

**EL PASO COUNTY SCHOOL DISTRICT #22
ELLICOTT, COLORADO**

SINGLE AUDIT REPORTS

**FOR THE YEAR ENDED
JUNE 30, 2017**



RECEIVED

Office of the State Auditor

May 22, 2018

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Holscher, Mayberry & Company, LLC

Certified Public Accountants

Member of the American Institute of Certified Public Accountants
Governmental Audit Quality Center
and Private Company Practice Section

Board of Education
El Paso County School District #22
Ellicott, Colorado

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance *Government Auditing Standards*

Independent Auditors' Report

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, major funds and aggregate remaining fund information of El Paso County School District # 22 (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 6, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 2017-001 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Holscher, Mayberry + Company, LLC

Englewood, Colorado
March 6, 2018

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Board of Education
El Paso County School District #22
Ellicott, Colorado

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 the Uniform Guidance and Report on the Schedule of Expenditures of Federal Awards

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited El Paso County School District # 22's (the "District's") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District'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 the 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 the District'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 of Title 2 U.S. *Code of Federal Regulations* 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 that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District'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 the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District 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 June 30, 2017.

Report on Internal Control Over Compliance

Management of the District 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 the District'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 the District'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, material weaknesses may exist that have not been identified.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, major funds, and aggregate remaining fund information of the District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated March 6, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Holscher, Mayberry + Company, LLC

Englewood, Colorado
March 6, 2018

EL PASO COUNTY SCHOOL DISTRICT #22

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: modified

Internal control over financial reporting:

- Material weakness identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes no

Type of auditors' report issued on compliance for major programs: modified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? yes no

Identification of major programs:

84.041 Title VII – ESEA – Impact Aid

Child Nutrition Cluster

- 10.553 School Breakfast Program
- 10.555 National School Lunch Program/Commodity Distribution
- 10.556 Special Milk Program
- 10.559 Summer Food Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

EL PASO COUNTY SCHOOL DISTRICT #22

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

YEAR ENDED JUNE 30, 2017

II - Findings relating to the financial statement audit as required to be reported in accordance with generally accepted government auditing standards

A. Material Weaknesses in Internal Control

The audit of the financial statements of El Paso County School District #22, as of and for the year ended June 30, 2017, disclosed weaknesses in internal control as noted below:

Finding 2017-001 – Bank Reconciliations

- 1) Compliance Requirement
The District must have an internal control system that allows for accurate financial reporting.
- 2) Condition
The District was unable to reconcile its pooled checking account balance to the accounting records. The District's internal records reflected approximately \$117,000 less cash than what was actually in the bank account.
- 3) Cause
The District replaced its finance director as of the beginning of the fiscal year. The District's internally filled the position with an individual that had minimal general ledger experience with the current software package. In addition, the District's superintendent had been placed on leave during the previous fiscal year and was formally terminated during the current fiscal year. The interim superintendent and new finance director are in the process of developing a new system of controls, but these were not in place during the fiscal year.
- 4) Effect
The District was not able to identify specific transactions that had not been properly reflected in the accounting records. The unlocated difference was posted to the District's General Fund, although a portion of that difference may have been related to other operations.
- 5) Questioned Costs
The District's major programs were not impacted by the bank reconciliation issues as all federal food grant receipts were reconciled.
- 6) Recurrence and Prevalence of the Issues Identified
This failure to reconcile bank statement balances to the general ledger was not noted in prior audits
- 7) Recommendation
The District must familiarize itself enough with the accounting software to understand how transactions posted to the system impact both the general ledger and bank reconciliation. The finance director must obtain enough software training to be able to reconcile the bank accounts to the general ledger monthly. Once this process is established, the District must implement an internal control procedure that will allow for the review of the reconciliation by a party other than the preparer immediately following its completion. This will help insure that the reconciliation is accurate and that that the reconciliation is occurring.

EL PASO COUNTY SCHOOL DISTRICT #22

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

YEAR ENDED JUNE 30, 2017

II - Findings relating to the financial statement audit as required to be reported in accordance with generally accepted government auditing standards (Continued)

B. Compliance Findings

The audit of the financial statements of El Paso County School District #22, as of and for the year ended June 30, 2017, did not disclose any instances of noncompliance with requirements with certain provisions of laws, regulations, and grants that were material to those financial statements.

III - Findings and Questioned Costs for Federal Awards

A. Material Weaknesses in Internal Control

The audit of the financial statements of El Paso County School District #22, as of and for the year ended June 30, 2017, did not disclose any material weaknesses or significant deficiencies in internal controls over federal awards.

B. Compliance Findings

The audit of the financial statements of El Paso County School District #22, as of and for the year ended June 30, 2017, did not disclose any instances of noncompliance with requirements with certain provisions of laws, regulations, and grants that were material to those financial statements.

EL PASO COUNTY SCHOOL DISTRICT #22

CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2017

II - Findings relating to the financial statement audit as required to be reported in accordance with generally accepted government auditing standards

A. Material Weaknesses in Internal Control

Finding 2017-001 – Bank Reconciliations

Due to change in leadership and re-organization, there have been lapses in procedures. One of the first recognizable issues is the full use of the District's Accounting Software. Training has been set up and has already begun to take place for reporting and reconciling. Working with a neighboring school district that uses the same software and with CDE in the reporting piece will allow the District to remedy the issues that have occurred due to personnel changes. The steps of reconciling will be addressed immediately. Also the District recognizes that networking with the area Business Managers is vital for successful implementation and steps have been secured to receive invitations to the area Business Manager Meetings.

EL PASO COUNTY SCHOOL DISTRICT #22

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2017

The audit of the major programs of El Paso County School District #22, as of and for the year ended June 30, 2016, disclosed the following material weakness in internal controls over grant compliance requirements as well as related compliance findings and questioned costs:

Federal Program: 84.010 – NCLB Title I, Part A and 84.367 - NCLB Title II, Part A – U.S. Department of Education
– Passthrough: Colorado Department of Education

Finding 2016-001 - B. Allowable Costs/Cost Principles and C. Cash Management

1) Compliance Requirement

With regards to Allowable Costs, a schoolwide program school is permitted to consolidate Federal funds with State and local funds to upgrade the entire educational program of the school. A school that consolidates Federal funds with State and local funds in a consolidated schoolwide pool is not required to maintain separate records by program (Section 1114(a)(3)(C) of ESEA (20 USC 6314(a)(3)(C)); 34 CFR section 200.29(d)). The District utilizes schoolwide program accounting for both its NCLB Title I and Title II programs.

With regards to Cash Management, Non-Federal entities must minimize the time elapsing between the transfer of funds from the U.S. Treasury or pass-through entity and disbursement by the non-Federal entity for direct program or project costs and the proportionate share of allowable indirect costs, whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means (2 CFR section 200.305(b)).

2) Condition

In January and March of 2016, the District submitted grant reimbursement requests of their Title I and Title II allotments to the Colorado Department of Education. The January reimbursement requested the full amount of the FY16 allotment with the Title I amount of \$147,637 and Title II amount of \$29,742 remitted by the Colorado Department of Education in February 2016. An additional \$45 of Title II funds was requested in March and paid in April of 2016.

Under schoolwide program accounting, the District is entitled to request reimbursement of program costs in the amount of total program costs incurred multiplied by the Federal percentage of the program. In reviewing the District's program costs for the fiscal year, the District expended 99.71% of the budgeted amount. Accordingly, for fiscal year 2016, the District would have been eligible to request 99.71% of its Federal allotment. The difference between the amount of Federal grant reimbursement requested and the amount earned was only \$514 between the two programs.

As of June 30, 2016, the District was essentially entitled to all federal dollars requested through the Colorado Department of Education. As of the date that the funds were initially requested in January 2016, however, less than half of the amount requested had been earned.

EL PASO COUNTY SCHOOL DISTRICT #22

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2017

Federal Program: 84.010 – NCLB Title I, Part A and 84.367 - NCLB Title II, Part A – U.S. Department of Education
– Passthrough: Colorado Department of Education (Continued)

Finding 2016-001 - B. Allowable Costs/Cost Principles and C. Cash Management (Continued)

3) Cause

The cause of the condition could not be determined. The District's Chief Financial Officer who had submitted the reimbursement request was no longer employed by the District as of the commencement of audit fieldwork. The support for the request could not be located and therefore it is unknown if the request was intended as an advance or the District incorrectly computed the amount it was entitled to request as of that date. Similar to the lack of support for the amount being requested, there was also no evidence of review of the reimbursement request by someone other than the preparer.

4) Effect

While the District eventually was entitled to the amount requested, for a period of approximately six months, the District held federal program funds, in an ever-decreasing amount, that it was not entitled to. For Colorado Department of Education purposes, requests are only to be for incurred costs that will be paid timely after receipt of the reimbursement.

5) Questioned Costs

As the Federal Grant reimbursements were eventually earned, no questioned cost existed as of the end of the fiscal year.

6) Recurrence and Prevalence of the Issues Identified

This failure to support schoolwide reimbursement requests was not noted in prior periods, when those programs were tested. The issue was present for both of the District's federal schoolwide programs.

7) Recommendation

The District must familiarize itself with the process for requesting funds under schoolwide programs, educate staff on those requirements, adequately support grant reimbursement requests, and develop internal controls to insure that the process is reviewed by personnel knowledgeable of program requirements.

EL PASO COUNTY SCHOOL DISTRICT #22

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2017

Federal Program: 84.010 – NCLB Title I, Part A and 84.367 - NCLB Title II, Part A – U.S. Department of Education
– Passthrough: Colorado Department of Education (Continued)

Finding 2016-001 - B. Allowable Costs/Cost Principles and C. Cash Management (Continued)

8) Corrective Action Plan

In order for the Ellicott School District to familiarize itself with the process of requesting funds for schoolwide programs, we will be working with the Colorado Department of Education. This work will consist of educating ourselves in the proper procedures to insure that we are calculating our reimbursement requests correctly. Also, the Ellicott District will educate more than one staff member on the procedures and process, to insure that internal controls are set in place to request, review and submit the requested funds for school wide programming.

STATUS OF FINDING

For the year ended June 30, 2017, the District's Title grants were converted from a schoolwide program to a direct cost program. For the 2017 fiscal year, the District did not code any expenditures to its Title I grant lines in its general ledger. For Title IIA, the District posted a combination of direct expenses as well as unsupported expense allocations, similar to the former schoolwide allocation, to the grant. In no instance did the overall amounts requested for reimbursement match the general ledger support. In addition, the District failed to submit an end of year report to the Colorado Department of Education documenting the usage of the requested grant funds. Overall, we believe that the District's accounting for these two grants has deteriorated from the status present for the June 30, 2016 fiscal year. The District needs to designate an individual internally to manage these grants. This individual will need to follow-up with the Colorado Department of Education's Grants Fiscal Management Office for additional training regarding grant compliance activities and coordinate with Finance Office to insure future compliance.

EL PASO COUNTY SCHOOL DISTRICT #22
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

<u>Grantor/Grant Title</u>	<u>State Grant Number</u>	<u>CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Education			
NCLB Title VIII - Impact Aid	4041	84.041	\$ 429,611
Passthrough Colorado Department of Education			
NCLB Title I, Part A - Improving Basic Programs	4010	84.010	150,452
NCLB Title II, Part A - Teacher & Principal Training	4367	84.367	30,580
Race to the Top Grant	5412	84.412	806
Passthrough Colorado Community College System			
Carl Perkins Vocational Education	4048	84.048	32,705
Total U.S. Department of Education			<u>644,154</u>
U.S. Department of Agriculture			
Passthrough Colorado Department of Education			
<u>Child Nutrition Cluster</u>			
School Breakfast Program	4553	10.553	76,455
Special Milk Program	4556	10.556	949
National School Lunch Program	4555	10.555	267,428
Summer Food Service Program	4559	10.559	19,159
Passthrough Colorado Department of Human Services			
Natl School Lunch Program - Commodities	4555	10.555	33,343
Total Child Nutrition Cluster			<u>397,334</u>
Total U.S. Department of Agriculture			<u>397,334</u>
Total Federal Expenditures			<u>\$ 1,041,488</u>

See accompanying Independent Auditors' Report.

EL PASO COUNTY SCHOOL DISTRICT #22

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in the financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual 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.

NOTE 3: 10% DE MINIMIS INDIRECT COST RATE

The District did not utilize the 10% de minimis indirect cost rate.

NOTE 4: SUBRECIPIENTS

There were no subrecipients that received funding from the BOCES for the fiscal year.

NOTE 5: VALUATION OF COMMODITIES

The District has valued its commodity receipts based on current market value as provided by the Colorado Department of Human Services as required by §200.502(g) of the Uniform Guidance.