

**Independent School District No. 877  
Buffalo-Hanover-Montrose, Minnesota**

**Communications Letter  
of the Student Activity Accounts**

**June 30, 2018**



**Independent School District No. 877**  
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## **Report on Matters Identified as a Result of the Audit of the Financial Statements**

To the School Board and Management  
Independent School District No. 877  
Buffalo-Hanover-Montrose, Minnesota

In planning and performing our audit of the Statement of Receipts and Disbursements of the student activity accounts of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the District's student activity accounts 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 student activity accounts internal control. Accordingly, we do not express an opinion on the effectiveness of the District's student activity accounts 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the District's student activity accounts financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows: reasonably possible – the chance of the future event or event occurring is more than remote but less than likely; probable – the future event or events are likely to occur. The material weakness identified is stated within this letter.

A significant deficiency is a deficiency, or 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.



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

*Bergan KDV Ltd.*

St. Cloud, Minnesota  
October 8, 2018

**Independent School District No. 877**  
**Material Weakness**

**INADEQUATE DESIGN OF INTERNAL CONTROL**

The District's student activity accounts has not established procedures to provide assurance that all cash collections are recorded in the accounting records. In addition, the District' student activity accounts does not have adequate segregation of accounting duties due to a limited number of office employees. Administration is aware of this condition and will take certain steps to compensate for the lack of segregation, but due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties exceeds the benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to achieve. Administration and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

**Independent School District No. 877**  
**Required Communication**

We have audited the Statement of Receipts and Disbursements of the student activity accounts of the District as of and for the year ended June 30, 2018. Professional standards require that we advise you of the following matters related to our audit.

**OUR RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENT AUDIT**

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

**PLANNED SCOPE AND TIMING OF THE AUDIT**

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

Our audit included obtaining an understanding of the District's student activity accounts and its environment, including internal control, sufficient to assess the risks of material misstatement of the 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's student activity accounts or to acts by management or employees acting on behalf of the District's student activity accounts.

**COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE**

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

**QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES**

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the note to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2018. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

**SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE AUDIT**

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

**Independent School District No. 877  
Required Communication**

**UNCORRECTED AND CORRECTED 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. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

**DISAGREEMENTS 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, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

**REPRESENTATIONS REQUESTED FROM MANAGEMENT**

We requested certain written representations from management, which are included in the management representation letter.

**MANAGEMENT'S CONSULTATIONS WITH OTHER ACCOUNTANTS**

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

**OTHER SIGNIFICANT MATTERS, 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 conditions affecting the District, and operating 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.