receipt by the County Treasurers.

EDUCATIONAL SERVICE UNIT NO. 6

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. **Summary of Significant Accounting Policies** (Continued)

D. Reporting Entity

The Board of Education (Board) for ESU No. 6 is the basic level of government that has financial accountability and control over all activities related to the public school education in the Educational Service Unit. The Board receives funding from local, State, and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental “reporting entity” as defined by the GASB pronouncement, since Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. In addition, there are no component units that could be excluded from the reporting entity.

E. Inventory

Inventories of expendable supplies held for consumption are recorded as expenditures at the time of purchase.

F. Capital Assets

Capital assets are recorded as expenditures at the time of purchase. This differs from generally accepted accounting principles, which require that capital assets to be capitalized and depreciated over the life of the asset.

G. Estimates

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Because actual results could differ from those estimates, no estimates are made for encumbered balances.

H. County Treasurer's Balance

Cash available for ESU No. 6 at various County Treasurers' offices had been included in beginning and ending fund balances, and receipts from tax levies reflect actual tax revenues collected by the County Treasurers during the fiscal year for ESU No. 6.

I. Compensated Absences

ESU No. 6 employees earn vacation leave, which may be taken or accumulated until paid. The majority of employees will take their vacation during the summer, so very

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

I. Compensated Absences (Continued)

little accrued vacation would exist as of the dates of these financial statements. Unused sick leave may accumulate for up to 40 days but is not paid upon termination or retirement. No material accrued compensation exists as of the dates of these financial statements.

J. Property Taxes

The tax levied for all political subdivisions in each county is certified by the County Board on or before October 15. Real estate and personal property taxes are due and become an enforceable lien on property on December 31. The first half of real estate and personal property taxes becomes delinquent on April 1, and the second half becomes delinquent on August 1 following the levy date. Delinquent taxes bear a statutory rate (currently 14%) of interest. Property taxes levied are recognized when received from each county.

K. Risk Management

ESU No. 6 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. ESU No. 6 has purchased commercial insurance to offset these certain risks. Settled claims have not significantly exceeded this commercial coverage in any of the past three fiscal years.

L. Fund Types

The accounts of ESU No. 6 are organized on the basis of funds, which are grouped into the following governmental and fiduciary fund types:

General Fund – The General Fund is the general operating fund of ESU No. 6. It is used to account for all financial resources except those required to be accounted for in another fund. All property tax receipts and other receipts that are not allocated by law, budgetary requirement, or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the new and replacement capital outlay costs not paid through other funds are paid from the General Fund. This is a governmental fund.

Cafeteria Plan Fund – The contributions and disbursements related to ESU No. 6's Section 125 plan are accounted for in this fund. This is a fiduciary fund.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

M. Fund Balance

ESU No. 6 adopted Governmental Accounting Standards Board (GASB) No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended August 31, 2011. In accordance with GASB 54, ESU No. 6 classifies governmental fund balances as follows:

Non-spendable – Fund balance amounts are considered non-spendable if they cannot be spent either because they are not in spendable form or because of legal or contractual constraints.

Restricted – Fund balance amounts are considered restricted if they are constrained for specific purposes externally imposed by providers, such as creditors, or constrained due to constitutional provisions or enabling legislation.

Committed – Fund balances are considered committed if they are constrained for specific purposes that are internally imposed by the government through formal action of the Board, and the constraints do not lapse at year-end.

Assigned – Fund balance amounts are considered assigned if they are intended to be used for specific purposes that are neither considered restricted nor committed. Fund balances may be assigned by management.

Unassigned – Fund balance amounts are considered unassigned if they are positive fund balances within the General Fund that are classified as one of the above or negative fund balances in other governmental funds.

ESU No. 6's policy is to spend restricted amounts first when both restricted and unrestricted fund balances are available unless there are legal restrictions that prohibit doing so. Additionally, ESU No. 6 first spends committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when expenditures are made.

ESU No. 6 does not have a formal minimum fund balance policy.

2. Cash, Investments, and Certificates of Deposit

Funds held by ESU No. 6 are generally deposited in interest-bearing checking accounts and certificates of deposit. Other investments ESU No. 6 is authorized to make are enumerated in Neb. Rev. Stat. § 77-2341 (Revision 2009) and generally include U.S. Government obligations and securities in which the State Board of Educational Lands and Funds is authorized to invest the educational funds of the State.

EDUCATIONAL SERVICE UNIT NO. 6

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. Cash, Investments, and Certificates of Deposit (Concluded)

The credit risk classifications and the amounts on deposit or invested by ESU No. 6 are shown below. Credit risk classifications for deposits are:

- A. Insured by the Federal Deposit Insurance Corporation (FDIC).
- B. Collateralized with securities held by the pledging bank in ESU No. 6's name.
- C. Uncollateralized.

The carrying amount of the ESU's deposits with financial institutions was \$557,505, and there was \$133,399 in outstanding checks to make the book balance of \$424,106 as of August 31, 2013. The bank balance is categorized as follows:

Amounts insured by the FDIC	\$373,771
Amounts collateralized with securities held by the pledging financial institution's trust department in ESU 6's name	183,734
Uncollateralized	<u>-0-</u>
Total bank balance	<u>\$577,505</u>

As of August 31, 2013, ESU No. 6 had \$1,776,594 invested in the Nebraska Liquid Asset Fund (NLAF). The NLAF was formed in 1988 under the Interlocal Cooperation Act to provide a cash management program for school districts, educational service units and community colleges, public agencies, and other governmental subdivisions. The NLAF invests primarily in U.S. Government and Agency Obligations and Repurchase Agreements that are secured by U.S. Government or U.S. Government agency obligations. The NLAF seeks to maintain a stable net asset value of \$1 per share, but it is possible to lose money investing in the NLAF. The NLAF is not insured or guaranteed by the FDIC or any other governmental agency. The NLAF had a credit rating of AAAM from Standard & Poor's.

3. Cafeteria Plan

ESU No. 6 provides for a qualifying Cafeteria Plan within the meaning of Section 125 of the Internal Revenue Code of 1986 (Code). The benefits that an employee elects to receive under the Cafeteria Plan are includable and excludable from the employee's income under Section 125(a) and other applicable sections of the Internal Code. At August 31, 2013, ESU No. 6 had collected \$4,502 from employees to be paid out when claims are filed. ESU No. 6 maintains a separate checking account to pay these claims. As of August 31, 2013, that account had a balance of \$11,612, which is included in the Statement of Fiduciary Net Position – Cash Basis.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

4. Pension Plan

Plan Description

ESU No. 6 contributes to the Nebraska School Employees Retirement System, a cost-sharing, multiple-employer defined benefit pension plan administered by the Nebraska Public Employees Retirement System (NPERS). NPERS provides retirement and disability benefits to plan members and beneficiaries. The School Employees Retirement Act establishes benefit provisions. NPERS issues a publicly available financial report that includes financial statements and required supplementary information for NPERS. That report may be obtained by writing NPERS, 1526 K Street, Suite 400, PO Box 94816, Lincoln, NE, 68509-4816, or by calling 1-800-245-5712.

Funding Policy

Plan members were required to contribute 9.78% of their annual covered salary from September 1, 2012, to August 31, 2013. ESU No. 6 is required to contribute 101% of the employee contribution. The contribution requirements of plan members and ESU No. 6 are established by the Nebraska statutes. The ESU No. 6 contributions to NPERS for the years ending August 31, 2013, were \$346,404, equal to the required contributions for the year.

5. Unemployment Compensation Insurance

ESU No. 6 has adopted the reimbursable option of the State's Unemployment Compensation Insurance Program. Under this option, a claimant would receive unemployment compensation from the State. ESU No. 6 is liable to reimburse the State the actual amount of the claim.

6. Cooperative Purchasing

ESU No. 6 participates in a consolidated statewide program on behalf of its school districts for the purchase of administrative instructional supplies, equipment, and personal property. This program is operated and administered by the personnel of the Educational Service Unit Coordinating Council (ESUCC). Cooperative purchasing revenues represent monies received from area school districts, which are remitted to the ESUCC to pay for the orders made. Cooperative purchasing expenditures represent these payments to the ESUCC.

EDUCATIONAL SERVICE UNIT NO. 6

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

7. Commitments

ESU No. 6 has entered into leases for office equipment, which expire on various dates through 2016.

The total future minimum annual lease payments are as follows:

Year Ending August 31	Copiers & Printers
2014	\$ 19,779
2015	\$ 19,779
2016	\$ 19,779
2017	-
2018	-

Additionally, ESU No. 6 had a total rental expense of \$26,583 in 2013.

8. Subsequent Events

Events occurring after September 1, 2013, have been evaluated for possible adjustments to the financial statements or disclosure through May 2, 2014, which is the date on which the financial statements were available to be issued.

9. Prior Period Adjustment

The Beginning Net Position on the Statement of Activities – Cash Basis and the Beginning Fund Balance on the Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balance – Governmental Fund were adjusted in order to show the balance in ESU No. 6's Cafeteria Plan bank account as a fiduciary fund, instead of as a governmental fund. The Cafeteria Plan bank account holds employee contributions that can be used only for medical purposes. These funds are not available for the operation of ESU No. 6.

As a result of the Cafeteria Plan previously being shown as part of the Governmental Funds, ESU No. 6's change in net position would have been overstated by \$3,595 in the preceding year, which is the excess of Cafeteria Plan receipts over disbursements. The beginning balances were reduced by \$13,962, which is shown as the Beginning Net Position on the Statement of Changes in Fiduciary Net Position – Cash Basis.

EDUCATIONAL SERVICE UNIT NO. 6
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - CASH BASIS
GENERAL FUND BALANCE
FOR THE FISCAL YEAR ENDED AUGUST 31, 2013

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
RECEIPTS			
Program			
Property Taxes	\$ 1,409,942	\$ 1,431,572	\$ (21,630)
Federal Grants and Sources	642,397	1,197,946	(555,549)
State Grants and Contracted Services	464,257	738,094	(273,837)
State Core Services	337,277	337,277	-
Local			
Interest	3,259	-	3,259
Special Education Contract	2,935,563	3,216,522	(280,959)
Flow-Through Services	683,854	840,103	(156,249)
Total Program Receipts	6,476,549	7,761,514	(1,284,965)
Nonprogram			
Cooperative Purchasing	343,634	470,500	(126,866)
Miscellaneous	130,111	89,544	40,567
Total Nonprogram Receipts	473,745	560,044	(86,299)
TOTAL RECEIPTS	\$ 6,950,294	\$ 8,321,558	\$ (1,371,264)
DISBURSEMENTS			
Program			
Special Education Services	\$ 3,265,205	\$ 3,522,511	\$ 257,306
Production and Miscellaneous Services	419,983	485,260	65,277
Repair of Equipment	165,603	165,603	-
Board of Education	19,516	28,000	8,484
Administrative and Business	508,067	479,056	(29,011)
Graphic Design	45,626	39,237	(6,389)
Delivery Services	10,474	13,093	2,619
Operation and Maintenance of Plant	220,624	181,665	(38,959)
State Grants and Contracts	-	150,000	150,000
Staff Development	727,812	678,609	(49,203)
Technology and Media Services	910,146	923,219	13,073
Total Program Disbursements	6,293,056	6,666,253	373,197
Federal Grants			
Program disbursements	575,826	1,167,156	591,330
Nonprogram			
Cooperative Purchasing	381,086	488,697	107,611
TOTAL DISBURSEMENTS	\$ 7,249,968	\$ 8,322,106	\$ 1,072,138
EXCESS OF RECEIPTS OVER DISBURSEMENTS	\$ (299,674)	\$ (548)	\$ (299,126)
ADJUSTED FUND BALANCE, beginning of year (Note 9)	2,790,212		
TOTAL FUND BALANCE, end of year	\$ 2,490,538		

See accompanying Notes to Budgetary Comparison Supplementary Information.

EDUCATIONAL SERVICE UNIT NO. 6

NOTES TO BUDGETARY COMPARISON SUPPLEMENTARY INFORMATION

Budgetary Process

ESU No. 6 follows these procedures in establishing the budgetary data reflected in the schedules in accordance with the statutory requirements of the Nebraska Budget Act.

1. The ESU No. 6 Board prepares a budget for the operation and maintenance of ESU No. 6 for the ensuing year. This budget itemizes the contemplated expenditures and the expected revenue from taxation; available Federal, State, and county sources; contractual services provided to school districts; and all other agencies and sources.
2. At least one public hearing must be held by the ESU No. 6 Board.
3. After the adoption of its budget statement, ESU No. 6 may levy a tax in an amount required to be received from taxation under its adopted budget not to exceed one and five-tenths cents on each \$100 on the actual valuation of all taxable property within its geographical area.
4. ESU No. 6 is authorized to transfer budgeted amounts between departments within any fund through resolution; however, revisions that alter the total expenditures of any fund require that an additional public hearing be held.

EDUCATIONAL SERVICE UNIT NO. 6
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2013

Federal Grantor Pass-Through Grantor Program Title	Pass-Through Entity's Identifying Number	Federal CFDA Number	Expenditures
U.S. Department of Education:			
Passed through Nebraska Department of Education:			
Special Education Cluster (IDEA):			
Special Education-Grants to States	00-0006-248-2B20B-13	84.027	30,567
Special Education-Grants to States	13-06-000-0006-00	84.027	45,755
Special Education-Grants to States	12-06-000-0006-00	84.027	1,812
Special Education-Grants to States	00-0006-248-2B22B-12	84.027	13,943
Special Education-Grants to States	00-0006-248-6B1-13	84.027	137,294
Special Education-Grants to States	00-0006-248-6B3-12	84.027	10,201
Total Special Education-Grants to States			<u>239,572</u>
Special Education-Preschool Grants	12-03-06-000-0006	84.173	1,593
Special Education-Preschool Grants	13-03-06-000-0006	84.173	16,486
Total Education-Preschool Grants			<u>18,079</u>
* Total Special Education Cluster (IDEA)			<u>257,651</u>
Special Education-Grants for Infants and Families	00-0006-248-6B3-12	84.181	1,391
Special Education-Grants for Infants and Families	13-06-000-0006-00	84.181	5,084
Special Education-Grants for Infants and Families	12-06-000-0006-00	84.181	201
Special Education-Grants for Infants and Families	12-06-000-0006-00	84.181	3,442
Special Education-Grants for Infants and Families	12-03-06-000-0006	84.181	1,593
Special Education-Grants for Infants and Families	00-0006-248-2C22C-12	84.181	8,969
Special Education-Grants for Infants and Families	00-006-248-6B1-13	84.181	18,722
Special Education-Grants for Infants and Families	13-06-000-0006-00	84.181	10,253
Special Education-Grants for Infants and Families	13-03-06-000-0006	84.181	16,486
Special Education-Grants for Infants and Families	00-0006-248-2C20C-13	84.181	8,062
* Total for Federal Program			<u>74,203</u>
Education Technology State Grants	11-4985-07-06-00-0006	84.318	48,112
Safe and Drug-Free Schools and Communities-State Grants	11-06-000-0006-00	84.186	1,760
Rehabilitation Services-Vocational Rehabilitation Grants to States	H126A1100390	84.126	25,000
English Language Acquisition State Grants	12-06-000-0006-00	84.365	7,140
English Language Acquisition State Grants	13-06-000-0006-00	84.365	18,784
Total for Federal Program			<u>25,924</u>
Passed through Nebraska's Coordinating Commission for Post Secondary Education:			
Improving Teacher Quality State Grants	S367B110024 & S367B110024A	84.367	37,634
Improving Teacher Quality State Grants	S367B120024 & S367B120024A	84.367	23,799
Total for Federal Program			<u>61,433</u>
U.S. Department of Health and Human Services:			
Passed through Nebraska Department of Education:			
Child Care and Development Block Grant	12-03-06-000-0006	93.575	5,045
Child Care and Development Block Grant	13-03-06-000-0006	93.575	74,186
Total for Federal Program			<u>79,231</u>
Head Start	12-03-06-000-0006	93.600	222
Head Start	13-03-06-000-0006	93.600	2,290
Total for Federal Program			<u>2,512</u>
TOTAL			<u>\$ 575,826</u>

* Represents Major Program

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

EDUCATIONAL SERVICE UNIT NO. 6

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended August 31, 2013

1. Basis of Presentation

The accompanying schedule of expenditures of Federal awards (the Schedule) includes the Federal grant activity of Educational Service Unit No. 6 (ESU No. 6) under programs of the Federal government for the year ended August 31, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of ESU No. 6, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the ESU No. 6.

ESU No. 6 receives many grants that are funded by multiple Catalog of Federal Domestic Assistance (CFDA) programs. For instance, grants 13-06-000-0006-00, 12-06-000-0006-00, 00-0006-248-6B1-13, and 00-0006-248-6B3-12 are funded by CFDA programs 84.027 and 84.181. In these instances, the expenditures for each grant are charged based on the funding percentage identified on the grant award.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



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EDUCATIONAL SERVICE UNIT NO. 6

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditor's Report

Educational Service Unit No. 6
Milford, Nebraska

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of Educational Service Unit No. 6 as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise Educational Service Unit No. 6's basic financial statements, and have issued our report thereon dated May 2, 2014. The report notes the financial statements were prepared on the cash basis of accounting.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Educational Service Unit No. 6's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Educational Service Unit No. 6's internal control. Accordingly, we do not express an opinion on the effectiveness of Educational Service Unit No. 6's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Educational Service Unit No. 6's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in Section II of the accompanying Schedule of Findings and Questioned Costs, that we consider to be significant deficiencies: Finding #2013-1 (Lack of Segregation of Duties – Receipts); #2013-2 (Lack of Segregation of Duties – Payroll); and # 2013-4 (Federal Payroll Taxes).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Educational Service Unit No. 6's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the Comments Section of our report as: Finding #2013-3 (Capital Assets); #2013-5 (Retirement Calculation); and #2013-6 (Federal Payroll).

Educational Service Unit No. 6's Response to Findings

Educational Service Unit No. 6's response to the findings identified in our audit are described in the Comments Section of the report. Educational Service Unit No. 6's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. Where no response is indicated, the Educational Service Unit No. 6 declined to respond.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Educational Service Unit No. 6's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Educational Service Unit No. 6's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

May 2, 2014



Pat Reding, CPA, CFE
Assistant Deputy Auditor



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EDUCATIONAL SERVICE UNIT NO. 6

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND
REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

Educational Service Unit No. 6
Milford, Nebraska

Report on Compliance for Each Major Federal Program

We have audited Educational Service Unit No. 6's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Educational Service Unit No. 6's major Federal programs for the year ended August 31, 2013. Educational Service Unit No. 6's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Educational Service Unit No. 6's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Educational Service Unit

No. 6's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major Federal programs. However, our audit does not provide a legal determination of Educational Service Unit No. 6's compliance.

Opinion on Each Major Federal Program

In our opinion, Educational Service Unit No. 6 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended August 31, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompany schedule of findings and questioned costs as Finding #2013-6 (Federal Payroll). Our opinion on each major program is not modified with respect to these matters.

Educational Service Unit No. 6's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Educational Service Unit No. 6's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Educational Service Unit No. 6's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Educational Service Unit No. 6's internal control over compliance with the types of requirements that could have a direct and material effect on the major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Educational Service Unit No. 6's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

May 2, 2014



Pat Reding, CPA, CFE
Assistant Deputy Auditor

EDUCATIONAL SERVICE UNIT NO. 6

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended August 31, 2013

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

Material weaknesses identified? Yes No

Significant deficiencies identified? Yes No

Noncompliance material to financial statements noted? Yes No

Internal control over major programs:

Material weaknesses identified? Yes No

Significant deficiencies identified? Yes No

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133: Yes No

Major programs: Special Education Cluster (IDEA), CFDA #84.027 & #84.173; Special Education Grants for Infants and Families, CFDA #84.181

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee: Yes No

SECTION II. FINANCIAL STATEMENT FINDINGS

Finding # 2013-1: Lack of Segregation of Duties – Receipts

A good internal control plan requires an adequate segregation of duties over receipts so that no one individual is responsible for creating invoices, recording the invoices and receipts in the accounting system, receiving cash/checks, making the deposits, and reconciling the bank statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

Finding # 2013-1: Lack of Segregation of Duties – Receipts (Concluded)

One ESU staff member had the ability to perform all aspects of the receipting process from beginning to end. This included creating invoices, recording the invoices in the accounting system, receiving cash/checks, and making the deposits. This employee did not perform the bank reconciliation for the primary General Fund bank account; however, the staff member had access to void invoices in the accounting system. No one reviewed voids for reasonableness. Therefore, errors or fraud could occur and not be detected. Total receipts during the year were \$6,950,294.

A lack of segregation of duties over the receipting process increases the risk of misappropriation of ESU No. 6 assets.

We recommend ESU No. 6 implement procedures to adequately segregate the receipting process. If a segregation of duties is not possible due to limited staff, we recommend ESU No. 6 implement adequate controls to compensate for the lack of segregation of duties.

ESU No. 6's Response: We have changed the job description of the Accounting Clerk to include opening and logging all checks received before they are processed to deposit by the Accounting Manager. The Accounting Clerk does not have access to the Accounts Receivable system or the ability to create invoices and statements.

Finding # 2013-2: Lack of Segregation of Duties – Payroll

A good internal control plan requires a segregation of duties that prevents an individual from performing all aspects of payroll processing from beginning to end.

ESU No. 6 does not have adequate segregation of duties over its payroll process, as all individuals who have payroll access have the ability to perform all aspects of payroll processing. This includes adjusting payroll records, processing payroll, and printing payroll checks or initiating direct deposit amounts. No review of payroll is performed by someone outside the payroll process. ESU No. 6 had payroll costs of \$4,644,088 during the fiscal year.

A lack of segregation of duties over the payroll process increases the risk of misappropriation of ESU No. 6 assets.

We recommend ESU No. 6 implement an adequate segregation of duties or, if that is not possible, implement controls to compensate for the lack of a segregation of duties. These compensating controls could include a detailed review of payroll registers by an individual without payroll access to ensure payroll is appropriate.

EDUCATIONAL SERVICE UNIT NO. 6

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

Finding # 2013-2: Lack of Segregation of Duties – Payroll (Concluded)

ESU No. 6's Response: We have implemented changes to the Payroll Process by adding a detailed review of payroll registers by the Accounting Clerk, who does not have access to the payroll system or the ability to create payroll entries.

Finding # 2013-3: Capital Assets

ESU No. 6 Policy 506.01 requires the administrator to attempt to sell ESU assets, or:

[I]f public sales fail to produce any interested buyers or bidders, remaining unsold materials may then, at the administrator's discretion, be disposed of as scrap or junk or be donated to appropriate charitable or educational agencies.

A good internal control plan requires that adequate documentation be maintained to support the disposal of all ESU No. 6 assets. A good internal control plan also requires policies and procedures to ensure an annual physical inventory is performed, and capital asset reports are reviewed periodically to ensure the accuracy of the information in the accounting system.

ESU No. 6 does not perform an annual physical inventory of capital assets. Additionally, there is no independent review of the capital asset inventory list or the additions or deletions to this listing. One of ten ESU No. 6 assets tested was not able to be located. The asset was an Apple Powerbook computer that was purchased in May 2005 at a cost of \$2,234. We also noted 12 capital assets did not have a cost associated with them in the accounting system. As of August 31, 2013, the total value of capital assets recorded was \$447,057.

Additionally, during testing we noted that two capital asset disposals did not have a documented approval. One item was a notebook computer purchased in 2002 and recycled in December 2012. The second item was an iPod Touch purchased in July 2011. This iPod Touch was donated in November 2013; however, there was no documentation for the approval of this item to be donated to a school and, per discussion with staff, this item was not donated but instead was loaned to a school. The donation was due to miscommunication between the staff responsible. We noted an additional seven iPod Touches that were also donated at the same time.

Lack of appropriate controls and oversight over capital assets increases the risk of loss or misappropriation of ESU No. 6 assets.

We recommend ESU No. 6 implement policies and procedures to ensure capital assets are physically inventoried on at least an annual basis. We also recommend that capital asset reports be periodically reviewed for accuracy and that appropriate approval for all disposals be documented and maintained.

ESU No. 6's Response: We will research and develop a procedure to perform departmental reviews of recorded assets on an annual basis.

EDUCATIONAL SERVICE UNIT NO. 6

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Continued)

Finding # 2013-4: Payroll Taxes

Sound business practices require ESU No. 6 to withhold its employees' Federal taxes based on the correct tables.

A good internal control plan requires procedures be in place to ensure the correct Federal tax table is uploaded into ESU 6's accounting system. A good internal control plan also requires procedures be in place to ensure the Federal and State Tax amounts reported are calculated correctly.

Five of ten employees tested did not have the correct Federal taxes withheld from their pay. During 2012, ESU No. 6 used the 2011 tax tables when calculating Federal taxes. As a result, the employees tested had additional Federal taxes withheld, ranging from \$4 to \$11 per month.

We also tested a quarterly Federal and State tax filing for the period October to December 2012. We noted three of eight tax amounts reported were calculated incorrectly. The incorrect calculations were caused by the incorrect tax tables being used in ESU No. 6's accounting system.

In addition, one of two tax filing amounts was not able to be traced to supporting checks. For a tax filing of \$185,551, only checks amounting to \$185,457 were observed, a variance of \$94.

Without adequate procedures in place to ensure the correct Federal and State tax tables are in ESU No. 6's accounting system, there is an increased risk the employee tax withholdings will be incorrect.

We recommend ESU No. 6 implement procedures to ensure the correct tax tables are uploaded into ESU No. 6's accounting system. We also recommend ESU No. 6 implement procedures to ensure tax forms are completed accurately.

ESU No. 6's Response: We have implemented procedures to ensure that the correct tax tables are uploaded into the ESU No. 6's accounting system when the annual update is received from our Software Company. The Director of Business Services will review these tables for accuracy, followed by a second review by the Accounting Clerk. We have also implemented procedures to ensure that tax forms are completed accurately. Once completed by the Director of Business Services, the Accounting Clerk will verify amounts prior to submitting or sending each quarterly return.

Finding # 2013-5: Retirement Calculation

Neb. Rev. Stat. § 79-902(35)(b) (Cum. Supp. 2012) states, in relevant part, "compensation does not include ... (v) fringe benefits ..."

EDUCATIONAL SERVICE UNIT NO. 6

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS (Concluded)

Finding # 2013-5: Retirement Calculation (Concluded)

ESU No. 6 employees receive compensation for the purchase cost of mandatory Long Term Disability (LTD) Insurance. Since this is compensation to pay for a fringe benefit, the LTD coverage should not be included as compensation. Ten of ten employees tested had LTD included in compensation for the calculation of retirement contributions.

ESU No. 6 was not in compliance with State statute, and the employees' compensation amounts are overstated at the Nebraska Public Employees Retirement System (NPERS). The employee compensation amounts reported to NPERS are used in the calculation of employees' pension benefits. Also, as a result, the employee and ESU No. 6 overpaid retirement plan contributions.

We recommend ESU No. 6 not report fringe benefits as compensation to the Nebraska Public Employees Retirement System.

ESU No. 6's Response: ESU No. 6 has made the appropriate changes to compensation for the purchase cost of mandatory Long Term Disability Insurance following correspondence with the Nebraska Public Employees Retirement System verifying the Auditor's recommendation and is no longer including this amount as compensation.

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding # 2013-6: Federal Payroll

Program: CFDA 84.027 – Special Education-Grants to States – Allowability; CFDA 84.173 – Special Education-Preschool Grants – Allowability; CFDA 84.181 – Special Education-Grants for Infants and Families – Allowability; CFDA 93.575 – Child Care and Development Block Grant – Allowability; CFDA 93.600 – Head Start – Allowability

Grant Number & Year: Grant 12-03-06-000-0006 (CFDA 84.173, 84.181, 93.575, 93.600) for the period October 1, 2011, through September 30, 2012; Grant 13-03-06-000-0006 (CFDA 84.173, 84.181, 93.575, 93.600) for the period October 1, 2012, through September 30, 2013; Grant 13-06-000-0006-00 (CFDA 84.027) for the period September 1, 2012, through August 31, 2013; Grant 00-0006-248-6B1-13 (CFDA 84.027 and 84.181) for the period September 1, 2012, through August 31, 2013; Grant 13-06-000-0006-00 (CFDA 84.365) for the period July 1, 2012, through September 30, 2013; Grant 12-06-000-0006-00 (CFDA 84.365) for the period July 1, 2011, through September 30, 2012.

Federal Grantor Agency: U.S. Department of Education and U.S. Department of Health and Human Services.

EDUCATIONAL SERVICE UNIT NO. 6

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

Finding # 2013-6: Federal Payroll (Continued)

Condition: Educational Service Unit No. 6 (ESU No. 6) did not have documentation to support whether payroll costs were allowable per OMB Circular A-87.

Questioned Costs: Unknown

Criteria: OMB Circular A-87, Attachment B, § 8(h), states:

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,*
- (b) A Federal award and a non Federal award,*
- (c) An indirect cost activity and a direct cost activity,*
- (d) Two or more indirect activities which are allocated using different allocation bases, or*
- (e) An unallowable activity and a direct or indirect cost activity.*

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after the fact distribution of the actual activity of each employee,*
- (b) They must account for the total activity for which each employee is compensated,*
- (c) They must be prepared at least monthly and must coincide with one or more pay periods,*
and
- (d) They must be signed by the employee.*
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes...*

A good internal control plan requires procedures be in place to ensure ESU No. 6's payroll records are in compliance with Federal regulations when requesting Federal Reimbursement.

Cause: ESU No. 6 was not aware of the requirement.

Context: Timesheets did not identify the total time spent working. ESU No. 6 did identify the time spent working on the grants but did not identify the time spent working on non-grant projects. Compensation of \$55,315 was paid to ESU No. 6 employees who worked part time on Federal programs.

EDUCATIONAL SERVICE UNIT NO. 6

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Concluded)

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Concluded)

Finding # 2013-6: Federal Payroll (Concluded)

Effect: ESU No. 6 was not in compliance with Federal regulations, and payroll costs charged to the grant may not have been allowable.

Recommendation: We recommend ESU No. 6 implement procedures to ensure staff time reimbursed from a Federal grant is documented by time records in accordance with OMB Circular A-87.

Management Response: We currently have procedures in place to track employee time spent on Federal projects for employees who are fully or partially funded by federal grants. We will add a procedure to capture those employees' time spent on non-federal programs.

Contact: Vicki Taylor, Director of Business Services

Anticipated Completion Date: May 1, 2014

SECTION IV. SCHEDULE OF PRIOR AUDIT FINDINGS

No prior findings existed.