

**AUDIT REPORT  
OF  
EDUCATIONAL SERVICE UNIT NO. 7  
SEPTEMBER 1, 2013, THROUGH AUGUST 31, 2014**

**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 December 12, 2014**

## TABLE OF CONTENTS

	<u>Page</u>
<b>Exit Conference</b>	1
<b>Financial Section</b>	
Independent Auditor's Report	2 - 4
Basic Financial Statements:	
Agency-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 Funds	9
Statement of Changes in Fiduciary Net Position – Cash Basis – Fiduciary Funds	10
Notes to the Financial Statements	11 - 18
Supplementary Information:	
Budgetary Comparison Schedule – Cash Basis – General Fund Balance	19 - 20
Notes to the Budgetary Comparison Supplementary Information	21
Schedule of Expenditures of Federal Awards	22
Notes to the Schedule of Expenditures of Federal Awards	23
<b>Government Auditing Standards Section</b>	
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>	24 - 25
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	26 - 28
Schedule of Findings and Questioned Costs	29 - 32

EDUCATIONAL SERVICE UNIT NO. 7

**EXIT CONFERENCE**

An exit conference was held October 30, 2014, with Educational Service Unit No. 7 (ESU No. 7) to discuss the results of our examination. Those in attendance for ESU No. 7 were:

<b>NAME</b>	<b>TITLE</b>
Larianne Polk	Administrator
Linda Shefcyk	Accounting Manager
Carolyn Koch	Federal Grants Program Bookkeeper
Megan Kassing	Special Education Bookkeeper
Paulette Wieser	Media/DL Assistant
Darus Mettler	Special Education Director



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

---

Mike Foley  
State Auditor

Mike.Foley@nebraska.gov

PO Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.nebraska.gov](http://www.auditors.nebraska.gov)

EDUCATIONAL SERVICE UNIT NO. 7

### INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Educational Service Unit No. 7  
Columbus, NE

#### **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. 7 (ESU No. 7), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise Educational Service Unit No. 7'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. 7'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 aggregate remaining fund information of ESU No. 7, as of August 31, 2014, 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 Matter***

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements, which collectively comprise ESU No. 7's basic financial statements. The Budgetary Comparison Schedule – Cash Basis, found on pages 19 and 20, and the Schedule of Expenditures of Federal Awards, found on page 22, 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 December 10, 2014, on our consideration of ESU No. 7'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. 7's internal control over financial reporting and compliance.

December 10, 2014

A handwritten signature in black ink, appearing to read "Zachary Wells", with a stylized flourish at the end.

Zachary Wells, CPA, CISA  
Audit Manager

EDUCATIONAL SERVICE UNIT NO. 7  
**STATEMENT OF NET POSITION - CASH BASIS**  
AUGUST 31, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 1,452,082
Funds Held by County Treasurers	<u>389,588</u>
 TOTAL ASSETS	 <u><u>\$ 1,841,670</u></u>
 NET POSITION	
Unrestricted	<u>\$ 1,841,670</u>
 TOTAL LIABILITIES AND NET POSITION	 <u><u>\$ 1,841,670</u></u>

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

EDUCATIONAL SERVICE UNIT NO. 7  
**STATEMENT OF ACTIVITIES - CASH BASIS**  
 FOR THE YEAR ENDED AUGUST 31, 2014

FUNCTIONS/PROGRAMS	Cash Disbursements	Charges for Services	<u>Program Cash Receipts</u> Operating Grants and Contributions	Net Receipts (Disbursements) and Changes in Net Position Government Activities
Primary Government				
Governmental Activities:				
Special Education	\$ 2,829,772	\$ 2,835,723	\$ -	\$ 5,951
Support Services	801,568	-	-	(801,568)
School Administration	1,233,627	1,136,118	-	(97,509)
State Programs	802,553	-	51,009	(751,544)
Federal Programs	1,993,774	-	1,972,811	(20,963)
Total Governmental Activities	<u>\$ 7,661,294</u>	<u>\$ 3,971,841</u>	<u>\$ 2,023,820</u>	<u>(1,665,633)</u>
General Receipts:				
Local Receipts				1,885,303
Investment Income				3,264
Other				<u>13,753</u>
Total General Receipts				<u>1,902,320</u>
Change in Net Position				236,687
Adjusted Net Position - Beginning (Note 7)				<u>1,604,983</u>
Net Position - Ending				<u>\$ 1,841,670</u>

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



EDUCATIONAL SERVICE UNIT NO. 7  
**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCE**  
**GOVERNMENTAL FUND**  
AUGUST 31, 2014

	<u>GENERAL FUND</u>
ASSETS	
Cash and Cash Equivalents	\$ 1,452,082
Cash Held by County Treasurers	<u>389,588</u>
 TOTAL ASSETS	 <u><u>\$ 1,841,670</u></u>
 FUND BALANCE:	
Unassigned	 <u>1,841,670</u>
 TOTAL CASH BASIS FUND BALANCE	 <u><u>\$ 1,841,670</u></u>

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

EDUCATIONAL SERVICE UNIT NO. 7  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
 CHANGES IN CASH BASIS FUND BALANCE**  
**GOVERNMENTAL FUND**  
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

	GENERAL FUND
RECEIPTS	
Local District Taxes (Note 1)	\$ 1,885,303
Tuition	2,670
Investment Interest	3,264
Local School Charges	1,136,118
Special Education Charges	2,835,723
State Sources	51,009
Federal Sources	1,972,811
Other Receipts	11,083
	<hr/>
TOTAL RECEIPTS	7,897,981
	<hr/>
DISBURSEMENTS	
Current:	
Special Education	2,829,772
Support Services:	
Instructional Staff	17,876
Production and Media Services	440,080
General Administration	343,612
School Administration	
Business Support	122,622
Building and Grounds	44,276
Plant Maintenance	75,761
Material and Equipment	990,968
State Programs:	
Core Services	802,553
Federal Programs:	
Title I	527,631
Title I Migrant	727,635
Title III	57,717
Title IIA	80,291
Special Education and Child Development	485,627
Medicaid Administrative Activities	33,166
Perkins Grant	81,707
	<hr/>
TOTAL DISBURSEMENTS	7,661,294
	<hr/>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	236,687
	<hr/>
ADJUSTED FUND BALANCE, beginning of year (Note 7)	1,604,983
	<hr/>
TOTAL FUND BALANCE, end of year	\$ 1,841,670
	<hr/> <hr/>

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

EDUCATIONAL SERVICE UNIT NO. 7  
**STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS**  
**FIDUCIARY FUNDS**  
AUGUST 31, 2014

	<u>Cafeteria Plan Fund</u>	<u>Agency Fund</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 18,439	\$ 15,000
Total Assets	<u>\$ 18,439</u>	<u>\$ 15,000</u>
<b>NET POSITION</b>		
Held in Trust for Nebraska Educational Service Unit Board Association	-	15,000
Held in Trust for Employees	<u>18,439</u>	<u>-</u>
Total Net Position	<u>\$ 18,439</u>	<u>\$ 15,000</u>

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

EDUCATIONAL SERVICE UNIT NO. 7  
**STATEMENT OF CHANGES IN FIDUCIARY  
NET POSITION - CASH BASIS  
FIDUCIARY FUNDS**  
FOR THE YEAR ENDED AUGUST 31, 2014

	<u>Cafeteria Plan Fund</u>
ADDITIONS	
Participant Contributions	<u>\$    49,278</u>
Total Additions	<u>49,278</u>
DEDUCTIONS	
Payments to Participants	<u>47,019</u>
Total Deductions	<u>47,019</u>
Change in Net Position Held in Trust for Employees	2,259
CASH BASIS NET POSITION - BEGINNING	<u>16,180</u>
CASH BASIS NET POSITION - ENDING	<u><u>\$    18,439</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the Fiscal Year Ended August 31, 2014

**1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

Educational Service Unit No. 7 (ESU No. 7) adopted the provisions of Statement No. 34 (Statement 34) of the Government Accounting Standards Board (GASB), “Basis Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.” Statement 34 established standards for external financial reporting for all State and local government entities, which includes government-wide financial statements, fund financial statements, and the classification of net position into three components – (a) net investment in capital assets; (b) restricted; (c) unrestricted. ESU No. 7 reported unrestricted net position.

**B. Reporting Entity**

ESU No. 7 is a governmental entity that provides supplies, equipment, materials, and services to school districts in a seven-county region. ESU No. 7 was established under and is governed by the laws of the State of Nebraska. The financial statements include all funds of ESU No. 7. ESU No. 7 has also considered all potential component units for which it is financially accountable and other organizations that are fiscally dependent on ESU No. 7 or whose relationships with ESU No. 7 are so significant that exclusion would be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of ESU No. 7 to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, ESU No. 7. ESU No. 7 is also considered financially accountable if an organization is fiscally dependent on it, and there is potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, ESU No. 7, regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.

These financial statements present ESU No. 7. No component units were identified, and ESU No. 7 is not considered a component unit of any other governmental entity.

**C. Government-Wide and Fund Financial Statements**

**Agency-Wide Financial Statements.** The Statement of Net Position – Cash Basis and Statement of Activities – Cash Basis display information about the activities of ESU No. 7 and are in the format of government-wide statements, as required by Governmental Accounting Standards Board (GASB) Statement Number 34. These statements include

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

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

all the financial activities of ESU No. 7, except for fiduciary activities. The effect of interfund activity has been removed from these statements. ESU No. 7 reports governmental activities only. Governmental activities generally are financed through taxes and intergovernmental revenues

The Statement of Net Position – Cash Basis presents the reporting entity’s non-fiduciary assets and liabilities, with the difference reported as net position. ESU No. 7’s net position is reported as unrestricted, which can have constraints on resources that are imposed by management (rather than external constraints), but those constraints can be removed or modified.

The Statement of Activities – Cash Basis 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. 7 reported the following general revenues: Local Receipts, Investment Income, and Other Receipts.

**Fund Financial Statements.** The fund financial statements provide information about ESU No. 7’s funds, including its Governmental Fund and Fiduciary Funds. The accounts of ESU No. 7 are organized on the basis of funds, which are grouped into the following governmental and fiduciary fund types:

**General Fund** – This is ESU No. 7’s primary operating fund. 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 disbursements and new and replacement capital outlay costs are paid from the General Fund. This is a Governmental Fund.

**Cafeteria Plan Fund** – Fiduciary funds report assets held in a trustee capacity for others and, therefore, cannot be used to support ESU No. 7’s own programs. The contributions and disbursements related to certain employee benefits, including medical and dependent care reimbursements, are accounted for in the Cafeteria Plan Fund. This is a Fiduciary Fund.

**Agency Fund** – This fund holds the assets of the Nebraska Educational Service Unit Board Association. This is a Fiduciary Fund.

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

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

**D. Basis of Accounting**

ESU No. 7'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.

The basic financial statements have been prepared primarily from accounts maintained by ESU No. 7's accounting system.

**E. Cash and Cash Equivalents**

In addition to bank accounts, this classification includes all short-term investments, such as certificates of deposit and money market accounts. 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, 2014, approximates market. Banks pledge collateral, as required by law, to guarantee ESU No. 7's funds held.

**F. Inventories and Prepaid Items**

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

**G. Capital Assets**

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

**H. Compensated Absences**

ESU No. 7 has entered into negotiated agreements with certified and non-certified personnel. In those agreements, ESU No. 7 has agreed to provide benefits for personal and sick leave. In accordance with the cash basis of accounting, these benefits are recorded as a disbursement when paid.

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

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

**I. Property Taxes and Funds Held by County Treasurers**

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 January 1. The first half of real estate and personal property taxes becomes delinquent on May 1, and the second half becomes delinquent on September 1 following the levy date. The combined tax rate subject to limitations of ESU No. 7 for the year ended August 31, 2014, was \$0.0150 per \$100 assessed valuation of all taxable property within its geographic region. Property taxes levied are recognized when received.

Property taxes are collected on behalf of ESU No. 7 by counties, which then remit the funds collected to ESU No. 7. Taxes are recognized as receipts by ESU No. 7 when received by the counties. Cash available for ESU No. 7 at various county treasurers' offices has been included in the beginning and ending fund balances of the Governmental Fund. Additionally, Local Receipts or Local District Taxes reflect actual tax receipts collected by the county treasurers during the fiscal year ending August 31, 2014, for ESU No. 7. The following County Treasurers' ending balances are included in the fund balance for the year ended August 31, 2014:

County	As of August 31, 2014
Antelope County	\$ 71
Boone County	49,924
Butler County	61,511
Colfax County	43,461
Cuming County	5,457
Dodge County	6,105
Greeley County	262
Hamilton County	6,018
Howard County	885
Madison County	238
Merrick County	37,054
Nance County	20,242
Platte County	89,932
Polk County	41,968
Saunders County	7,903
Seward County	1,676
Stanton County	7,818
York County	9,063
Total	\$ 389,588



**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

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

**J. 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 certain reported amounts and disclosures. Actual results could differ from those estimates.

**K. Fund Balance**

GASB has issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Statement No. 54 defines the different types of governmental fund balances that a governmental entity must use for financial reporting purposes.

**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 that are 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 considered neither restricted nor committed. Fund balances may be assigned by management.

**Unassigned** – Fund balance amount is the residual classification for ESU No. 7's general fund and includes all spendable amounts not contained in the other classifications.

ESU No. 7'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. 7 first spends committed, then assigned, and lastly unassigned amounts of unrestricted fund balances when expenditures are made. The General Fund balance at August 31, 2014, was classified as unassigned. ESU No. 7 does not have a formal minimum fund balance policy.

**NOTES TO THE FINANCIAL STATEMENTS**  
(Continued)

**2. Deposits**

Listed below is a summary of the deposit portfolio that comprises the Cash and Cash Equivalents on ESU No. 7's August 31, 2014, basic financial statements.

Deposits – Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. At August 31, 2014, ESU No. 7 held bank deposits and certificates of deposit.

ESU No. 7's bank balance and carrying amount of deposits at August 31, 2014, are below:

	<b>Bank Balance</b>	<b>Carrying Amount</b>
Bank Deposits	\$ 1,485,521	\$ 1,568,017

Bank Deposits: ESU No. 7 does not have a policy for custodial credit risk associated with deposits.

ESU No. 7 is required by State statute to collateralize bank deposits in excess of federally insured amounts. During the fiscal year ended August 31, 2014, ESU No. 7's deposits were adequately collateralized.

**3. Risk Management**

ESU No. 7 is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and natural disasters. During the fiscal year, ESU No. 7 carried commercial insurance for automobile liability, business liability, and employer's liability and also carried insurance related to worker's compensation coverage, buildings, business personal property, commercial vehicle coverage, and employee dishonesty coverage. No significant reductions in insurance coverage have occurred during the fiscal year ending August 31, 2014. Settled claims resulting from these risks have not exceeded the above coverage in the past three years.

**4. School Employees Retirement Plan (Plan)**

ESU No. 7 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, P.O. Box 94816, Lincoln, NE 68509-4816 or by calling 1-800-245-5712.

## EDUCATIONAL SERVICE UNIT NO. 7

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

#### 4. **School Employees Retirement Plan (Plan)** (Concluded)

##### **Funding Policy**

Plan members were required to contribute 9.78% of their annual covered salary from September 1, 2013, to August 31, 2014. ESU No. 7 is required to contribute 101% of the employee contribution. The contribution requirements of plan members and ESU No. 7 are established by the Nebraska statutes. ESU No. 7's contributions to NPERS for the year ended August 31, 2014, was \$398,154, equal to the required contributions for the period. ESU No. 7's contributions to NPERS for the years ending August 31, 2012, and August 31, 2013, were \$425,269 and \$419,986, respectively, equal to the required contributions for each year.

#### 5. **Fiduciary Funds**

ESU No. 7 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 or excludable from the employee's income under Section 125(a) and other applicable sections of the Code. At August 31, 2014, ESU No. 7 had collected \$49,278 from employees to be paid out when claims are filed. ESU No. 7 maintains a separate checking account to pay these claims. As of August 31, 2014, that account had a carrying value of \$18,439, which is included in the Statement of Fiduciary Net Position – Cash Basis.

ESU No. 7 holds \$15,000 for the Nebraska Educational Service Unit Board Association (NESUBA). Expenses incurred by NESUBA are communicated to ESU No. 7, which then makes the disbursement. The NESUBA account did not have any activity during the fiscal year ended August 31, 2014. This is reported as the Agency Fund.

#### 6. **Unemployment Compensation Insurance**

ESU No. 7 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. 7 is liable to reimburse the State for the actual amount of the claim(s).

#### 7. **Adjustments to Fund Balance**

The Beginning Net Position on the Statement of Activities – Cash Basis and the Beginning Fund Balance – Governmental Fund were adjusted in order to show the balance in ESU No. 7's Cafeteria Plan and the Agency Fund as fiduciary funds, instead of as a governmental fund. The Cafeteria Plan bank account holds employee contributions that can be used only for medical purposes. The Agency Fund holds the funds of the Nebraska Educational Service Unit Board Association (NESUBA). These funds are not available to be used in the operation of ESU No. 7.

EDUCATIONAL SERVICE UNIT NO. 7

**NOTES TO THE FINANCIAL STATEMENTS**  
(Concluded)

**7. Adjustments to Fund Balance** (Concluded)

As a result of these funds previously being shown as part of the Governmental Fund, ESU No. 7's change in net position would have been overstated by \$1,593 in the preceding year, which is the excess of Cafeteria Plan receipts over disbursements. The Agency Fund did not have any activity in the prior year. The beginning balance was reduced by \$16,180, for the Cafeteria Plan, and \$15,000, for the Agency Fund. The beginning balance of \$16,180 is shown as the Beginning Net Position on the Statement of Changes in Fiduciary Net Position – Cash Basis. GASB Statement 34 requires Agency funds not be reported in the Statement of Changes in Fiduciary Net Position.

EDUCATIONAL SERVICE UNIT NO. 7  
**SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - CASH BASIS**  
**GENERAL FUND BALANCE**  
FOR THE YEAR ENDED AUGUST 31, 2014

	<u>ACTUAL</u>	<u>BUDGET</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
RECEIPTS			
Program			
Local District Taxes	\$ 1,885,303	\$ 1,907,986	\$ (22,683)
Tuition	2,670	500	2,170
Investment Interest	3,264	5,000	(1,736)
Local School Charges	1,136,118	1,648,112	(511,994)
Special Education Charges	2,835,723	2,995,113	(159,390)
State Sources Interest	51,009	51,009	-
Federal Sources	1,972,811	2,059,190	(86,379)
Other Receipts	11,083	42,961	(31,878)
TOTAL RECEIPTS	<u>\$ 7,897,981</u>	<u>\$ 8,709,871</u>	<u>\$ (811,890)</u>
DISBURSEMENTS			
Current			
Special Education	\$ 2,829,772	\$ 3,000,113	\$ 170,341
Support Services			
Instructional Staff	17,876	94,637	76,761
Production and Media Services	440,080	494,186	54,106
General Administration	343,612	378,290	34,678
School Administration			
Business Support	122,622	178,891	56,269
Building and Grounds	44,276	100,000	55,724
Plant Maintenance	75,761	84,591	8,830
Material and Equipment	990,968	1,987,392	996,424
State Programs			
Core Services	802,553	855,112	52,559

(Continued)

EDUCATIONAL SERVICE UNIT NO. 7  
**SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE - CASH BASIS**  
**GENERAL FUND BALANCE**  
FOR THE YEAR ENDED AUGUST 31, 2014

	ACTUAL	BUDGET	VARIANCE POSITIVE (NEGATIVE)
DISBURSEMENTS (Continued)			
Program (Continued)			
Federal Programs			
Title I	\$ 527,631	\$ 646,811	\$ 119,180
Title I Migrant	727,635	859,948	132,313
Title III	57,717	98,466	40,749
Title IIA	80,291	229,153	148,862
Special Education and Child Development	485,627	533,375	47,748
Medicaid Administrative Activities	33,166	114,560	81,394
Perkins Grant	81,707	80,305	(1,402)
TOTAL DISBURSEMENTS	<u>\$ 7,661,294</u>	<u>\$ 9,735,830</u>	<u>\$ (2,074,536)</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	236,687	<u>\$ (1,025,959)</u>	<u>\$ 1,262,646</u>
ADJUSTED FUND BALANCE, beginning of year (Note 7)	<u>1,604,983</u>		
TOTAL FUND BALANCE, end of year	<u><u>\$ 1,841,670</u></u>		

(Concluded)

See accompanying Notes to the Budgetary Comparison Supplementary Information.

## EDUCATIONAL SERVICE UNIT NO. 7

### NOTES TO THE BUDGETARY COMPARISON SUPPLEMENTARY INFORMATION

#### **Budgetary Process**

ESU No. 7 adopts an annual budget in accordance with the statutory requirements of the Nebraska Budget Act. The budget is prepared on the cash receipts and disbursements basis of accounting. The budget contains only those receipts actually received by ESU No. 7. ESU No. 7 does not utilize an encumbrance accounting system. All appropriated spending authority lapses at the end of the fiscal year.

On or before August 1, ESU No. 7's budget making authority prepares a budget for each ESU No. 7 fund. The budget includes the requirements, the outstanding warrants, the operating reserves to be maintained, the cash on hand at the close of the preceding fiscal year, the receipts from sources other than taxation, and the amount to be raised by taxation.

The property tax requirement resulting from ESU No. 7's adopted budget is utilized by the County Assessors to establish ESU No. 7's tax levy.

**EDUCATIONAL SERVICE UNIT NO. 7**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED AUGUST 31, 2014**

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:			
Title I Grants to Local Educational Agencies	14-07-000-0007-00	84.010	501,359
Title I Grants to Local Educational Agencies	13-07-000-0007-00	84.010	17,607
Title I Grants to Local Educational Agencies	12-07-000-0007-00	84.010	8,665
Total for Federal Program			527,631
Improving Teacher Quality State Grants	14-07-000-0007-00	84.367	80,291
Special Education Cluster			
Special Education Grants to States	14-07-000-0007-00	84.027	46,997
Special Education Grants to States	14-07-000-0007-00	84.027	14,845
Special Education Grants to States	00-0007-248-3B5-14	84.027	5,108
Special Education Grants to States	00-0007-248-2B22B-14	84.027	38,760
Special Education Grants to States	00-0007-248-6B3-14	84.027	109,026
Special Education Grants to States	86-5513-248-MOU-1-14	84.027	58,410
Special Education Grants to States	96-5513-248-MOU-1-15	84.027	11,804
Special Education Grants to States	00-0007-248-2B5B-13	84.027	7,448
Special Education Grants to States	00-0007-248-6B3-13	84.027	7,038
Special Education Grants to States	13-07-000-0007-00	84.027	7,130
Total Special Education Grants to States			306,566
Special Education Preschool Grants	14-04-07-000-0007	84.173	13,253
Special Education Preschool Grants	13-04-07-000-0007	84.173	3,765
Total Special Education Preschool Grants			17,018
* Total Special Education Cluster (IDEA)			323,584
Special Education Grants for Infants and Families	14-07-000-0007-00	84.181	5,222
Special Education Grants for Infants and Families	14-07-000-0007-00	84.181	10,661
Special Education Grants for Infants and Families	00-0007-248-6B3-14	84.181	14,867
Special Education Grants for Infants and Families	86-5513-248-MOU-1-14	84.181	16,218
Special Education Grants for Infants and Families	96-5513-248-MOU-1-15	84.181	1,290
Special Education Grants for Infants and Families	13-07-000-0007-00	84.181	3,455
Special Education Grants for Infants and Families	00-0007-248-6B3-13	84.181	960
Special Education Grants for Infants and Families	14-04-07-000-0007	84.181	13,253
Special Education Grants for Infants and Families	13-04-07-000-0007	84.181	3,765
Special Education Grants for Infants and Families	15-04-07-000-0007	84.181	1,332
Total for Federal Program			71,023
Career and Technical Education Basic Grants to States	14-07-000-0007-00	84.048	80,305
Career and Technical Education Basic Grants to States	15-07-000-0007-00	84.048	1,402
Total for Federal Program			81,707
Migrant Education State Grant Program	14-07-000-0007-00	84.011	680,761
Migrant Education State Grant Program	13-07-000-0007-00	84.011	46,874
* Total for Federal Program			727,635
English Language Acquisition State Grant	14-07-000-0007-00	84.365	43,310
English Language Acquisition State Grant	13-07-000-0007-00	84.365	14,407
Total for Federal Program			57,717
U.S. Department of Health and Human Services:			
Passed through Nebraska Department of Education:			
Child Care and Development Block Grant	14-04-07-000-0007	93.575	64,266
Child Care and Development Block Grant	13-04-07-000-0007	93.575	16,854
Child Care and Development Block Grant	15-04-07-000-0007	93.575	9,678
Total for Federal Program			90,798
Head Start	13-04-07-000-0007	93.600	222
U. S. Department of Health and Human Services			
Passed through the Nebraska Department of Health and Human Services			
Medical Assistance Program		93.778	33,166
TOTAL			\$ 1,993,774

\* Represents Major Program

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



## EDUCATIONAL SERVICE UNIT NO. 7

### NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2014

#### 1. **Basis of Presentation**

The accompanying schedule of expenditures of Federal awards (Schedule) includes the Federal grant activity of Educational Service Unit No. 7 (ESU No. 7) under programs of the Federal government for the year ended August 31, 2014. 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. 7, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of ESU No. 7.

ESU No. 7 receives many grants that are funded by multiple CFDA's. Grants 14-07-000-0007-00, 00-0007-248-6B3-14, 86-5513-248-MOU-1-14, and 96-5513-248-MOU-1-15 are funded by CFDA's 84.027 and 84.181. Grants 14-04-07-000-0007 and 15-04-07-000-0007 are funded by CFDA's 84.173, 84.181, and 93.575. Grant 13-04-07-000-0007 is funded by CFDA's 84.173, 84.181, 93.575, and 93.600. In these instances, the expenditures for each grant are split based on the funding percentage identified on the grant award, which approximated the Federal receipts for these grants.

#### 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.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

---

Mike Foley  
State Auditor

Mike.Foley@nebraska.gov  
PO Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.nebraska.gov](http://www.auditors.nebraska.gov)

### EDUCATIONAL SERVICE UNIT NO. 7

#### **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

Board of Directors  
Educational Service Unit No. 7  
Columbus, NE

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 aggregate remaining fund information of Educational Service Unit No. 7 (ESU No. 7), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise ESU No. 7's basic financial statements, and have issued our report thereon dated December 10, 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 ESU No. 7'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 ESU No. 7's internal control. Accordingly, we do not express an opinion on the effectiveness of ESU No. 7'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 ESU No. 7'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 that we consider to be a significant deficiency that is described in the Schedule of Findings and Questioned Costs: #2014-1 (Lack of Segregation of Duties – Receipts).

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether ESU No. 7'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. 7's Response to Findings**

ESU No. 7's responses to the findings identified in our audit are described in the Schedule of Findings and Questioned Costs. ESU No. 7's responses were 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, ESU No. 7 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 ESU No. 7's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ESU No. 7's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

December 10, 2014

  
Zachary Wells, CPA, CISA  
Audit Manager



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

---

Mike Foley  
State Auditor

Mike.Foley@nebraska.gov  
PO Box 98917  
State Capitol, Suite 2303  
Lincoln, Nebraska 68509  
402-471-2111, FAX 402-471-3301  
[www.auditors.nebraska.gov](http://www.auditors.nebraska.gov)

### EDUCATIONAL SERVICE UNIT NO. 7

#### **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

Board of Directors  
Educational Service Unit No. 7  
Columbus, NE

#### **Report on Compliance for Each Major Federal Program**

We have audited Educational Service Unit No. 7's (ESU No. 7) 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 ESU No. 7's major Federal programs for the year ended August 31, 2014. ESU No. 7'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 ESU No. 7'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 ESU No. 7'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 each major Federal program. However, our audit does not provide a legal determination of ESU No. 7's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, ESU No. 7 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, 2014.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding #2014-2 (Federal Payroll). Our opinion on each major Federal program is not modified with respect to this matter.

ESU No. 7's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. ESU No. 7'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 ESU No. 7 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 ESU No. 7'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 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 ESU No. 7'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, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Finding #2014-2 (Federal Payroll), that we consider to be a significant deficiency.

ESU No. 7's response to the internal control over compliance finding identified in our audit is described in the Schedule of Findings and Questioned Costs. ESU No. 7's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of the 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.

December 10, 2014



Zachary Wells, CPA, CISA  
Audit Manager

EDUCATIONAL SERVICE UNIT NO. 7

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the Year Ended August 31, 2014

SECTION I. SUMMARY OF AUDITOR'S RESULTS

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

Internal control over financial reporting:

Material weaknesses identified?        Yes   X   No

Significant deficiencies identified?   X   Yes        No

Noncompliance material to financial statements noted?        Yes   X   No

Internal control over major programs:

Material weaknesses identified?        Yes   X   No

Significant deficiencies identified?   X   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:   X   Yes        No

Major programs: Special Education Cluster (IDEA), CFDA 84.027 and 84.173; and  
Migrant Education State Grant Program, CFDA 84.011

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

Auditee qualified as low-risk auditee:        Yes   X   No

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
(Continued)

SECTION II. FINANCIAL STATEMENT FINDINGS

**Finding # 2014-1: Lack of Segregation of Duties – Receipts**

A good internal control plan requires an adequate segregation of duties over receipts so that one individual is not responsible for creating invoices, receiving the cash/checks, recording the receipts in the accounting system, and making deposits.

The Accounting Manager invoiced schools, received the cash/checks, recorded the receipts in the accounting system, and made deposits. We also noted the Special Education Bookkeeper was responsible for creating invoices, receiving the cash/checks, applying the checks to the invoices, and creating the deposit slip. We also noted, ESU No. 7 did not create an initial listing of checks received to compare to the deposit and did not have a formal process for tracking invoices. Many invoices are tracked by printing the invoice out and putting it in a folder. The folder is maintained by the Accounting Manager, who prepares the invoices, receives payment, records the receipt on the accounting system, and makes the deposit. A bank reconciliation is performed by someone outside the receipt process; however, if the receipt is never recorded or deposited, the bank reconciliation would not identify any variance.

A lack of segregation of duties over the receipting process increases the risk of misappropriation of ESU No. 7 assets.

We recommend ESU No. 7 implement procedures to segregate adequately the various aspects involved in the receipting process. If a segregation of duties is not possible due to limited staff, we recommend ESU No. 7 implement adequate controls to compensate for the lack of segregation of duties.

*ESU No. 7's Response: Procedures have been implemented for the Receptionist to open the mail, log all incoming checks and stamp with a received on date. After the Accounting Manager deposits checks, the Receptionist will check her log against the deposit slip.*

*To increase segregation of duties, the Accounting Manager is no longer invoicing schools. Procedures have been put into place ensuring the SPED bookkeeper's invoices have been approved before mailing them out.*

SECTION III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Finding # 2014-2: Federal Payroll**

**Program:** CFDA 84.027 and 84.173 – Special Education Cluster (IDEA) – Allowability;  
CFDA 84.181 – Special Education Grants for Infants and Children – Allowability



EDUCATIONAL SERVICE UNIT NO. 7

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
(Continued)

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

**Finding # 2014-2: Federal Payroll** (Continued)

**Grant Number & Year:** Grant 14-07-000-0007-00 (CFDA 84.027 and 84.181) for the period September 1, 2013, through August 31, 2014

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

**Condition:** One of eight Educational Service Unit No. 7 (ESU No. 7) employees did not have documentation to support that payroll costs charged to the Federal program were allowable per OMB Circular A-87.

**Questioned Costs:** \$9,634

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

*(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 employee payroll expenditures billed to a Federal program agree to the actual time the employee spent on the program.

**Cause:** The employee's time was allocated to the Federal programs based on a budgeted amount. The employee kept a time log, but ESU No. 7 did not adjust the payroll expense so only actual time was billed.

EDUCATIONAL SERVICE UNIT NO. 7

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
(Concluded)

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

**Finding # 2014-2: Federal Payroll** (Concluded)

**Context:** ESU No. 7 employees administered the Special Education Cluster (IDEA) and the Special Education Grants for Infants and Children and, thus, were able to bill the grant for employee hours spent administering the program. OMB Circular A-87 has specific requirements for how employee hours are to be documented for the reimbursement to be allowable. OMB Circular A-87 allows budget estimates to be used for interim accounting purposes, but only actual hours worked on a Federal program are allowable. ESU No. 7 budgeted the employee to work 52% of her time on the Federal programs and billed the Federal program based on this; however, the employee worked only 40% of her time on the Federal programs. ESU No. 7 did not adjust the employee payroll costs billed to the Federal program so the costs billed agreed to actual time spent on the Federal programs. This difference was \$9,634.

**Effect:** ESU No. 7 was not in compliance with Federal regulations, and payroll costs charged to the grant may not have been allowable.

**Recommendation:** We recommend ESU No. 7 implement procedures to ensure staff time changed to a Federal grant is based on the employee's actual hours worked rather than a budgeted amount, as required by OMB A-87.

**Management Response:** Procedures have been implemented to review staff time and effort for federal grant funded salaries. Actual hours worked will be adjusted semi-annually.

**Contact:** Linda Shefcyk, Accounting Manager

**Anticipated Completion Date:** January 1, 2015

SECTION IV. SCHEDULE OF PRIOR AUDIT FINDINGS

No prior findings existed.