



February 9, 2023

USD 417 - Morris County
17 Wood Street
Council Grove, KS 66846

We have audited the financial statement of USD 417 - Morris County as of and for the year ended June 30, 2022, and have issued our report thereon dated February 9, 2023. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated November 12, 2022, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statement that has been prepared by management with your oversight is presented fairly, in all material respects, in accordance with the regulatory basis of accounting prescribed by the State of Kansas in the *Kansas Municipal Audit and Accounting Guide* (KMAAG). Our audit of the financial statement does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statement is free of material misstatement. An audit of financial statement includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of USD 417 - Morris County solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding material weaknesses and material noncompliance noted during our audit in a separate letter to you dated February 9, 2023.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

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

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by USD 417 - Morris County is included in Note 1 to the financial statement. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Qualitative Aspects of the Entity's Significant Accounting Practices (Continued)

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's current judgments. Those judgments are normally based on 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 statement and because of the possibility that future events affecting them may differ markedly from management's current judgments.

There were no sensitive accounting estimates affecting the financial statement.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. There were no sensitive disclosures affecting USD 417 - Morris County's financial statement.

Significant Unusual Transactions

For purposes of this communication, professional standards require us to communicate to you significant unusual transactions identified during our audit. We did not identify any significant unusual transactions.

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are 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 statement as a whole. There were no identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no identified 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 USD 417 - Morris County's financial statement or the auditor's report. As previously communicated to the Board of Education members, there was a disagreement between our audit partner and the superintendent pertaining to the allowability of federal grant fund expenditures related to vehicles purchased. This created an adversarial relationship for the remainder of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in a separate letter dated the same as this letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management 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 USD 417 - Morris County, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as auditors.

As we performed our audit, we noted the following matters:

- *Noncompliance with federal grant requirements.* As noted in our schedule of findings and questioned costs, there were two vehicles purchased using federal funds for a grant that did not allow capital purchases; the grant only allowed lease arrangements. The Board's response disagrees with our assessment. However, we are required to report the questioned costs and the grantor agencies have the authority to further review and make a determination. The District requested 1/3 of the "lease" total on the KDHE grant for the fiscal year ending June 30, 2022, with intentions to request the other 2/3 in the following two subsequent years. However, the total amount was paid during fiscal year ended June 30, 2022.
- *Violation of Kansas Bid Law.* Pursuant to K.S.A. 72-6760, the District is required to follow a bid process for expenditures over \$20,000. V&A identified purchases over this threshold for the 21-22 year that did not appear to follow the formal bid process. Again, the Board's response disagrees with our assessment.
- *Failure to Follow Board Policies and Procedures.* V&A noted instances where the District's Board policies were not followed. V&A strongly recommends that the Board review and update the policies and procedures to better ensure transparency and increased internal controls. An immediate item to be addressed is to include a total dollar amount on the consent agenda for the approval of bills to be paid and a list of expenses that correspond to that total. Additionally, supporting documentation, such as invoices and credit card statements relating to those expenses should be available at every Board meeting for Board of Education members to review, if they so choose. In addition, the bills should not be "paid" until approved by the Board. We would also recommend that the Board consider establishing conservative purchasing thresholds and incorporate a requirement for mileage logs for every District vehicle.
- *Lack of Segregation of Duties.* There appears to be a lack of segregation of duties within the District as in many instances the only approval of expenditures is done by the Superintendent, who in many cases is the employee making the expenditure. Additionally, there is no formal review and approval of the bank reconciliations that are done on a monthly basis by the business manager. V&A recommends that someone review the monthly bank reconciliations, such as the Board Treasurer, and document that review.
- *Board Attorney.* V&A recommends that the District engage a local attorney to represent the Board of Education and assist in routine legal matters that arise.
- *Cybersecurity.* We believe that the Board should have policies in place that prevent access to the District's network by any unprotected computers.

This report is intended solely for the information and use of the Board of Education and management of USD 417 - Morris County and is not intended to be and should not be used by anyone other than these specified parties.

Varney & Associates, CPAs, LLC

Certified Public Accountants
Manhattan, Kansas