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To Management and the Board of Directors
Corbett School District No. 39
Corbett, Oregon

In planning and performing our audit of the financial statements of Corbett School District No. 39, Multnomah County, Oregon (the District) as of June 30, 2020 and for the year then ended, in accordance with auditing standards generally accepted in the United States of America, 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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. We consider the following deficiencies in the District's internal control to be material weaknesses:

- While performing audit procedures, it was noted that the capital asset workpapers prepared by the District had not been reviewed. This lack of review resulted in the expensing of \$539,010 of capital outlay rather than being recorded as capital assets. The District should implement a review of capital asset workpapers to prevent or detect and correct a material error in financial reporting.
- While performing audit procedures, it was noted the deposits made to a sinking fund were accounted for as debt service expenditures. This resulted in an adjusting entry, which included a restatement of prior year balances in the General Fund and Governmental Activities, to record assets held in trust of \$465,000 and an increase in long-term debt of \$444,444. The District should review debt agreements to ensure that transactions are recorded appropriately.

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. We consider the following deficiencies in the District's internal control to be significant deficiencies:

- While performing audit procedures over cash balances, we noted that there appeared to be unresolved variances in the June 30, 2020 bank reconciliation, including some relating to outstanding checks that were dated between 2014 and 2020. Additionally, there was no evidence of review for the bank reconciliation selected to determine if internal controls over the cash transaction cycle were implemented as designed. The District should implement policies and procedures to investigate and resolve any variances discovered while reconciling bank statement to its accounting records. The District should also ensure that a documented review of bank reconciliations is performed timely to prevent or detect and correct possible misstatements due to error or fraud.
- While performing audit procedures, we noted that cash receipt processing and the recording of transactions for the Student Activities process did not follow the District's policies and procedures for other cash receipts and transactions. The District appears to lack controls over cash receipts related to Student Activities and all Student Activities transactions were recorded outside of the District's accounting system and with an adjustment recorded in the District's accounting system only at year end. While bank reconciliation and procedures to record the transactions at year end could detect and correct possible misstatements, all of the District's cash receipts and accounting records should have controls to prevent or detect and correct misstatements due to error or fraud timely.
- While performing audit procedures, we noted that the District appears to lack the processes, and related controls, to reconcile accrued payroll liability accounts. The District should implement policies and procedures to reconcile all balance sheet accounts, including accrued payroll liabilities, on a regular basis and include controls that would prevent or detect and correct misstatements due to error or fraud.
- While performing procedures as required by the State of Oregon, TKW noted that the District appeared to lack controls over reporting teacher experience. Out of the District's 58 teachers for the prior year, TKW selected a sample of 12 teachers and found errors in number years of experience reported to the Oregon Department of Education for seven of the teachers selected. The District should implement policies and procedures to ensure that information reported to the State is accurate.

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

Talbot, Kowala & Warwick LLP

Portland, Oregon
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