

Farwell Area Schools

Federal Awards
(Supplementary Information
to Financial Statements)
June 30, 2019



Farwell Area Schools
Federal Awards
Supplementary Information to Financial Statements
June 30, 2019

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INDEPENDENT AUDITOR'S 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

To the Board of Education
Farwell Area Schools

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 Farwell Area Schools (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 18, 2019.

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 opinions 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 were not identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and questioned costs as 2019-001 that we consider to be a material weakness.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2019-002.

The District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C.".

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 18, 2019



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Education
Farwell Area Schools

Report on Compliance for Each Major Federal Program

We have audited Farwell Area Schools' (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, 2019. 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 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 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.

Basis for Qualified Opinion on the Child Nutrition Cluster

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding the Child Nutrition Cluster (CFDA #10.553, CFDA #10.555, and CFDA #10.559), as described in finding number 2019-003 for Special Tests and Provisions. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on the Child Nutrition Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Child Nutrition Cluster for the year ended June 30, 2019.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2019.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2019-003 to be a material weakness.

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.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 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 Farwell Area Schools as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 18, 2019, 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.

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.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 18, 2019

Farwell Area Schools
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	Accrued (Deferred) Revenue At 7/1/2018	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue At 6/30/2019	Adjustment	Fund Financial Statement Federal Revenue Recognized
U.S. DEPARTMENT OF AGRICULTURE									
<i>Passed through Michigan Department of Education</i>									
<i>Child Nutrition Cluster:</i>									
<i>Cash Assistance:</i>									
School Breakfast Program	10.553	181970	\$ -	\$ 2,026	\$ 2,026	\$ -	\$ -	\$ -	\$ -
School Breakfast Program	10.553	191970	-	-	217,183	229,834	12,651	-	229,834
Total CFDA #10.553			-	2,026	219,209	229,834	12,651	-	229,834
<i>Non-Cash Assistance:</i>									
National School Lunch Program - Commodities	10.555		-	-	49,835	49,835	-	-	49,835
<i>Cash Assistance:</i>									
National School Lunch Program	10.555	181960	-	3,547	70,844	67,297	-	-	67,297
National School Lunch Program - Snacks	10.555	181980	-	-	221	221	-	-	221
National School Lunch Program	10.555	191960	-	-	373,015	398,006	24,991	-	398,006
National School Lunch Program - Snacks	10.555	191980	-	-	5,744	5,744	-	-	5,744
Total CFDA #10.555			-	3,547	499,659	521,103	24,991	-	521,103
Summer Food Service Program for Children	10.559	180900	-	3,603	9,483	5,880	-	-	5,880
Summer Food Service Program for Children	10.559	181900	-	372	979	607	-	-	607
Summer Food Service Program for Children	10.559	190900	-	-	-	4,761	4,761	-	4,761
Summer Food Service Program for Children	10.559	191900	-	-	-	490	490	-	490
Total CFDA #10.559			-	3,975	10,462	11,738	5,251	-	11,738
<i>Total Child Nutrition Cluster</i>			-	9,548	729,330	762,675	42,893	-	762,675
Child and Adult Care Food Program	10.558	181920	-	-	1,864	1,864	-	-	1,864
Child and Adult Care Food Program	10.558	182010	-	-	132	132	-	-	132
Child and Adult Care Food Program	10.558	191920	-	-	31,620	31,640	20	-	31,640
Child and Adult Care Food Program	10.558	192010	-	-	2,246	2,246	-	-	2,246
Total CFDA #10.558			-	-	35,862	35,882	20	-	35,882
Total U.S. Department of Agriculture			-	9,548	765,192	798,557	42,913	-	798,557
U.S. DEPARTMENT OF EDUCATION									
<i>Passed Through The Michigan Department Of Education</i>									
Title I Grants to Local Educational Agencies	84.010	1815301718	598,023	128,142	135,303	7,161	-	-	7,161
Title I Grants to Local Educational Agencies	84.010	1915301819	538,220	-	194,739	529,184	334,445	(334,445)	194,739
Total CFDA #84.010			1,136,243	128,142	330,042	536,345	334,445	(334,445)	201,900
Supporting Effective Instruction State Grants	84.367	1805201718	132,566	21,433	38,633	17,200	-	-	17,200
Supporting Effective Instruction State Grants	84.367	1905201819	159,024	-	75,533	104,976	29,443	(29,443)	75,533
Total CFDA #84.367			291,590	21,433	114,166	122,176	29,443	(29,443)	92,733
Student Support and Academic Enrichment Program	84.424	1907501819	44,698	-	-	31,882	31,882	(31,882)	-
Rural Education	84.358	1806601718	23,844	480	480	-	-	-	-
Rural Education	84.358	1906601819	24,478	-	-	11,000	11,000	(11,000)	-
Total CFDA #84.358			48,322	480	480	11,000	11,000	(11,000)	-
<i>Total Passed through Michigan Department of Education</i>			1,520,853	150,055	444,688	701,403	406,770	(406,770)	294,633

The accompanying notes are an integral part of this schedule.

Farwell Area Schools
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	Accrued (Deferred) Revenue At 7/1/2018	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue At 6/30/2019	Adjustment	Fund Financial Statement Federal Revenue Recognized
U.S. DEPARTMENT OF EDUCATION (CONTINUED)									
<i>Passed through Clare - Gladwin RESD</i>									
Special Education Grants to States	84.027A	1804501718	351,397	102,239	102,239	-	-	-	-
Special Education Grants to States	84.027A		344,501	-	174,947	344,501	169,554	-	344,501
Total CFDA #84.027			<u>344,501</u>	<u>102,239</u>	<u>277,186</u>	<u>344,501</u>	<u>169,554</u>	<u>-</u>	<u>344,501</u>
Education for Homeless Children and Youth	84.196		-	-	302	302	-	-	302
Total Passed through Clare-Gladwin RESD			<u>-</u>	<u>102,239</u>	<u>277,488</u>	<u>344,803</u>	<u>169,554</u>	<u>-</u>	<u>344,803</u>
Total U.S. Department of Education			<u>1,520,853</u>	<u>252,294</u>	<u>722,176</u>	<u>1,046,206</u>	<u>576,324</u>	<u>(406,770)</u>	<u>639,436</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES									
<i>Passed through Clare RESD:</i>									
Medical Assistance Program	93.778		-	-	3,374	3,374	-	-	3,374
Total U.S. Department of Health and Human Services			<u>-</u>	<u>-</u>	<u>3,374</u>	<u>3,374</u>	<u>-</u>	<u>-</u>	<u>3,374</u>
TOTALS			<u>\$ 1,520,853</u>	<u>\$ 261,842</u>	<u>\$ 1,490,742</u>	<u>\$ 1,848,137</u>	<u>\$ 619,237</u>	<u>\$ (406,770)</u>	<u>\$ 1,441,367</u>

The accompanying notes are an integral part of this schedule.

Farwell Area Schools
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Farwell Area Schools under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Farwell Area Schools, it is not intended to and does not present its financial position or changes in net position of Farwell Area Schools.

Management has utilized the Cash Management System (CMS) and the Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards. The District does not pass through federal funds.

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 Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. Farwell Area Schools has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 – ADJUSTMENTS

Adjustments to current year expenditures listed on the schedule represent reimbursements that were received after the 60-day period of recognition. Therefore, these receivables and related revenues are included in the 2019 full accrual financial statements of Farwell Area Schools but are excluded from the 2019 modified accrual (fund) financial statements of Farwell Area Schools.

NOTE 4 – RECONCILIATION WITH AUDITED FINANCIAL STATEMENTS

Revenues related to federal expenditures are reported in the following fund financial statements of Farwell Area Schools:

Fund	Amount
General Fund	642,810
Food Service Fund	798,557
Total	1,441,367

Farwell Area Schools
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unmodified

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported
- Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major program:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditor's report issued on compliance for major programs: Qualified – Child Nutrition Cluster
Unmodified – Special Education Grants to States

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555, and 10.559 84.027	Child Nutrition Cluster Special Education Grants to States

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

• Auditee qualified as low-risk auditee? Yes No

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2019-001 – MATERIAL JOURNAL ENTRIES

Finding Type: Material Weakness in Internal Control over Financial Reporting

Criteria: The District's internal control structure should ensure that accounting data is properly calculated and reported in accordance with generally accepted accounting principles (GAAP).

Condition: The District's general ledger contained material errors related to multiple accounts recorded at year-end.

Cause: This condition was caused by a lack of adequate skills, knowledge and experience of District personnel tasked with management of the general ledger.

Farwell Area Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Effect: The District's initial trial balance presented for audit was materially misstated in many areas. The District then obtained additional accounting assistance from the ISD to correct the misstatements and prepare for the audit. After the ISD made 62 journal entries to the general ledger, the audit proceeded without additional findings of misstatements. Those entries impacted the account balances as follows:

- Assets were reduced by approximately \$504,000 (including a decrease in cash balances of approximately \$489,000).
- Liabilities were increased by approximately \$610,299.
- Revenues were increased by approximately \$142,705.
- Expenditures were increased by approximately \$1,257,000.

Recommendation: We recommend that the District provide additional training to ensure that accounting staff have adequate skills, knowledge and experience to ensure that accounting data is properly calculated and reported in accordance with generally accepted accounting principles (GAAP). In addition, we recommend that the District contract with a third party to provide additional support until such time that the District's staff are adequately trained and capable of managing the accounting records of the District as stated above.

Corrective Actions: We are in agreement with this finding and have contracted with the ISD to provide additional assistance until District staff are fully trained.

Finding 2019-002 – LATE FILING OF ANNUAL REPORT WITH THE DEPARTMENT OF EDUCATION

Finding Type: Material Noncompliance

Criteria: Section 18(4)(e) of the State School Aid Act states "*that not later than November 1 of each year a district shall file the annual financial audit report with the department*".

Condition: The District did not file their audit report with the Michigan Department of Education by the due date.

Cause: This condition was caused by the fact that management lacked the adequate skills, knowledge and experience to prepare the financial records of the District in a timely manner to allow for the completion of the financial audit and preparation of the financial statements in order to meet the filing deadline.

Effect: For late audit reports, Section 18(10) of the State School Aid Act requires that the Michigan Department of Education withhold 100% of the school's annual state aid beginning with the next scheduled payment, until the audit is received.

Recommendation: We recommend that the District provide additional training to ensure that accounting staff have adequate skills, knowledge and experience to ensure that accounting data is properly calculated and reported in accordance with generally accepted accounting principles (GAAP). In addition, we recommend that the District contract with a third party to provide additional support with preparing the accounting records in a manner to allow for the timely completion of the annual audit and filing of the required reports with the Department of Education by the due date.

Corrective Actions: We are in agreement with this finding and have contracted with the ISD to provide additional assistance until District staff are fully trained.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2019-003 – EXCESS FUND BALANCE IN FOOD SERVICE FUND

<u>Finding Type:</u>	Material Weakness in Internal Control and Material Noncompliance – Special Tests and Provisions
<u>Program:</u>	Child Nutrition Cluster (CFDA #10.553, #10.555, and #10.559)
<u>Criteria:</u>	The USDA requires that the District limit its net cash resources to an amount that does not exceed 3 months average expenditures of the non-profit food service fund per requirements in 7 CFR Part 210.14(b).
<u>Condition:</u>	As of year-end the District had a fund balance in the non-profit food service fund in excess of three months' operating expenses by approximately \$34,500.
<u>Cause:</u>	This condition was caused by a concentrated effort to reduce expenditures and an increase in student participation in the program.
<u>Effect:</u>	The District will be required to develop a spending plan for reducing the balance to an acceptable level during the following school year. The plan must be submitted to MDE, Office of School Support Services, for prior approval.
<u>Recommendation:</u>	We recommend that the District develop a spending plan as required by MDE, and submit the plan at their earliest convenience.
<u>Corrective Actions:</u>	We are in agreement with this finding and will adhere to the corrective action plan on page 12 of this report.

Farwell Area Schools
Schedule of Prior Audit Findings
For the Year Ended June 30, 2019

There were no audit findings in the prior year.



FARWELL AREA SCHOOLS

Steve Scoville - Superintendent

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399 East Michigan Street, Farwell, Michigan 48622

CORRECTIVE ACTION PLAN

JUNE 30, 2019

2019-003

This finding originated in the 2018-2019 fiscal year. Dorothy Boge, the district business manager will begin to charge indirect costs to the non-profit food service fund and make improvements to the National School Lunch Program focusing on food quality. In addition, the district business manager has several capital improvements planned during fiscal year 2019-2020 funded by the non-profit food service fund to improve efficiency of the food service program. The business manager will monitor the amount of fund balance in the non-profit food service fund to ensure it does not exceed the acceptable amount. By June 30, 2020, the completion of fiscal year 2019-2020, the district will be in compliance with the requirements in 7 CFR Pat 210.14(b).

Dorothy Boge, Business Manager

Farwell Area Schools

Steve Scoville, Superintendent

Farwell Area Schools