

**AUDIT REPORT
OF
EDUCATIONAL SERVICE UNIT NO. 1**

SEPTEMBER 1, 2016, THROUGH AUGUST 31, 2017

**This document is an official public record of the State of Nebraska, issued by
the Auditor of Public Accounts.**

**Modification of this document may change the accuracy of the original
document and may be prohibited by law.**

Issued on January 26, 2018

EDUCATIONAL SERVICE UNIT NO. 1

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Key Officials and Contact Information	1
Financial Section	
Independent Auditor's Report	2 - 4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position – Cash Basis	5
Statement of Activities – Cash Basis	6
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balance – Governmental Fund	7
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Governmental Fund	8
Statement of Fiduciary Net Position – Cash Basis – Fiduciary Fund	9
Statement of Changes in Fiduciary Net Position – Cash Basis – Fiduciary Fund	10
Notes to the Financial Statements	11 - 16
Supplementary and Other Information:	
Schedule of Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual – General Fund	17
Notes to the Budgetary and Actual Information	18
Schedule of Expenditures of Federal Awards	19 - 20
Notes to the Schedule of Expenditures of Federal Awards	21
Government Auditing Standards Section	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22 - 23
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance	24 - 26
Schedule of Findings and Questioned Costs	27 - 33

EDUCATIONAL SERVICE UNIT NO. 1

KEY OFFICIALS AND CONTACT INFORMATION

Board Members

Name	Title
Dave Dowling	President
Fred Boelter	Vice President
Ron Wenstrand	Board Secretary
Sally Reinert	Board Member
Rhonda Heise	Board Member
Lana Oswald	Board Member
Jeff Messersmith	Board Member
Rodney Garwood	Board Member
Helen Sorensen	Board Member
Thomas Luxford	Board Member
Adrian Johnson	Board Member

Educational Service Unit No. 1 Executive Management

Name	Title
Dr. Bill Heimann	Administrator
Lisa Salmon	Office Manager

Educational Service Unit No. 1
211 10th Street
Wakefield, NE 68784
www.esu1.org



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

EDUCATIONAL SERVICE UNIT NO. 1

INDEPENDENT AUDITOR'S REPORT

Educational Service Unit No. 1 Board
Wakefield, Nebraska

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the fiduciary fund of Educational Service Unit No. 1 (ESU No. 1), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise ESU No. 1'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 ESU No. 1'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 opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the fiduciary fund of ESU No. 1, as of August 31, 2017, 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.

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.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements, which collectively comprise ESU No. 1's basic financial statements. The Schedule of Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual – General Fund, on page 17, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, on pages 19-20, is required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Schedule of Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual – General Fund have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2018, on our consideration of ESU No. 1'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, 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 ESU No. 1's internal control over financial reporting and compliance.

January 19, 2018



Zachary Wells, CPA
Audit Manager
Lincoln, Nebraska

EDUCATIONAL SERVICE UNIT NO. 1
STATEMENT OF NET POSITION – CASH BASIS
 August 31, 2017

	Governmental Activities
ASSETS:	
Cash in bank and interest-bearing deposits	\$ 6,094,403
Certificates of deposit	2,055,616
Cash - County Treasurer	378,786
Total Assets	8,528,805
 NET POSITION:	
Unrestricted - designated	21,563
Unrestricted	8,507,242
Total Net Position	\$ 8,528,805

The notes to the financial statements are an integral part of this statement.

EDUCATIONAL SERVICE UNIT NO. 1
STATEMENT OF ACTIVITIES – CASH BASIS
For the Fiscal Year Ended August 31, 2017

Functions/Programs	Expenditures	Program Receipts		Net (Expenditures)/ Receipt and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental Activities:				
Regular Instruction	\$ 43,320	\$ 43,300	\$ -	\$ (20)
Special Education & Student Services	6,593,688	6,553,688	-	(40,000)
Support Services	417,327	163,511	-	(253,816)
General Administration	250,776	3,107	-	(247,669)
Business Support	286,962	2,338	-	(284,624)
Maintenance & Operations	316,235	-	-	(316,235)
Materials and Equipment Services to Schools	18,090	23,862	-	5,772
Administrative Services and Support to Schools	40,101	-	-	(40,101)
Community Services	15,851	25,813	-	9,962
State Funded Programs	1,094,959	228,108	215,968	(650,883)
Federally Funded Programs	1,112,972	-	1,194,715	81,743
Total Governmental Activities	\$ 10,190,281	\$ 7,043,727	\$ 1,410,683	(1,735,871)
General receipts:				
				1,680,822
				258,465
				51,755
				90,098
				<u>2,081,140</u>
				345,269
				<u>8,183,536</u>
				<u>\$ 8,528,805</u>

The notes to the financial statements are an integral part of this statement.

EDUCATIONAL SERVICE UNIT NO. 1
STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE
GOVERNMENTAL FUND

August 31, 2017

	<u>General Fund</u>
ASSETS	
Cash in bank and interest-bearing deposits	\$ 6,094,403
Certificates of deposit	2,055,616
Cash - County Treasurer	<u>378,786</u>
Total Assets	<u><u>8,528,805</u></u>
FUND BALANCE	
Assigned	21,563
Unassigned	<u>8,507,242</u>
Total Fund Balances	<u><u>\$ 8,528,805</u></u>

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

EDUCATIONAL SERVICE UNIT NO. 1
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BASIS FUND BALANCE**
GOVERNMENTAL FUND
 For the Fiscal Year Ended August 31, 2017

	<u>General Fund</u>
RECEIPTS	
Local	
Taxes	\$ 1,680,822
Charges for Services	7,043,727
Miscellaneous	90,098
State	474,433
Federal	1,194,715
Interest	51,755
Total Receipts	10,535,550
 DISBURSEMENTS	
Current:	
Regular Instruction	43,320
Special Education & Student Services	6,593,688
Support Services	417,327
General Administration	250,776
Business Support	286,962
Maintenance & Operations	316,235
Materials and Equipment Services to Schools	18,090
Administrative Services and Support to Schools	40,101
Community Services	15,851
State Funded Programs	1,094,959
Federally Funded Programs	1,112,972
Total Disbursements	10,190,281
Excess of Receipts Over Disbursements	345,269
Cash Basis Fund Balance - Beginning	8,183,536
Cash Basis Fund Balance - Ending	\$ 8,528,805

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

EDUCATIONAL SERVICE UNIT NO. 1
STATEMENT OF FIDUCIARY NET POSITION – CASH BASIS
FIDUCIARY FUND
August 31, 2017

	Cafeteria Plan Fund
ASSETS	
Cash and Cash Equivalents	\$ 25,897
Total Assets	25,897
 NET POSITION	
Held in Trust for General Fund	400
Held in Trust for Employees	25,497
Total Net Position	\$ 25,897

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

EDUCATIONAL SERVICE UNIT NO. 1
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
CASH BASIS
FIDUCIARY FUND
 For the Fiscal Year Ended August 31, 2017

	Cafeteria Plan Fund
ADDITIONS	
Participant Contributions	\$ 110,214
Interest	49
Total Additions	110,263
DEDUCTIONS	
Payments to Participants	109,135
Total Deductions	109,135
Change in Net Position Held in Trust for Employees	1,128
Cash Basis Net Position - Beginning	24,769
Cash Basis Net Position - Ending	\$ 25,897

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

EDUCATIONAL SERVICE UNIT NO. 1

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Year Ended August 31, 2017

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies of Educational Service Unit No. 1 (ESU No. 1), Wakefield, Nebraska.

ESU No. 1 is a governmental entity established under and governed by the laws of the State of Nebraska and administrative regulations of the Nebraska Department of Education. ESU No. 1 serves as an educational service provider to its member school districts.

B. Reporting Entity

ESU No. 1 has given consideration to potential component units for which it is financially accountable. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of the organization's governing body and the ability of ESU No. 1 to impose its will on that organization to provide specific financial benefits to, or impose specific financial burdens on, ESU No. 1. ESU No. 1 did not have any component units.

C. Budget Process and Property Taxes

ESU No. 1 is required by State law to hold public hearings and adopt annual budgets for all funds on the cash basis of accounting. Total expenditures for each fund may not exceed the total budgeted expenditures. The General Fund is also subject to a total non-special education expenditure limit. Appropriations for expenditures lapse at year-end. Any revisions to the adopted budget of total expenditures to any fund require a public hearing. State statutes of the Nebraska Budget Act provide the prescribed budget practices and procedures that governing bodies are required to follow. The amounts that may be budgeted for certain specific funds are subject to various expenditures and/or tax levy limitations.

The property tax requirement resulting from the budget process is utilized to establish the tax levy in accordance with State statutes, which tax levy attaches as an enforceable lien on property within the District as of January 1. Taxes are due as of that date. For counties with a population of less than one hundred thousand, one-half of the real estate taxes due January 1 become delinquent after the following May 1, with the second half becoming delinquent after September 1.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

D. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements. The Statement of Net Position and Statement of Activities display information about the activities of ESU No. 1 and are in the format of government-wide statements, as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include all the financial activities of ESU No. 1. ESU No. 1 reports governmental activities only. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Net Position presents the reporting entity's non-fiduciary assets and its net position. Net position is reported in two categories:

Restricted. This category results when constraints are externally imposed on net asset use by creditors, grantors, or contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted. This category represents resources that do not meet the definition of the preceding category. Unrestricted resources often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. General revenues include all other revenues properly not included as program revenues. ESU No. 1 reported the following general revenues: Property Taxes and State Aid for Core Services and Technology.

Fund Financial Statements. The fund financial statements provide information about ESU No. 1's funds. ESU No. 1 has a Governmental and a Fiduciary Fund category. The emphasis of fund financial statements is on the major Governmental Fund, the General Fund.

General Fund. This is ESU No. 1's primary operating fund. It accounts for financial resources of the general government, except those required to be accounted for in another fund.

EDUCATIONAL SERVICE UNIT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

ESU No. 1 designates the General Fund balances as follows:

Assigned. The fund balance has been constrained by ESU No. 1 for a specific purpose, but it is neither restricted nor committed. This amount is assigned for potential unemployment claims.

Unassigned. Those funds that are not restricted, committed, or assigned for a specific purpose.

Cafeteria Plan Fund. This fund accounts for contributions and disbursements related to certain employee benefits, including medical and dependent care payments. This is a fiduciary fund.

E. Measurement Focus, Basis of Accounting

ESU No. 1 prepares its financial statements on the cash basis, which is in conformity with the accounting practices prescribed or permitted by the State of Nebraska Department of Education; consequently, these statements represent a summary of the cash activity of the various funds of ESU No. 1 and do not include certain transactions that would be included if ESU No. 1 prepared its financial statements in accordance with accounting principles generally accepted in the United States of America, as applicable to governmental units. Under the cash basis, 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 position or results of operations in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental units.

Taxes and other revenues collected by the county treasurers are included in revenues of ESU No. 1 in the year collected by the counties, and ESU No. 1 funds held by the county treasurers at year-end are included as assets of ESU No. 1. This is in accordance with the requirements of the State of Nebraska Department of Education.

F. Cash and Cash Equivalents

In addition to bank accounts and petty cash, this classification includes all short-term investments, such as certificates of deposit, repurchase agreements, and U.S. treasury bills. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months; however, cash is available and is considered cash and cash equivalents for reporting purposes. These investments are stated at cost, which at August 31, 2017, approximates market. Banks pledge collateral, as required by law, to guarantee ESU No. 1 funds held in time and demand deposits.

EDUCATIONAL SERVICE UNIT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

G. Capital Assets

Capital assets are not recorded as assets on the government-wide or fund financial statements, and depreciation is not recognized. Purchases of capital assets are recorded as disbursements by function in the financial statements.

H. Compensated Absences

Employees of ESU No. 1 earn paid sick days, personal days, and other time off depending on the length of service and position. ESU No. 1 maintains records of cumulative days of sick and personal leave. Sick leave is cumulative for up to 65 days. Employees are not paid for any unused leave upon closure of ESU No. 1 employment.

I. Use of Estimates

The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets at August 31, 2017, and revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. **Deposits and Investments**

The following disclosures, deposits – including checking accounts, savings accounts, money market accounts, and certificates of deposit – are all classified as cash or cash and cash equivalents on the financial statements.

Custodial credit risk is the risk that, in the event of a bank failure, ESU No. 1's deposits may not be returned to it. As of August 31, 2017, all of ESU No. 1's deposits with financial institutions were fully insured or collateralized by securities held in ESU No. 1's name in the form of joint safekeeping receipts. State law requires all funds in depositories to be fully insured or collateralized, and ESU No. 1's policy is to require depositories to provide pledged securities to cover deposits in excess of FDIC limits.

The bank balance of ESU No. 1, at August 31, 2017, consisted of the following:

Bank Accounts	\$ 6,282,764
Certificates of Deposit	<u>2,055,616</u>
	<u>\$ 8,338,380</u>

3. **Contingencies and Commitments**

ESU No. 1 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. 1 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.

EDUCATIONAL SERVICE UNIT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

3. Contingencies and Commitments (Concluded)

ESU No. 1 has elected to be a reimbursable employer with regard to unemployment claims filed by former employees. Therefore, ESU No. 1 is required to reimburse the State of Nebraska for any claims paid on behalf of ESU No. 1. ESU No. 1 has established a reserve for this contingent liability of \$21,563 as of August 31, 2017. ESU No. 1 paid \$81 in unemployment claims in fiscal year 2016 and had no unemployment claims in fiscal year 2017.

4. State Employees Retirement Plan (Plan)

The Retirement System for Nebraska Schools (Plan) is a cost-sharing multiple-employer defined benefit pension plan administered by the Nebraska Public Employees Retirement Board (NPERB) in accordance with the provisions of the School Employees Retirement Act. The Plan's provisions are established under Neb. Rev. Stat. §§ 79-901 through 79-977.03 (Reissue 2014, Cum. Supp. 2016, Supp. 2017) and may be amended through legislative action.

Participation in the Plan is required of all regular full-time or part-time employees who work 20 or more hours per week.

ESU No. 1 employees contribute 9.78% of their total compensation. In addition, ESU No. 1 contributes an amount equal to 101% of the employee's contribution. The contribution rates are established by Neb. Rev. Stat. § 79-958 (Supp. 2017) and may be amended through legislative action. The employee's and employer's contributions are kept in separate accounts. The employee's account is fully vested. The employee is fully vested after five years of creditable service.

For the year ended August 31, 2017, ESU No. 1 employees contributed \$571,886, and ESU No. 1 contributed \$577,605.

5. Unemployment Compensation Insurance

ESU No. 1 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. 1 is obligated to reimburse to the State the amount of any claim.

ESU No. 1 has not established a reserve for this contingent liability. However, the expense is included as a line item on the budget each year, at an estimated amount based on factors including past experience.

6. Capital and Operating Leases

ESU No. 1 leases a postage machine under an operating lease. The following schedule for operating leases includes all leases for ESU No. 1.

EDUCATIONAL SERVICE UNIT NO. 1

NOTES TO THE FINANCIAL STATEMENTS
(Concluded)

6. **Capital and Operating Leases** (Concluded)

The minimal annual lease payments for operating leases, as of August 31, 2017, are as follows:

<u>Year</u>	<u>Governmental Activities</u>
2018	\$ 2,376
2019	<u>594</u>
Total	<u>\$ 2,970</u>

Total operating lease payments for the year ended August 31, 2017, were \$2,376.

EDUCATIONAL SERVICE UNIT NO. 1
**SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BASIS FUND BALANCE**
BUDGET AND ACTUAL
GENERAL FUND

For the Fiscal Year Ended August 31, 2017

	<u>Budget (Original and Final)</u>	<u>Actual</u>
RECEIPTS		
Local		
Taxes	\$ 1,646,473	\$ 1,680,822
Charges for Services	7,118,825	7,043,727
Miscellaneous	55,000	90,098
State	344,235	474,433
Federal	1,487,500	1,194,715
Bond Proceeds	-	-
Interest	42,047	51,755
Total Receipts	<u>10,694,080</u>	<u>10,535,550</u>
DISBURSEMENTS		
Current:		
Regular Instruction	41,450	43,320
Special Education & Student Services	7,153,625	6,593,688
Support Services	833,075	417,327
General Administration	272,025	250,776
Business Support	568,050	286,962
Maintenance & Operations	323,605	316,235
Materials and Equipment Services to Schools	57,000	18,090
Administrative Services and Support to Schools	90,000	40,101
Community Services	10,000	15,851
State Funded Programs	1,344,500	1,094,959
Federally Funded Programs	1,700,750	1,112,972
Total Disbursements	<u>12,394,080</u>	<u>10,190,281</u>
Excess of Receipts Over Disbursements		345,269
Fund Balance, Beginning of Year		<u>8,183,536</u>
Fund Balance, End of Year		<u><u>\$ 8,528,805</u></u>

EDUCATIONAL SERVICE UNIT NO. 1

NOTES TO THE BUDGETARY AND ACTUAL INFORMATION
For the Fiscal Year Ended August 31, 2017

BUDGETARY COMPARISON SCHEDULE

Basis of Accounting

The accompanying Schedule of Receipts, Disbursements, and Changes in Cash Basis Fund Balance – Budget and Actual – General Fund is presented on the cash basis of accounting. This basis is consistent with the basis of accounting used in preparing the basic financial statements. All unexpended appropriations lapse at the end of the budget year.

Budget Law

ESU No. 1 is required by State law to hold public hearings and adopt annual budgets for all funds on the cash basis of accounting. Total expenditures for each fund may not exceed the total budgeted expenditures. The General Fund is also subject to a total non-special education expenditure limit. Appropriations for expenditures lapse at year-end. Any revisions to the adopted budget of total expenditures to any fund require a public hearing.

EDUCATIONAL SERVICE UNIT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended August 31, 2017

Federal Grantor Pass-Through Grantor Program or Cluster Title	Pass Through Entity's Identifying Number	Federal CFDA Number	Expenditures
U.S. Department of Education:			
Passed through Nebraska Department of Education:			
Migrant Education - State Grant Program	17-01-000-0001-00	84.011	317,078
Migrant Education - State Grant Program	16-01-000-0001-00	84.011	28,151
* Total for Federal Program			<u>345,229</u>
Career and Technical Education-Basic Grants to States	17-01-000-0001-00	84.048	55,176
Career and Technical Education-Basic Grants to States	17-01-000-0001-00	84.048	33,794
Career and Technical Education-Basic Grants to States		84.048	34,655
Total for Federal Program			<u>123,625</u>
Special Education-Grants to States	00-0001-248-DTIPS04-17	84.027	75,359
Special Education-Grants to States	00-0001-248-1B09-17	84.027	2,870
Special Education-Grants to States	00-0001-248-1B12-16	84.027	1,308
Total for Federal Program			<u>79,537</u>
Special Education-Grants for Infants and Families	17-01-000-0001-00	84.181	18,213
U.S. Department of Education			
Indian Education - Special Programs for Indian Children	S299A140047-15	84.299A	14,763
Indian Education - Special Programs for Indian Children	S299A140047-16	84.299A	160,395
Total for Federal Program			<u>175,158</u>
Fund for the Improvement of Education	S215F140155-16	84.215F	167,281
U.S. Department of Agriculture:			
Passed through Nebraska Department of Education:			
National School Lunch Program		10.555	12,450

(Continued)

EDUCATIONAL SERVICE UNIT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended August 31, 2017

Federal Grantor Pass-Through Grantor Program or Cluster Title	Pass Through Entity's Identifying Number	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services:			
Passed through Nebraska Department of Education			
Child Care and Development Block Grant	17-4990-01-000-0001	93.575	99,263
Child Care and Development Block Grant	18-4990-01-000-0001	93.575	13,140
* Total for Federal Program			<u>112,403</u>
Passed through Nebraska Department of Health and Human Services			
Medical Assistance Program		93.778	71,986
U.S. Department of Health and Human Services:			
Developmental Disabilities Basic Support and Advocacy Grants	1501NEBSDD	93.630	7,090
TOTAL			<u><u>\$ 1,112,972</u></u>

* Represents Major Program

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

(Concluded)

EDUCATIONAL SERVICE UNIT NO. 1

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended August 31, 2017

1. Basis for Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the Federal grant activity of Educational Service Unit No. 1 (ESU No. 1) under programs of the Federal government for the year ended August 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of ESU No. 1, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of ESU No. 1.

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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

ESU No. 1 elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

EDUCATIONAL SERVICE UNIT NO. 1

**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. 1 Board
Wakefield, 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, the major fund, and the fiduciary fund of Educational Service Unit No. 1, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise Educational Service Unit No. 1's basic financial statements, and have issued our report thereon dated January 19, 2018. The report was modified to emphasize that 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. 1'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. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Educational Service Unit No. 1'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. 1'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 a certain deficiency in internal control, described in Section II of the accompanying Schedule of Findings and Questioned Costs, that we consider to be a significant deficiency: Finding # 2017-001 (State Tax Withholdings).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Educational Service Unit No. 1'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 and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Educational Service Unit No. 1's Response to the Finding

Educational Service Unit No. 1's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Educational Service Unit No. 1'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.

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, not to provide an opinion on the effectiveness of Educational Service Unit No. 1'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. 1's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

January 19, 2018



Zachary Wells CPA
Audit Manager
Lincoln, Nebraska



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

Charlie.Janssen@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.nebraska.gov

EDUCATIONAL SERVICE UNIT NO. 1

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

Educational Service Unit No. 1 Board
Wakefield, Nebraska

Report on Compliance for Each Major Federal Program

We have audited Educational Service Unit No. 1's compliance with the types of compliance requirements described in the OMB Compliance Supplement, which could have a direct and material effect on each of Educational Service Unit No. 1's major Federal programs for the year ended August 31, 2017. Educational Service Unit No. 1'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 Federal statutes, regulations, and terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Educational Service Unit No. 1'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal*

Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, which 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. 1's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Educational Service Unit No. 1's compliance.

Opinion on Each Major Federal Program

In our opinion, Educational Service Unit No. 1 complied, in all material respects, with the types of compliance requirements referred to above, which could have a direct and material effect on each of its major Federal programs for the year ended August 31, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and is described in the accompanying Schedule of Findings and Questioned costs as item # 2017-004 (Federal Payroll Documentation). Our opinion on each major Federal program is not modified with respect to this matter.

Educational Service Unit No. 1's response to the noncompliance finding identified in our audit is described in the Schedule of Findings and Questioned Costs. Educational Service Unit No. 1'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

Management of Educational Service Unit No. 1 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. 1's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. 1'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items # 2017-002 (Migrant Grant Priority for Service Students) and # 2017-003 (Migrant Grant Reporting), which we consider to be significant deficiencies.

Educational Service Unit No. 1's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Educational Service Unit No. 1's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on those responses.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

January 19, 2018



Zachary Wells, CPA
Audit Manager
Lincoln, Nebraska

EDUCATIONAL SERVICE UNIT NO. 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended August 31, 2017

SECTION I. SUMMARY OF AUDITOR'S RESULTS

Type of auditor's report issued:	Unmodified		
Internal control over financial reporting:			
Material weaknesses identified?	___	Yes	<u> X </u> No
Significant deficiencies identified?	<u> X </u>	Yes	___ No
Noncompliance material to financial statements noted?	___	Yes	<u> X </u> No
Internal control over major programs:			
Material weaknesses identified?	___	Yes	<u> X </u> No
Significant deficiencies identified?	<u> X </u>	Yes	___ No
Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR section 200.516(a):	<u> X </u>	Yes	___ No
Major programs: Migrant Education – State Grant Programs, CFDA 84.011, Child Care and Development Block Grant, CFDA 93.575			
Dollar threshold used to distinguish between type A and type B programs:	\$750,000		
Auditee qualified as low-risk auditee:	___	Yes	<u> X </u> No

EDUCATIONAL SERVICE UNIT NO. 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS

Finding # 2017-001: State Tax Withholdings

In testing 13 employees of Educational Service Unit No. 1 (ESU No. 1), the APA identified the following:

- Nine employees did not have the correct tax withholdings because the ESU's payroll system defaulted their State tax withholdings to zero exemptions, rather than the same number of exemptions as they requested for Federal taxes. As a result, the State tax exemptions did not agree to those found on the employees' W-4 forms, and ESU No. 1 did not have documentation to support why the exemptions did not agree.
- Seven employees did not have the correct State taxes withheld because the payroll system had not been updated with the new State tax tables, which became effective January 1, 2017.

Due to these errors, the employees tested had excess State tax withholdings that ranged from \$4 to \$40 for the month tested.

A good internal control plan requires procedures to be in place to ensure employee tax deductions are correct. Without such procedures, there is an increased risk employee tax withholdings will be incorrect.

We recommend ESU No. 1 implement procedures to ensure tax tables are updated on the accounting system in a timely manner, and employee exemptions agree to supporting documentation.

Contact: Payroll Clerk Diane Keim

Anticipated Completion Date: Completed December 2017

Corrective Action Plan: Software Company (Harris Solutions) was contacted and able to detect the error and correct the system setting. E-mail notification of State Tax table update was not received by ESU #1 from the software company. ESU #1 will take proactive measures to search for updates, via software system website, at the end of each quarter.

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding # 2017-002: Migrant Grant Priority for Service Students

Program: CFDA 84.011 – Migrant Education State Grant Program – Special Tests

Grant Number & Year: Grant 16-01-000-0001-00 for the period July 1, 2015, through September 30, 2016, and grant 17-01-000-0001-00 for the period July 1, 2016, through September 30, 2017.

EDUCATIONAL SERVICE UNIT NO. 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

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

Finding # 2017-002: Migrant Grant Priority for Service Students (Continued)

Federal Grantor Agency: U.S. Department of Education

Criteria: 2 CFR 200.303 (January 1, 2017) requires:

The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

A good internal control plan requires procedures to ensure ESU No. 1 is defining, and properly identifying and counting "priority for services" for migratory children so that priority in the provision of Migrant Education services is given to those migratory children identified as failing, or most at risk of failing, to meet the State's challenging content and academic achievement standards, and whose education has been interrupted in the regular school year.

A good internal control plan requires the Program Director to document her approval of all support services provided to students eligible for Migrant Education. A good internal control plan also requires a review to be in place to ensure the accuracy of all information entered into MIS2000, the State of Nebraska's information system for the Migrant Education grant.

Condition: ESU No. 1 did not have a documented review procedure for services provided to children eligible for Migrant Education. ESU No. 1 also did not have a procedure to compare the services provided to the information entered into the MIS2000 system to ensure its accuracy.

Questioned Costs: None

Statistical Sample: No

Repeat Finding: No

Context: Services provided to children eligible for the Migrant Education grant are documented on ESU No. 1's Student Services Tracking Form. These logs are turned in by ESU No. 1 employees who provide the services or set up the services to be provided. The Migrant grant requires ESU No. 1 to give priority to migratory children who are failing, or most at risk of failing, to meet the State's challenging content and academic achievement standards, and whose education has been interrupted during the regular school year.

The logs are reviewed and approved by the Program Director and then entered into MIS2000. MIS2000 is the computer system used by the Nebraska Department of Education to serve migrant children. MIS2000 is used to store, retrieve, and report student information.

EDUCATIONAL SERVICE UNIT NO. 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

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

Finding # 2017-002: Migrant Grant Priority for Service Students (Concluded)

Cause: ESU No. 1 did have a procedure for the Program Director to review the services provided to children eligible for Migrant Education; however, this review was not documented. ESU No. 1 did not have a documented review procedure for the information entered into MIS2000.

Effect: When the Program Director does not document her review and approval of the Student Services Tracking Form and the MIS2000 data, there is an increased risk data may be incorrectly entered into MIS2000, or the services may not be provided to the correct students.

Recommendation: We recommend ESU No. 1 strengthen procedures to ensure that the Program Director approves all Student Services Tracking Forms or other documentation. We also recommend ESU No. 1 implement a review of the MIS2000 data to ensure the data is supported by the appropriate documentation.

Contact: Migrant Education Director Vanessa Gascon-Guarcas

Anticipated Completion Date: Immediate (January 2018)

Corrective Action Plan: In order to strengthen procedures and ensure that the Migrant Grant is collecting appropriate documentation as data is recorded on MIS2000, a single Google document has been created and shared for edit, rather than each service provider having their own. The Migrant Director is notified every time a change is made in the document. Anyone adding a service is now required to give a brief explanation of the service provided. The Data Specialist will be in charge of providing monthly “service” reports at the end of each monthly meeting. During this time the Migrant Director and MEP team will compare data recorded on MIS2000 to data shared on the Google Doc in which services were previously recorded.

Finding # 2017-003: Migrant Grant Reporting

Program: CFDA 84.011 – Migrant Education State Grant Program – Reporting

Grant Number & Year: Grant 16-01-000-0001-00, for the period July 1, 2015, through September 30, 2016, and Grant 17-01-000-0001-00, for the period July 1, 2016, through September 30, 2017.

Federal Grantor Agency: U.S. Department of Education

EDUCATIONAL SERVICE UNIT NO. 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

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

Finding # 2017-003: Migrant Grant Reporting (Concluded)

Criteria: 2 CFR 200.303 (January 1, 2017) requires:

The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

A good internal control plan requires procedures to be in place to ensure that Federal reports are accurately prepared, reviewed, and approved by a person with knowledge of the program. This review and approval should be documented.

Condition: Two of two Migrant Education grant reimbursement requests tested did not have the review and approval of the reimbursement request documented.

Questioned Costs: None

Statistical Sample: No

Context: ESU No. 1 files periodic Federal reimbursement requests through the Nebraska Department of Education (NDE) for the Migrant Education State Grant Program. The Migrant Grant Coordinator prepares the report from ESU No. 1's accounting system, but it is not reviewed and approved by the Migrant Education Program Director before being submitted to the NDE.

Cause: The Grant Coordinator prepares the report based on the accounting system information and submits.

Effect: When Federal reimbursement requests are made without a documented review and approval, there is an increased risk the reports may be inaccurate.

Recommendation: We recommend the Migrant Education Program Director document her review and approval of the reimbursement request reports prior to submittal to the NDE.

Contact: Migrant Education Director Vanessa Gascon-Guarcas

Anticipated Completion Date: Immediate (January 2018)

Corrective Action Plan: Migrant Education Director will review and approved all future disbursement requests generated prior to submission to NDE.

EDUCATIONAL SERVICE UNIT NO. 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(Continued)

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

Finding # 2017-004: Federal Payroll Documentation

Program: CFDA 84.011 – Migrant Education State Grant Program – Allowability and CFDA 93.575 Child Care and Development Block Grant – Allowability

Grant Number & Year: For CFDA 84.011: Grant 16-01-000-0001-00, for the period July 1, 2015, through September 30, 2016, and Grant 17-01-000-0001-00, for the period July 1, 2016, through September 30, 2017.

For CFDA 93.575: Grant 17-4990-01-000-0001, for the period July 1, 2016 to June 30, 2017, and Grant 18-4990-01-000-0001, for the period July 1, 2017, to June 30, 2018.

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

Criteria: 2 CFR 200.430(h)(8)(i)(1) (January 1, 2017) states, in part, “Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.”

Condition: Two of six employees tested, who were paid from Federal grants, did not have documentation to support that they worked entirely for the Federal grant. One employee was paid from the Migrant Education State Grant Program, and the other was paid from the Child Care and Development Block Grant.

Questioned Costs: Unknown

Statistical Sample: No

Context: The two employees tested were timesheet exempt and, thus, did not complete a timesheet documenting the time worked on each Federal program. Both of the employees kept a mileage log, but that did not include information for every day that specified they worked solely on the Federal grant. As a result, ESU No. 1 did not have documentation to support that these employees worked solely on the grants from which they were paid.

Cause: The two employees identified were timesheet exempt and did not complete timesheets to document time spent on each grant. In addition, no other documentation was maintained to support that they spent the entirety of the month working on each grant.

EDUCATIONAL SERVICE UNIT NO. 1

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Concluded)

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

Finding # 2017-004: Federal Payroll Documentation (Concluded)

Effect: ESU No. 1 was not in compliance with Federal requirements because it did not maintain documentation to support that staff spent all their time on a Federal grant. Without proper documentation there is also an increased risk improper expenses will be recorded to the Federal grant.

Recommendation: We recommend ESU No. 1 implement procedures to document exempt employee time spent on Federal grants. If the employee works solely on one grant, documentation certifying that the employee worked on the single Federal program could be maintained.

Contact: Migrant Education Director Vanessa Gascon-Guarcas; Early Learning Coordinator Susan Strahm

Anticipated Completion Date: January 2018

Corrective Action Plan: Monthly mileage/daily log reports submitted by ME Director and EL Coordinator will include a statement of certification that all contract days reported were for the sole purpose of the grants for which their employment is funded.

SECTION IV. SCHEDULE OF PRIOR AUDIT FINDINGS

There were no prior year findings.