

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

SINGLE AUDIT REPORTS

**FOR THE YEAR ENDED
JUNE 30, 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 12, 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 2018-001 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
December 12, 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, 2018. 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, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying Corrective Action Plan. The District'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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2018-002 that we consider to be significant deficiencies.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The District'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 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 12, 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
December 12, 2018

EL PASO COUNTY SCHOOL DISTRICT #22

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unmodified

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: unmodified

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

Identification of major programs:

- 84.041 Impact Aid
- 84.010 Title I Grants to Local Educational Agencies

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, 2018

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 2018-001 – Bank Reconciliations

Due to changes in the Finance Director position, there have been lapses in procedures. One of the first recognizable issues is the full use of the District's Accounting Software. The District will continue training for the new Finance Director and is working to remedy the issues that have been prevalent at the District. 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 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 2018-001 – 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 \$41,500 less cash than what was actually in the reconciled bank account.
- 3) Cause
The District replaced its finance director during the current fiscal year. The District internally filled the position with an individual that had some experience with the accounting software used at the District, but mostly related to the payroll function. This, combined with the inexperience and lack of accounting acumen of the previous finance director, resulted in not having a consistent set of records for the year.
- 4) Effect
The District was not able to identify specific transactions that had been improperly reflected in the accounting records, especially transactions prior to the change in personnel. 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 programs were reconciled.
- 6) Recurrence and Prevalence of the Issues Identified
This failure to reconcile bank statement balances to the general ledger was noted in the fiscal year ending June 30, 2017, therefore, has been a recurring issue the last two fiscal years.
- 7) Recommendation
The District should continue the ongoing training of finance staff in CDE requirements and proper use of the accounting software. As discussed with District personnel, now that the bank account has been reconciled as of June 30, 2018, fiscal year 2019 bank reconciliations should be redone to insure that the issues encountered during fiscal year 2018 have been corrected.

EL PASO COUNTY SCHOOL DISTRICT #22

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

YEAR ENDED JUNE 30, 2018

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, 2018, 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/ B. Compliance Findings

The audit of the major programs of El Paso County School District #22, as of and for the year ended June 30, 2018, disclosed the following material weakness in internal controls over grant compliance requirements as well as related compliance findings:

Federal Program: 84.010 – Title I Grants to Local Educational Agencies – U.S. Department of Education – Passthrough: Colorado Department of Education

Finding 2018-002 – A. Activities Allowed or Unallowed, B. Allowable Costs/Cost Principles and L. Reporting

1) Compliance Requirement

With regards to Activities Allowed and Allowable Costs, a direct (Targeted Assistance) Title program is required to maintain records demonstrating the costs of the program. These records include Time and Effort documentation of personnel costs.

With regards to Reporting, the District is required to submit grant reimbursement requests based on actual cost incurred. End of year reporting is also required to reflect the total costs incurred by the District for the grant fiscal year.

2) Condition

For the fiscal year under audit, the District believed they were operating a schoolwide Title I program which does not require specific expenditure tracking or time and effort documentation. The District did not discover that they had not applied to run a schoolwide Title I program for the fiscal year prior to commencement of the school year and did not modify their accounting to a Targeted Assistance program until after year end. Subsequent to year end, the District converted their accounting records from a schoolwide program to a direct expense grant and allocated personnel costs based on the annual grant allocation. The employees charged to the grant were supporting the District's Title I program throughout the year but were not being charged within the accounting system to the program. Due to not tracking direct costs during the year, the District also failed to maintain contemporaneous records demonstrating the time and effort spent by the employees charged to the grant program.

As the District was maintaining accounting records for a schoolwide Title I program, the reimbursement requests submitted during the year were not adequately supported by Targeted Assistance direct expenditures. The District did properly file their end of year financial report based on allocated direct costs.

EL PASO COUNTY SCHOOL DISTRICT #22

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

YEAR ENDED JUNE 30, 2018

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

Finding 2018-002 – A. Activities Allowed or Unallowed, B. Allowable Costs/Cost Principles and L. Reporting
(Continued)

3) Cause

The District has consistently operated a schoolwide program for Title I prior to the June 30, 2017 fiscal year. While the exact cause of why the District did not apply to be a schoolwide program for fiscal years 2017 and 2018 could not be determined, the District did have personnel changes in key management areas that evidently had an impact on the grant application process. While the District believed it had adequate controls over the preparation of the grant application, these controls failed when multiple personnel involved in the preparation and oversight process were replaced concurrently. The new personnel, with minimal experience overseeing the Title I program, did not correctly apply for the program that they were intending to operate, did not identify this program type inconsistency prior to the commencement of the school year and did not adjust its grant accounting until after fiscal year end.

4) Effect

While the District had already intended to provide specific program staff over and above the normal classroom instruction, the failure to modify the internal accounting records resulted in unsupported grant reimbursement requests during the year and the failure to complete contemporaneous time and effort documentation.

5) Questioned Costs

As the Federal Grant reimbursements were earned, but not properly accounted for during the fiscal year, no questioned cost existed as of the end of the fiscal year.

6) Recurrence and Prevalence of the Issues Identified

The failure to code direct expenses to the Title program was present in our June 30, 2017 status update of a Title I compliance finding from the 2016 fiscal year. The original 2016 finding was related to Schoolwide Title grant draws and was therefore not applicable to the District's 2017 and 2018 fiscal year Targeted Assistance Title grants.

7) Recommendation

The District must familiarize itself with the process for requesting funds under direct or school-wide 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. The District should be familiar with both types of programs unless they wish to remain a school-wide or direct program.



Ellicott School District 22

Home of the Thunderhawks

Ellicott School District 22- El Paso County Corrective Action Plan(s)

Identified Material Weakness-

2018-001 Bank Reconciliation

The Ellicott School District will continue to improve the process of reconciling accounts. This will be done by the following Corrective Actions.

- 1). District Business Personnel will attend specific accounting software trainings to allow them to:
 - a. Know how to use the current accounting software,
 - b. Know how to reconcile the current software,
 - c. Know how to review current accounting and business processes, using the current software.
- 2). The District will also attend scheduled CDE trainings that address school financing policy and procedures. This will include meeting all deadlines and comply with all required reporting mandates.
- 3). All Fiscal Year 2019 bank reconciliations will be reviewed to ensure that all issues are identified and corrected in a timely manner.

2018-002 Activities Allowed or Unallowed, B. Allowable Costs/Cost Principles and L. Reporting

The District has already taken corrective action to address this material weakness by submitting the SY2018-2019 ESSA Consolidated Application with the designated “School Wide” category. This has already been substantially approved. The District also had to submit to CDE the proof that it was Supplementing not Supplanting programming in the Fall of 2018, which was granted approval.

To further its knowledge of the new requirements of ESSA Consolidated Application, personnel will attend any and all of the scheduled regional trainings and coordinate with its regional manager of Fiscal Grants.

EL PASO COUNTY SCHOOL DISTRICT #22

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2018

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

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.

Corrective Action Plan

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, 2018

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

Material Weaknesses in Internal Control (Continued)

Finding 2017-001 – Bank Reconciliations (Continued)

Status of Finding

As noted in Finding 2018-001, while this process has improved, due to additional staff changes that occurred during the year, this material weakness still exists. The District needs to insure going forward that there is a set process in place to reconcile cash each month and that controls are in place to catch instances of not reconciling.

Ellicott SD #22
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-through Grantor and Number</i>	<i>Federal Expenditures(\$)</i>
Child Nutrition Cluster-Cluster			
United States Department of Agriculture			
School Breakfast Program	10.553	Colo Dept of Education,4553	68,090
National School Lunch Program	10.555	Colo Dept of Human Services,4555	34,592
National School Lunch Program	10.555	Colo Dept of Education,4555	262,476
Total National School Lunch Program			<u>297,068</u>
Special Milk Program for Children	10.556	Colo Dept of Education,4556	1,073
Summer Food Service Program for Children	10.559	Colo Dept of Education,4559	10,133
<i>Total United States Department of Agriculture</i>			<u>376,364</u>
Total Child Nutrition Cluster-Cluster			<u>376,364</u>
Other Programs			
Department of Education			
Title I Grants to Local Educational Agencies	84.010	Colo Dept of Education,4010	144,638
Impact Aid	84.041		470,433
Improving Teacher Quality State Grants	84.367	Colo Dept of Education,4367	27,459
Student Support and Academic Enrichment Program	84.424	Colo Dept of Education,4424	10,000
<i>Total Department of Education</i>			<u>652,530</u>
United States Department of Agriculture			
Child Nutrition Discretionary Grants Limited Availability			
Child Nutrition Discretionary Grants Limited Availability	10.579	Colo Dept of Education,5579	7,500
Total Other Programs			<u>660,030</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,036,394</u></u>

The accompanying notes are an integral part of this schedule

EL PASO COUNTY SCHOOL DISTRICT #22

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

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.