

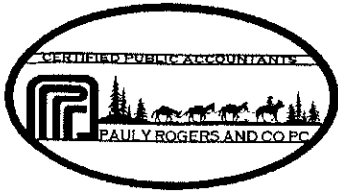
**KNOVA LEARNING**  
**MULTNOMAH COUNTY, OREGON**

**COMMUNICATION TO THE GOVERNING BODY**

**FOR THE YEAR ENDED JUNE 30, 2017**



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December 11, 2017

To the Board of Directors  
KNOVA Learning  
Multnomah, Oregon

We have audited the basic financial statements of the governmental activities and the major fund of KNOVA Learning for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

#### **Purpose of the Audit**

Our audit was conducted using sampling, inquiries and analytical work to opine on the fair presentation of the basic financial statements and compliance with:

- generally accepted accounting principles and auditing standards
- the Oregon Municipal Audit Law and the related administrative rules

#### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

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

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting.

#### **Planned Scope and Timing of the Audit**

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

Our audit included obtaining an understanding of the School and its environment, including internal control, sufficient to assess the risks of material misstatement of the basic 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 School or to acts by management or employees acting on behalf of the School. We also communicated any internal control related matters that are required to be communicated under professional standards.

### **Results of Audit**

1. Audit opinion letter - an unmodified opinion on the basic financial statements has been issued. This means we have given a “clean” opinion with no reservations.
2. State minimum standards – We found no exceptions or issues requiring comment.
3. Management letter – No separate Management Letter was issued.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017, except for the implementation of GASB Statement No. 73 - *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68* and GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the basic financial statements in the proper period.

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management’s 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 basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the basic financial statements were management’s estimates of receivables, capital asset depreciation, and net pension liability and deferrals for PERS, which are based on estimated collectability of receivables, useful lives of assets, and actuarial assumptions. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures in the basic financial statements are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties in performing and completing our audit.

#### *Corrected and Uncorrected 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. Management has corrected all such misstatements or determined that their effects are immaterial. There were immaterial uncorrected misstatements noted during the audit which were discussed with management.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the basic financial statements or the auditors’ report. We are pleased to report that no such disagreements arose during the course of our audit.

Pauly, Rogers and Co., P.C.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter.

### *Management Consultations with Other Independent 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 basic financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, 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 our retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Required Supplementary Information*

We applied certain limited procedures to the required supplementary information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the required supplementary information and do not express an opinion or provide any assurance on it.

### *Other Information*

With respect to the other information accompanying the basic financial statements, we read the information to identify if any material inconsistencies or misstatement of facts existed with the audited basic financial statements. Our results noted no material inconsistencies or misstatement of facts.

## **Best Practices – Not Significant Deficiencies**

### I. Governing Body Monitoring

An integral part of internal controls is the monitoring of financial activities by those charged with the governance (the Board). This can be accomplished by asking specifically designed questions to senior staff, by reviewing basic financial statements and projections and by comparing financial results to pre-established benchmarks. While Board members participate in the budget adoption process and receive staff prepared basic financial statements, these only partially fulfill the monitoring function.

We recommend that the Board articulate their monitoring practices and record in the minutes when those activities occur.

2. Segregation of Duties

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. We recommend that the Board continually monitor the financial activities to mitigate this risk and consider obtaining additional fidelity insurance coverage to compensate for this risk.

3. QuickBooks Accounting Software

QuickBooks accounting software is used. QuickBooks may allow users to delete transactions without any audit trail remaining. We recommend that you evaluate the risk of using this program and consider reviewing the audit tracker on a periodic basis for unusual transactions to ensure it had not been shut off. This review should be documented.

4. Fidelity Insurance Coverage

In reviewing fidelity (employee honesty) insurance coverage, we noticed that the School often carries cash and investment balances in excess of the insurance coverage amount. We recommend that the Board examine this exposure risk and make a determination as to the amount of insurance coverage they feel is prudent in regard to their oversight.

5. Debit Cards

During our testing of disbursements, we noted that the School uses a debit card for some purchases. Debit cards provide the cardholder the ability to circumvent internal controls over cash with instant access to the School's bank accounts. Accordingly, we recommend that the School consider issuing credit cards or reimbursing for expenses rather than providing one person instant access to cash. We also noted that there is no approval process in place for the debit card transactions. We do see evidence that the debit card was cancelled in October 2016, and understand management intends to continue not using debit cards, which would remedy this internal control issue in the 2017-18 fiscal year.

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



Roy R. Rogers, CPA  
PAULY, ROGERS AND CO., P.C.