# Executive Governance Summary

## Independent School District No. 345

New London, Minnesota

For the year ended June 30, 2024

Abdo
*Lighting the path forward*

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November 20, 2024

Members of the Board of Education
Independent School District No. 345
New London, Minnesota

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 345 (the District), New London, Minnesota for the year ended June 30, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and *Uniform Guidance*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you July 15, 2024. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

In planning and performing our audit of the financial statements, we considered the District's 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 internal control. Accordingly, we do not express an opinion on the effectiveness of the District's 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. However, material weaknesses may exist that have not been identified.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency* is a deficiency, or a 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. We consider the deficiencies described in the accompany schedule of findings and responses as items 2024-001 and 2024-002 to be significant deficiencies.

**2024-001** **Preparation of Financial Statements**

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| *Condition:* | We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Recent auditing standards require auditors to communicate this situation to the Board of Education as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process. |
| *Criteria*: | Internal controls should be in place to provide reasonable assurance over financial reporting. |
| *Cause:* | From a practical standpoint we draft the financial statements, as well as audit the financial statements. This is not unusual for us to do with an organization of your size. |
| *Effect:* | The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting. |
| *Recommendation*: | It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the District is reviewing the financial statements we recommend that a disclosure checklist be utilized to ensure all required disclosures are presented and the District should agree its financial software to the numbers reported in the financial statements. |

*Management Response:*

For now, the District's management accepts the degree of risk associated with this condition and thoroughly reviews a draft of the financial statements.

**2024-002** **Limited Segregation of Duties**

*Condition:* During our audit, we reviewed procedures within each of the District's major transaction cycles and found the District to have limited segregation of duties in those transaction cycles.

*Criteria:* There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities

*Cause:* The District has a limited number of staff to properly segregate duties in each of the major transaction cycles.

*Effect:* The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in segregation of duties and internal controls can result in undetected errors or misappropriation of assets of the District.

*Recommendation:* We recommend the District continue to review and analyze its internal controls, at a minimum annually, and implement any changes and compensating controls considered necessary.

*Management Response:*

There is no disagreement with the audit finding. The District reviews and makes improvements to its internal control structure on an ongoing basis and attempts to maximize the segregation of duties in all areas with the limits of the staff available. However, the District does not consider it cost beneficial at this time to increase the size of its staff in order to further segregate accounting functions.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards*, Minnesota statues or Uniform Guidance.

**Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies were not changed during the year ended June 30, 2024. We noted no transactions entered into by the governmental unit 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.

Accounting estimates are an integral part of the 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 financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Significant estimates affecting the financial statements include depreciation on capital assets, receivables from the Department of Education, as well as the obligations (assets) for the District's net other postemployment benefits (OPEB) plan and the District's net pension liabilities related to its proportionate share of TRA and PERA pensions.

- Management's estimate of depreciation is based on estimated useful lives of the assets. Depreciation is calculated using the straight-line method.

- Management estimates a portion of the receivable from the Department of Education on student numbers and past expenditures.

- Management's estimate of its Pension and net OPEB obligations (assets) are based on several factors including, but not limited to, anticipated retirement age for active employees, life expectancy, turnover, and healthcare cost trend rate.

- Management's estimate of its portion of the District's net pension liabilities related to its proportionate share of TRA and PERA pensions (assets) are based on the District's contributions in relation to all contributions to each plan as a whole. The overall net pension liability for TRA and PERA are based on several factors including, but not limited to, anticipated retirement age for active employees, life expectancy, survivor life expectancy, and high-five salary.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

**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 known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

**Management Representations**

We have requested certain representations from management that are included in the management representations letter dated November 20, 2024.

**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 District's financial statements or a determination of the type of auditor's 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 prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Other Matters**

We applied certain limited procedures to the required supplementary information (RSI) (Management's Discussion and Analysis, the Schedule of Changes in the District's Net OPEB Liability and Related Ratios, the Schedule of the District's Contributions, the Schedule of Investment Returns, the Schedules of Employer's Share of the Net Pension Liability, the Schedules of Employer's Contributions), which is information that the 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 RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information (combining and individual fund financial statements, schedules and table), which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section, which accompany the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

**Future Accounting Standard Changes**

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future District financial statements: [1]

**GASB Statement No. 101** - *Compensated Absences* *Effective: 06/30/2025*

**GASB Statement No. 102** - *Certain Risk Disclosures* *Effective: 06/30/2025*

**GASB Statement No. 103** - *Financial Reporting Model Improvements* *Effective: 06/30/2026*

Further information on upcoming GASB pronouncements.

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**Restriction on Use**

This communication is intended solely for the information and use of the Members of the Board of Education, management and the Minnesota Department of Education, and is not intended to be and should not be used by anyone other than these specified parties. The comments and recommendations in the report are purely constructive in nature and should be read in this context.

The comments and recommendation in this report are purely constructive in nature, and should be read in this context. Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service, and for the courtesy and cooperation extended to us by your staff.

Abdo

**Abdo**
Minneapolis, Minnesota
November 20, 2024