



Management and the Board of Directors
School District No. 509J
Jefferson County, Oregon

While planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Jefferson County School District No. 509J (the District), as of and for the year ended June 30, 2017, we noted certain immaterial matters. These matters are summarized in this letter.

State school fund transportation grant

Oregon municipal auditors are required to test the components that make up the District's annual state school fund resources; part of this funding is the transportation grant where 70% of the District's allowable transportation expenditures are received back from the state in the state school fund payment. We noted two items were charged as reimbursable expenses that did not meet the ODE definition of an allowable cost:

- Movie tickets purchased for the transportation employees (\$420)
- Meal purchased for a meeting between the Operations Assistant and the Maintenance/Bus Fleet Supervisor (\$28)

Management reversed these charges as required by ODE. We recommend that all purchases charged to the reimbursable grant be closely monitored for allowability under the state school fund transportation grant.

Hiring of related parties

During our testing of payroll and related parties, we noted the former Human Resource Director's spouse was employed for a position within the district at the beginning of the 2016-17 school year. After inquiry of management, we concluded it did not appear the hiring followed the district's policy of posting positions and allowing interested applicants the opportunity to be considered for the position. We recommend management follow its policy with regard to hiring in all cases to avoid any appearance of conflict.

Census data for post-employment obligations

During our testing of data sent to the District's actuary for calculation of the post-employment liability, we noted the hire dates were inaccurate for eight people in our sample of 25. Per inquiry of the actuary, this error extrapolated onto the entire population resulted in a \$120,000 difference in the liability. Upon consultation with the District's actuary, we concluded the error would not result in a material adjustment to the financial statements. However, the error merits recommendation for the District to further investigate the hiring date discrepancy and revise the policy so that accurate information is provided to the actuary each biennium.

Student body accounting

The District has taken several positive steps to ensure student body funds are properly accounted for by implementing policies and procedures covering the receipt and disbursement of funds and monitoring compliance through the use of annual internal audits. As part of our audit procedures, we reviewed the results of internal audits and performed additional analytical procedures for three schools: Madras High, Warm Springs K-8 and Jefferson County Middle.

We found Jefferson County Middle and Warm Springs K-8 schools to be substantially in compliance with District student body accounting policy.

We noted the following issues for the internal audit of Madras High School:

- Revenues were not posted to the system in a timely manner, so the District office was unable to confirm that cash on hand was correct. District policy requires daily posting to the accounting system.
- Two grants were deposited into the student body accounts in violation of district policy requiring that these funds are accepted by the Board and accounted for at the District level. Grants often are provided with various performance requirements that the Board is ultimately responsible to meet, so depositing in the student body accounts not only violates district policy, but potentially violates the grant requirements as well.
- Donations exceeding \$500 are not being reported on a timely basis for Board acknowledgement and approval.
- Athletic pay to play fees are not being consistently tracked or collected.
- Expenditures exceeding \$10,000 were made without proper documentation in violation of the Board purchasing policy.
- Five “temporary” checks were used and received only one signature during the period of April 13, 2017 and April 18, 2017. District policy requires system generated checks except in the case of emergency and two signatures are required for all student body disbursements.
- New vendors were set up without going through the proper District procedure, including completion of a “New Vendor” form, resulting in payment to unapproved vendors.
- A payment was made directly to an employee in violation of District policy and IRS law. Upon discovery, the District Office corrected this and processed the payment through payroll as required.
- A payment was made to an employee for reimbursement of fuel for a personal vehicle.
- During fiscal year 2016-17, the school administration overspent \$29,822 of student body funds. The school’s principal discretionary budget was used to partially fund the spending which caused a budget overage of \$9,719 in the principal’s budget.

With regard to the Madras High School internal audit findings, we have particular concern due to (1) the number of policy violations, (2) the nature of the violations and (3) the significant student body spending in excess of the revenue which was earned during the year. The District's policies over student body accounting are intended to provide a level of control over the funds to mitigate the risk of fraud and embezzlement. When schools fail to follow these policies, the potential for fraud increases substantially. We recommend more frequent monitoring of the high school student body accounting until adherence to District policy is more consistently demonstrated. We also recommend management consider moving the accounting for student body activity into the District office to improve controls in this area if progress toward improvement isn't evident.

The matters included in this letter are not considered to be a significant deficiency or material weakness in internal control. We identified these issues during our audit fieldwork and as a result of our risk assessment procedures and not all deficiencies or weaknesses may have been identified.

This information is intended solely for the 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.

Sincerely,

SGA CPAs & Consultants, LLP

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October 3, 2017