

**Independent School District No. 22
Detroit Lakes, Minnesota**

**Communications Letter of
the Student Activity Accounts**

June 30, 2016



Independent School District No. 22
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Report on Matters Identified as a Result of the Audit of the Financial Statement

To the School Board and Management
Independent School District No. 22
Detroit Lakes, Minnesota

In planning and performing our audit of the Statement of Receipts and Disbursements of the student activity accounts of Independent School District No. 22, Detroit Lakes, Minnesota, as of and for the year ended June 30, 2016, 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 statement, 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 were not identified. However, as discussed below, we identified 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, such that there is a reasonable possibility that a material misstatement of the District's student activity accounts financial statement will not be prevented, or detected and corrected, on a timely basis. 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.

The *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education (MDE), provides uniform financial accounting and reporting standards for student activities. We performed auditing procedures to test compliance with the provisions of this Manual.

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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
November 4, 2016

Independent School District No. 22
Material Weakness

INADEQUATE DESIGN OF INTERNAL CONTROL

The District's student activity accounts have not established procedures to provide assurance that all cash collections are recorded in the accounting records. In addition, the District's student activity accounts do 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. 22
Required Communication**

We have audited the financial statement of the student activity accounts of the District for the year ended June 30, 2016, and have issued our report dated November 4, 2016. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statement prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statement does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statement are free of material misstatement. Since the District's student activity accounts has not established procedures to provide assurance that cash collections are not recorded in the accounting records, it is not practical for us to extend our audit of such cash collections beyond the amounts recorded.

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement; 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 student activity accounts of the District's student activity accounts and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statement 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.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District's student activity accounts are described in the note to financial statement. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the District's student activity accounts during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

**Independent School District No. 22
Required Communication**

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

DISAGREEMENTS WITH MANAGEMENT

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

MANAGEMENT REPRESENTATIONS

We requested certain representations from management which were provided to us in the management representation letter.

MANAGEMENT CONSULTATIONS WITH OTHER 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 District's student activity account's financial statement or a determination of the type of auditor's opinion that may be expressed on those statement, 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 retention as the District's student activity account auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.