

# North Slope Borough School District Discussion with the School Board

Audit results for the year ending June 30, 2020

January 14, 2021





# Executive Summary



**COVID-19**

A blue circular icon containing a white line-art representation of two COVID-19 virus particles. Below the icon, the text "COVID-19" is written in yellow.

**AUDIT DEBRIEF**

A purple circular icon containing a white line-art network diagram with a central node and five peripheral nodes connected by lines. Below the icon, the text "AUDIT DEBRIEF" is written in yellow.

**CLIENT EXPERIENCE DEBRIEF**

A blue circular icon containing a white line-art icon of a person's head and shoulders, with a network of lines connecting the head to several nodes above it. Below the icon, the text "CLIENT EXPERIENCE DEBRIEF" is written in yellow.

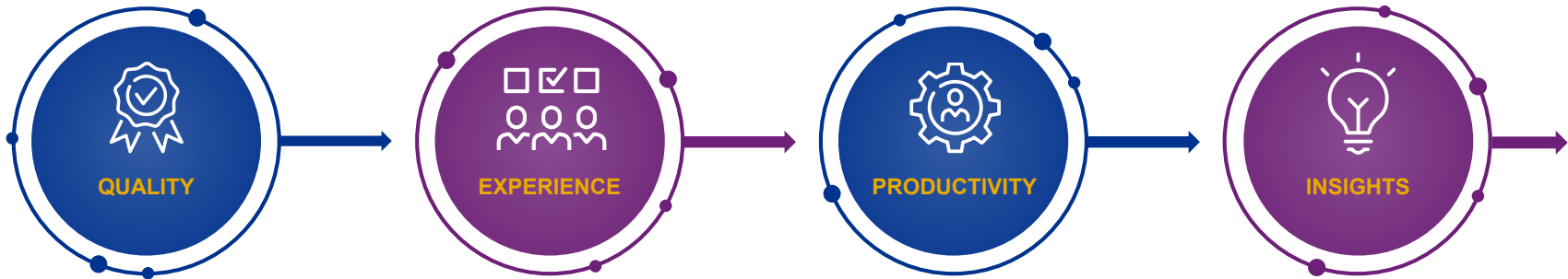
**REQUIRED COMMUNICATIONS**

A purple circular icon containing a white line-art icon of a computer monitor displaying a line graph with an upward trend, and a magnifying glass icon positioned over the graph. Below the icon, the text "REQUIRED COMMUNICATIONS" is written in yellow.



# Our commitment to you

We aim to deliver an exceptional client experience by focusing on



Quality in all that we do and how we deliver

We are committed to delivering a thoughtful, transparent and coordinated approach

Risk based auditing by enabling our people through the design, execution, and automation of our processes

Having best-in-class industry and topical insights, which help our auditors make better decisions and share those relevant insights

# Required Communications

A network diagram with nodes and connections on a teal background. The diagram consists of several nodes, some of which are highlighted with a circular glow. These nodes are interconnected by a web of thin, light-colored lines, representing a communication network. The overall aesthetic is modern and technological.





# Summary: Audit results required communications and other matters

		Response
Audit results	Outstanding matters	None
	Significant unusual transactions	No significant unusual transactions identified during the audit.
	Uncorrected audit misstatements	See slide 8.
	Corrected audit misstatements	See slide 9.
	Financial presentation and disclosure omissions	No matters to communicate.
	Material weaknesses and significant deficiencies in internal control	No matters to communicate.
	Changes to our risk assessment and planned audit strategy	No matters to report.
	Related parties	No matters to report.
	Significant accounting policies and practices	See slide 7.
	Federal and State Single Audits	See slides 10-11.
	Newly effective accounting standards	See slide 12.
	Going concern	No matters to report.
	GAS Report	In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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.



# Summary: Audit results required communications and other matters

		Response
<b>Audit results</b>	Subsequent events	No matters to report.
	Illegal acts or fraud	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.
	Noncompliance with laws and regulations	No matters to report.
	Significant difficulties encountered during the audit	No matters to report.
	Significant findings or issues discussed, or the subject of correspondence, with management	No matters to report.
	Management's consultation with other accountants	No matters to report.
	Difficult or contentious matters for which the auditor consulted	No matters to report.
	Disagreements with management	No matters to report.
	Other significant matters	The audit was completed December 19, 2020
	Written communications	Engagement letter and management representation letter, including summary of uncorrected misstatement, to be distributed under separate covers.
<b>Independence</b>		See slide 13



# Risk assessment: Significant risks

## Significant Risks

### Management override of controls

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.

No matters to report.

Susceptibility to:	
Error	Fraud
	Yes
Findings	



# Significant accounting policies and practices

Description of significant accounting policies and practices	Audit findings
<ul style="list-style-type: none"> <li>— Revenue</li> <li>— Pension and Other Post-Employment Benefits</li> <li>— Non GAAP accounting policies which result in misstatement or misclassification in certain funds but not at the government-wide financial statements                             <ul style="list-style-type: none"> <li>— Certain receivables for special revenue funds are recorded in the Operating fund and transferred to the special revenue funds once received for ease of tracking resulting in misstatement in classification between Operating and Special revenue funds of \$241k and a misclassification between revenue and transfers in the special revenue funds of \$231k.</li> <li>— The District has historically presented the expenditure activity of the Community Education program as a special revenue fund while the program has no committed or restricted sources of revenues. Expenditures totaled \$254,283 in FY20.</li> <li>— Certain payroll liabilities are recorded in the Operating fund although they should be recorded only when expected to be funded with current financial resources. The impact on the change in fund balance is approximately \$184k in FY20.</li> <li>— Certain grant revenues received past the availability period of 60 days were accrued in FY20, totaling \$254k.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>— Accounting policies were determined to be materially in accordance with generally accepted accounting principles</li> </ul>





# Uncorrected misstatements

	\$ (thousands)
<b>Description of misstatement</b>	
<b>Operating Fund</b>	
Payroll related to FY20 was not properly accrued for and improperly expensed in FY21.*	\$ (237)
There is a cutoff error with cash and accrued liabilities for a payment that was initiated in FY20 but cleared the bank in FY21 for \$308K. No impact on income.*	0
Management has certain Non-GAAP policies as described on slide 5	(184)
<b>Total</b>	<b>\$ (421)</b>
<b>Total Operating Fund Balance</b>	<b>\$ 19,495</b>
<b>Percentage</b>	<b>2.2%</b>
<b>Other aggregate remaining funds</b>	
Management has certain Non-GAAP policies as described on slide 5	\$(254)
<b>Total</b>	<b>\$(254)</b>
<b>Total Aggregate Remaining Funds Balance</b>	<b>\$ 1,508</b>
<b>Percentage</b>	<b>16.8%</b>

\*Also impacts government-wide level



# Corrected audit misstatements

\$		
Description of misstatement	Debit	Credit
<p>FY20 payroll accrual was improperly recorded as a credit to cash rather than a liability as the payroll was not paid as of 6/30/2020 in the Operating Fund</p> <p>Cash</p> <p style="padding-left: 20px;">Accrued Payroll</p>	<p>\$1,244,785</p>	<p>\$1,244,785</p>



# Federal Single Audit

**General**

- Required when federal expenditures are \$750,000 or more
- Requires testing of compliance with terms and conditions and controls over compliance
- Reporting of findings, if any

**Major Programs**

**Impact Aid 84.041**

**Expenditures**

Federal Expenditures	\$9,598,405
— Impact Aid	\$6,974,479

**Compliance Requirements**

- Reporting



# State Single Audit

## General

- Required when state financial assistance is \$750,000 or more
- Requires testing of compliance with terms and conditions
- Reporting of findings, if any

## Major Programs

- Foundation
- HB 287
- Student Transportation
- PERS/TRS Subsidies

## Expenditures

State Expenditures	\$25,084,191
Total Major Program Expenditures	\$24,918,413

## Compliance Requirements

- Types of service allowed or unallowed
- Eligibility
- Matching
- Reporting requirements
- Special tests and provisions – Inspected waiver in current year



# Newly effective accounting standards

## Effective for fiscal year 2021

GASB No. 84, Fiduciary Activities

GASB No. 90, Majority Equity Interests –An amendment of GASB Statements No. 14 and No. 61

## Effective for fiscal year 2022

GASB No. 87, Leases



# Independence communications

The following are circumstances or relationships that, in our professional judgment, may reasonably be thought to bear on independence, and to which we gave significant consideration, in reaching the conclusion that independence has not been impaired.

Relationship	Description of relationship and relevant safeguards, if applicable
Contractor Relationship	A retired KPMG partner is an contractor for certain accounting services to the District. The partner does not participate in firm activities nor have any financial relationships with the firm. The contract was approved by the School Board.

In connection with our audit of the Borough, KPMG and relevant KPMG professionals have complied with relevant ethical requirements regarding independence, as that term is defined by the professional standards.



# Questions?

For additional information and resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, visit the KPMG Audit Committee Institute (ACI) at [www.kpmg.com/ACI](http://www.kpmg.com/ACI)

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