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Board of Directors
Morrow County School District
Heppner, Oregon

In planning and performing our audit of the general purpose financial statements of Morrow County School District for the year ended June 30, 2013, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure. As part of our audit, we made a study and evaluation of the district's internal control structure to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and issued the required reports on internal controls dated December 16, 2013. In those reports we indicate certain matters relating to control structure are addressed in a separate letter to the board. This letter addresses those items which are as follows:

PRIOR YEAR FINDINGS

Maintenance of Capital Assets Listing

During our current field work, we identified a number of issues with the capital assets listing maintained by the district. We were unable to reconcile amounts included in the district provided information to the prior year audit and to our historical records. Maintaining an accurate listing of capital assets is important for financial reporting and for documenting district assets for insurance purposes.

We recommend that the district use the provided capital assets listing to reconcile amounts in the capital assets software to the audited listing. Additionally, we recommend the district implement controls and procedures to ensure that the capital asset software is maintained on a timely basis and that all appropriate capital asset activity is accounted for.

CURRENT STATUS: Based on field work performed in conjunction with the 2012-13 fiscal year audit, we noted no significant progress on the district's intent to maintain a complete and accurate fixed asset listing. This management point will be repeated in the current year.

Segregation of Duties

In prior audits, we have communicated a significant deficiency in internal control related to a lack of proper segregation of incompatible duties. We have again included in the current audit a significant deficiency for a lack of segregation of duties. We are including this management point to stress the importance of proper segregation of duties, and to provide guidance in addressing this control deficiency.

Proper segregation of duties requires that custodial, recording and authorization functions be segregated among different personnel over each transaction cycle to provide adequate internal control for the prevention, detection, and correction of error or fraud.

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Current transaction processes are heavily concentrated in the business office, primarily with the Business Manager. Given the limited staff on hand in the business office, proper segregation of duties is extremely difficult. However, individuals need not have a background in accounting to provide valuable review and approval procedures to address current control deficiencies. The district has sufficient full-time employees in the administrative building to address this control deficiency.

We recommend involving individuals in non-financial positions to assist in addressing the district's lack of proper segregation of duties. Employees in the administrative office are valuable assets in segregating duties as they have limited involvement in processing financial information. Employees not directly involved in processing transactions are prime candidates to use in review and approval controls. For example, having the executive secretary review invoices prior to signing checks would add an additional layer of internal control over expenditure processing. We feel that with a few creative uses of available district employees the district can properly address the control deficiency reported in the 2011-12 audit report.

CURRENT STATUS: Based on our documentation and testing of controls, and specific procedures to address the prior segregation of duties deficiency, we noted significant improvements in segregating incompatible duties. The business manager has made efforts to involve additional business office employees in processes and procedures. This management point has been sufficiently addressed, and will not be included in current year management points.

CURRENT YEAR FINDINGS

Maintenance of Capital Assets Listing

During our current field work, we identified a number of issues with the capital assets listing maintained by the district. We were unable to reconcile amounts included in the district provided information to the prior year audit and to our historical records. Maintaining an accurate listing of capital assets is important for financial reporting and for documenting district assets for insurance purposes.

We recommend that the district use the provided capital assets listing to reconcile amounts in the capital assets software to the audited listing. Additionally, we recommend the district implement controls and procedures to ensure that the capital asset software is maintained on a timely basis and that all appropriate capital asset activity is accounted for.

This report is intended solely for the use of the board of directors and should not be used for any other purposes.

Oster Professional Group, CPA's, PC

By Robert U. Armstrong

John Day, Oregon
December 16, 2013

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December 16, 2013

To the Board of Directors
Morrow County School District No. 1

We have audited the financial statements of the governmental activities, business-type activities, and each major fund of Morrow County School District No. 1 (the district) for the year ended June 30, 2013, and have issued our report thereon dated December 16, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated March 13, 2013, our responsibility, as described by professional standards, is to express opinions about whether the 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 financial statements does not relieve you or management of your responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the district's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the district solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant deficiencies in internal control over financial reporting and material weaknesses, and other matters noted during our audit in a separate letter to you dated December 16, 2013.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

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Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Certain safeguards have been applied to eliminate or reduce to an acceptable level the threat to independence related to preparing your annual financial statements. These safeguards include:

- Determining or changing journal entries, account codes or classifications for transactions or other accounting records for the entity without obtaining management's approval;
- Authorizing or approving the entity's transactions;
- Preparing or making changes to source documents without management approval.

Qualitative Aspects of the Organization's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use of appropriate accounting policies. A summary of the significant accounting policies adopted by the organization are described in Note 1 to the financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2012-2013. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. There were no significant estimates included in the 2012-2013 financial statements.

Significant Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Corrected and Uncorrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.

Disagreement with Management

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

Representations Requested from Management

We have requested certain representations from management that are included in the management representation letter dated December 16, 2013.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with the district, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the district's auditors.

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

Very truly yours,

Oster Professional Group, CPA's, PC

By Robert H. Armstrong