

GERVAIS SCHOOL DISTRICT NO. 1
MARION COUNTY, OREGON

COMMUNICATION TO THE GOVERNING BODY
FOR THE YEAR ENDED JUNE 30, 2017



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Tigard, OR 97223



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October 12, 2017

To the Board of Directors
Gervais School District
Marion County, Oregon

We have audited the basic financial statements of the governmental activities, each major fund, and the remaining fund information of Gervais School District for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Purpose of the Audit

Our audit was conducted using sampling, inquiries and analytical work to opine on the fair presentation of the basic financial statements and compliance with:

- generally accepted accounting principles and auditing standards
- the Oregon Municipal Audit Law and the related administrative rules
- federal, state and other agency rules and regulations related to expenditures of federal awards

Our Responsibility under U.S. Generally Accepted Auditing Standards and the Uniform Guidance

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the basic financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the basic financial statements does not relieve you or management of your responsibilities. Our engagement letter details our nonaudit services we provide; these services do not constitute an audit under Government Auditing Standards.

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of the basic financial statement amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about compliance with the types of compliance requirements described in the OMB's Compliance Supplement applicable to each of the major federal programs for the purpose of expressing an opinion on compliance with those requirements. While our audit provided a reasonable basis for our opinion, it does not provide a legal determination on compliance with those requirements.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas to be tested.

Our audit included obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the basic financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District. We also communicated any internal control related matters that are required to be communicated under professional standards.

Results of Audit

1. Audit opinion letter - an unmodified opinion on the basic financial statements has been issued. This means we have given a "clean" opinion with no reservations.
2. State minimum standards – We found no exceptions or issues requiring comment.
3. Management letter – No separate Management Letter was issued.
4. Federal Awards – We found no issues of non-compliance and no questioned costs. We have responsibility to review these programs and give our opinion on the schedule of expenditures of federal awards, and tests of the internal control system, compliance with laws and regulations, and general and specific requirements mandated by the various awards.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017, except for the implementation of GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 77, *Tax Abatement Disclosures* for the year ended June 30, 2017. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the basic financial statements in the proper period.

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the basic financial statements were management's estimate of receivables, pension liabilities and deferrals, and capital asset depreciation, which are based on estimated collectability of receivables, actuarial assumptions, and useful lives of assets. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures in the basic financial statements are neutral, consistent, and clear.

Pauly, Rogers and Co., P.C.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements or determined that their effects are immaterial. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, taken as a whole. There were immaterial uncorrected misstatements noted during the audit which were discussed with management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the basic financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to our retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information

With respect to the supplementary information accompanying the basic financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the basic financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

Other Information

With respect to the other information accompanying the basic financial statements, we read the information to identify if any material inconsistencies or misstatement of facts existed with the audited basic financial statements. Our results noted no material inconsistencies or misstatement of facts.

Best Practices – Not Significant Deficiencies

1. Governing Body Monitoring

An integral part of internal controls is the monitoring of financial activities by those charged with the governance (the Board). This can be accomplished by asking specifically designed questions to senior staff, by reviewing basic financial statements and projections and by comparing financial results to pre-established benchmarks. While the Board participates in the budget adoption process and receives staff prepared basic financial statements, these only partially fulfill the monitoring function.

We recommend that the Board articulate their monitoring practices and record in the minutes when those activities occur.

2. Fidelity Insurance Coverage

In reviewing fidelity insurance (employee honesty) coverage we noticed that the District often carries cash and investment balances in excess of the insurance coverage amount. We recommend that the Board examine this exposure risk and make a determination as to the amount of insurance coverage they feel is prudent in regard to their oversight.

3. Service Organizations

The District has contracted with a service provider for accounting and information technology services. The service provider does not have a SSAE 16 (service provider) report or internal control report covering their operations, accounting processing and information technology controls. The possibility exists that errors or irregularities could exist and not be detected. While nothing came to our attention during our testing, we recommend the Governing Body review the risks regarding this matter and consider getting assurance from the service provider that will reduce risks, including being named on their insurance policies.

4. Segregation of Duties

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. We recommend that the Board continually monitor the financial activities to mitigate this risk and consider obtaining additional fidelity insurance coverage to compensate for this risk.

5. Internal Revenue Service 403(b)

The Internal Revenue Service (IRS) has published 403(b) regulations providing guidance on several administrative compliance requirements. The District has contracted with a third party to outsource compliance with these requirements. Non-compliance subjects you to potential penalties and fines. Since the third party provider does not provide you with a SSAE 16 service provider report or internal control report covering their operations, we recommend that you monitor current practices to determine

compliance with accountability requirements for Section 403(b) and Section 457 plans and consider the sufficiency of documentation received from the third party vendor to reduce your risks in this area.

6. Student Activity Funds

During our testing of Gervais Middle School Student Activity Funds revenue, we noted no evidence of receipts being issued for nearly 50% of the revenue tested. In all cases, however, we were able to trace the amounts listed through the batch deposit slip and into the bank account. We recommend receipts be issued for all sources of revenue (by cash, check, or credit card) for all Student Body Funds at the Middle School, or use of an alternate cash count documentation form showing evidence of review where cash receipts would be impractical (such as ticket/event receipts.)

This information is intended solely for the use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Roy R Rogers". The signature is fluid and cursive, with the first and last names being more prominent.

ROY R. ROGERS, CPA
PAULY, ROGERS AND CO., P.C.