

Otsego Public Schools

Single Audit Report

June 30, 2018



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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 Auditors' Report

Members of the Board of Education
Otsego Public Schools
Otsego , MI

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, each major fund, and the aggregate remaining fund information of Otsego Public Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Otsego Public Schools' basic financial statements, and have issued our report thereon dated October 31, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Otsego Public Schools' 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 Otsego Public Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Otsego Public Schools' 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 were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness at 2018-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Otsego Public Schools' 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*.

Otsego Public Schools' Response to Findings and Corrective Action Plan

Otsego Public Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. Otsego Public Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yeo & Yeo, P.C.
Kalamazoo, Michigan
October 31, 2018



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Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Members of the Board of Education
Otsego Public Schools
Otsego, MI

Report on Compliance for Each Major Federal Program

We have audited Otsego Public Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Otsego Public Schools' major federal programs for the year ended June 30, 2018. Otsego Public Schools' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Otsego Public Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* 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 Otsego Public Schools' 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 Otsego Public Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Otsego Public Schools 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.

Report on Internal Control over Compliance

Management of Otsego Public Schools 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 Otsego Public Schools' 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 Otsego Public Schools' 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, each major fund, and the aggregate remaining fund information of Otsego Public Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Otsego Public Schools' basic financial statements. We issued our report thereon dated October 31, 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
October 31, 2018

Otsego Public Schools
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor Pass-Through Grantor Program Title	Pass Through Number	Federal CFDA Number	Approved Grant Amount	Accrued Revenue July 1, 2017	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts	Adjust- ments	Accrued Revenue June 30, 2018
U.S. Department of Agriculture									
Child Nutrition Cluster									
Passed through Michigan Department of Education									
Non-cash assistance (commodities)									
National School Lunch Program									
Entitlement	N/A	10.555	\$ 58,155	\$ -	\$ -	\$ 58,155	\$ 58,155	\$ -	\$ -
Cash assistance									
School Breakfast Program									
School Breakfast Program	171970	10.553	74,226	2,881	67,104	7,122	10,003	-	-
School Breakfast Program	181970	10.553	72,023	-	-	72,023	72,023	-	-
Total School Breakfast Program			<u>146,249</u>	<u>2,881</u>	<u>67,104</u>	<u>79,145</u>	<u>82,026</u>	<u>-</u>	<u>-</u>
National School Lunch Program									
National School Lunch Program	171960	10.555	336,731	8,909	301,762	34,969	43,878	-	-
National School Lunch Program	181960	10.555	333,345	-	-	333,345	333,345	-	-
National School Lunch Program – Snacks	171980	10.555	1,014	113	1,014	-	113	-	-
Total National School Lunch Program			<u>671,090</u>	<u>9,022</u>	<u>302,776</u>	<u>368,314</u>	<u>377,336</u>	<u>-</u>	<u>-</u>
Summer Food Service Program									
Summer Food Service Program for Children	170900	10.559	31,854	10,578	10,578	21,276	31,854	-	-
Summer Food Service Program for Children	171900	10.559	3,301	1,095	1,095	2,206	3,301	-	-
Summer Food Service Program for Children	180900	10.559	32,328	-	-	10,490	-	-	10,490
Summer Food Service Program for Children	181900	10.559	3,343	-	-	1,071	-	-	1,071
Total Summer Food Service Program			<u>70,826</u>	<u>11,673</u>	<u>11,673</u>	<u>35,043</u>	<u>35,155</u>	<u>-</u>	<u>11,561</u>
Total Department of Agriculture			<u>946,320</u>	<u>23,576</u>	<u>381,553</u>	<u>540,657</u>	<u>552,672</u>	<u>-</u>	<u>11,561</u>
U.S. Department of Education									
Passed through Michigan Department of Education									
Title I Grants to Local Educational Agencies									
Title I Grants to Local Educational Agencies	171530	84.010	297,318	60,084	271,958	25,360	85,444	-	-
Title I Grants to Local Educational Agencies	181530	84.010	241,133	-	-	160,532	83,853	-	76,679
Title I Grants to Local Educational Agencies			<u>538,451</u>	<u>60,084</u>	<u>271,958</u>	<u>185,892</u>	<u>169,297</u>	<u>-</u>	<u>76,679</u>
Passed through Allegan Area ESA									
Special Education Preschool Grants									
Special Education Preschool Grants	N/A	84.173A	12,100	-	-	12,100	12,100	-	-
Passed through Michigan Department of Education									
Supporting Effective Instruction State Grants									
Supporting Effective Instruction State Grants	170520	84.367	132,328	6,031	82,665	-	4,696	(1,335)	-
Supporting Effective Instruction State Grants	180520	84.367	117,932	-	-	54,280	34,107	2,654	22,827
Supporting Effective Instruction State Grants			<u>250,260</u>	<u>6,031</u>	<u>82,665</u>	<u>54,280</u>	<u>38,803</u>	<u>1,319</u>	<u>22,827</u>
Total U.S. Department of Education			<u>800,811</u>	<u>66,115</u>	<u>354,623</u>	<u>252,272</u>	<u>220,200</u>	<u>1,319</u>	<u>99,506</u>
U.S. Department of Health and Human Services									
Passed through Allegan Area ESA									
Medical Assistance Program									
Medical Assistance Program	N/A	93.778	1,197	-	-	1,197	1,197	-	-
Total Federal Programs			<u>\$ 1,748,328</u>	<u>\$ 89,691</u>	<u>\$ 736,176</u>	<u>\$ 794,126</u>	<u>\$ 774,069</u>	<u>\$ 1,319</u>	<u>\$ 111,067</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Otsego Public Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Otsego Public Schools under programs of the federal government for the year ended June 30, 2018. The information in this Schedule 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). Because the Schedule presents only a selected portion of the operations of Otsego Public Schools, it is not intended to and does not present the financial position, changes in financial positions of Otsego Public Schools.

Note 2 – Summary of Significant Accounting Policies

Expenditures

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

Indirect Cost Rate

Otsego Public Schools has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 – Reconciliation to the Financial Statements

Federal revenues per the financial statements equals the schedule of expenditures of federal awards except for the adjustment noted in Note 4.

Note 4 – Adjustments to Schedule of Expenditures of Federal Awards

During the year, the District located an error in the cash reconciliation on the SEFA that was adjusted in the current year. The Supporting Effective Instruction State Grant CFDA 84.367 required a net adjustment of \$1,319 that was for cash reconciling items.

Note 5 – Subrecipients

No amounts were provided to subrecipients.

Otsego Public Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018

Note 6 – Michigan Department of Education Disclosures

The federal amounts reported on the grant auditor report are in agreement with the schedule of expenditures of federal awards, excluding \$11,902 of amounts reported on the grant auditor report that were not received by the district as of year-end. This amount was made up of \$2,881 of School Breakfast Program (CFDA #10.553, Program #171970), \$8,909 of National School Lunch Program (CFDA #10.555, Program #171960) and \$113 of After School Snack Program (CFDA #10.555, Program #171980).

The amounts reported on the recipient entitlement balance report agree with the schedule of expenditures of federal awards for U.S.D.A. donated food commodities.

Otsego Public Schools
Schedule of Findings and Questioned Costs
June 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles:
 Unmodified

Internal control over financial reporting:

- Material weaknesses identified? X Yes No
- Significant deficiency(s) identified that are not considered to be material weaknesses? Yes X None Reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes X No
- Significant deficiency(s) identified that are not considered to be material weaknesses? Yes X None Reported

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

- Any audit findings disclosed that are required to be reported in accordance with §200.516(a)? Yes X No

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

10.553, 10.555, & 10.559

Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

- Auditee qualified as low-risk auditee? Yes X No

Otsego Public Schools
Schedule of Findings and Questioned Costs
June 30, 2018

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

2018-001, 2017-002 – Material Weakness – Reconciliations and Adjusting Journal Entries

Criteria – Auditing standards require auditors to evaluate entries posted subsequent to year-end and assess whether the entries are period-end closing, cut-off entries, or entries that should have been recorded throughout the year.

Condition – Adjustments were made to the general ledger subsequent to year-end which resulted in several changes to the final trial balance. Timely review and reconciliation of certain accounts was not consistently performed prior to the commencement of the audit fieldwork.

Cause and Effect – A combination of entries provided by the district and proposed by the auditors resulted in 15 adjustments from the start of audit fieldwork through report completion, including various clean-up and reclassification of amounts. The gross journal entries were material to the district. The net affect for all governmental funds was a decrease of \$20,496 on fund balance.

Recommendation – General ledger accounts should be reconciled on a timely and regular basis in order to present accurate financial statements to management and the Board of Education. A complete year-end reconciliation should be performed prior to the audit.

View of Responsible Officials – Management agrees with this finding.

Corrective Action Plan – See corrective action plan at page 12.

SECTION III - FEDERAL AWARD FINDINGS

There were no findings or questioned costs for Federal Awards for the year ended June 30, 2018.

Otsego Public Schools
Summary Schedule of Prior Audit Findings
June 30, 2018

SECTION IV – PRIOR AUDIT FINDINGS

2017-001, 2016-001 – Material Weakness – Prior Period Adjustment

Criteria – Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position and results of operations in accordance with U.S. generally accepted accounting principles (GAAP).

Condition – Misstatements were not detected by the District’s internal controls over financial reporting in previous years. The net amount of the prior period adjustments increased general fund’s fund balance and decreased capital projects fund balance.

Status – Corrected

2017-002 – Material Weakness – Reconciliations and Adjusting Journal Entries

Criteria – SAS 115 requires auditors to evaluate entries posted subsequent to year-end and assess whether the entries are period-end closing, cut-off entries, or entries that should have been recorded throughout the year.

Condition – Adjustments were made to the general ledger subsequent to year-end which resulted in several changes to the final trial balance. Timely review and reconciliation of certain accounts was not consistently performed prior to the commencement of the audit fieldwork.

Status – Significant entries were required in the current year. See Finding 2018-001.

Otsego Public Schools
Corrective Action Plan
June 30, 2018



Superintendent
Jeffery S. Haase
269-692-6076

11-1-2018

To: Yeo & Yeo, CPA
Superintendent Jeff Haase

From: Marc R. Faber
Interim Finance Director

Re: Corrective Action of Improvement

The past several months have revealed many areas of improvement needing immediate action. Conclusion of the comprehensive finance audit of FY1718 with the submission of the FID (Financial Database) has shown the following:

1. Daily/Monthly Cash intra-fund Transfers not Completed Timely.
Correction - Responsibility reports are being created so at each month-end the appropriate expenditures are being recorded into each fund. This will negate the extensive use of "Due To/Due From" accounting. Net result each fund will show accurate information for management decision making.
2. Monthly Bank Reconciliations for Fund 11 a Complex Arrangement.
Correction - A separate and distinct "sweep" or "clearing" bank account to park incoming local electronic payments. Posting weekly of revenue AND the weekly intra-fund transfer to proper record funds. Net result will be accurate bank statement reconciliations EACH month.
3. Federal Funds Draws and Reconciliations.
Correction - Each month a "tickler" procedure to ensure Federal Title funds will be drawn down based upon approved Federal grant. A responsibility report of each Title program will be created and a Cash request will be submitted. Likewise upon receipt of Federal funds all documentation of "request" and "receipt" will be pdf'd and filed as "Title x Request #x" in a pdf file for future audit PBC's. Net result will be reconciled draws agreeing to State source and mitigation of Federal findings or Material weaknesses.
4. Supporting Documentation of Journal Entries or General Ledger Posting.
Correction - Each posting into the General Ledger must have supporting documentation for rationale and for historical reference. Net result will be a logical support for management as an audit reference.

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**Otsego Public Schools
Corrective Action Plan
June 30, 2018**

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5. Timely and Diligent Federal and State Submission of Required Reports.
Correction - Reports were completed, however, the strict timelines must be adhered for Federal and State agencies. Education of finance staff on deadlines and communication with agencies on future questions. Net result is a reduction of penalty fees due to timelines.

6. Working and Asking Audit Firm (Yeo) on Best Practices for Journal Entries and Networking with Local Districts, Allegan ISD and Michigan School Business Officials.
Correction - Each District has uniqueness that at times require expertise and advice on finance issues. The wealth of information these organizations can offer is so very helpful on the Otsego Public School level. Net result is a well-tried and proven business procedure that can allow a smooth flow of management information.

7. Communicating and Working with Audit Firm (Yeo) on Finances on a Monthly Basis.
Correction - Establishing a "Quarterly Audit Review" with audit firm for review of Otsego Public Schools. This review will entail Balance Sheet and Budget-to-Actual review to accentuate accurate financial accountability. Net result will be a smoother Comprehensive Audit and ease of field work preparation.

8. Adopting the Statement "Every day is audit day" at Otsego Public Schools.
Correction - Knowing the required PBC audit list, the finance department can begin preparing for audit on a daily basis, i.e. Bond payments, balance sheet reconciliation, State Aid reconciliation, etc. Net result is more accurate Board of Education/Superintendent monthly reports leading to a seamless audit fieldwork.

This listing is the recommendation of Correction Action presented to the Otsego Public Schools Finance Committee and Superintendent Jeffery Haase.

Respectfully,



Marc R. Faber
Interim Finance Director