

## Independent Auditor's Contract

To provide for a school district audit in compliance with KRS 156.255, 156.265, 156.275, 156.285, 156.295, and 156.480, this agreement is entered into for audit period ending June 30, 2019, between the Woodford County Board of Education (BOARD), and Barnes Dennig & Co., Ltd., (ACCOUNTANT), who is a Certified Public Accountant or a Public Accountant registered with the **Kentucky State Board of Accountancy**.

### **I. DUTIES OF ACCOUNTANT**

- A. The ACCOUNTANT shall render an opinion on the financial statements of the BOARD for fiscal year 2018-2019. The scope and nature of the audit shall be in accordance with the Auditor Responsibilities and State Compliance Requirements. These requirements are incorporated as a part of this agreement.
- B. ACCOUNTANT shall address the audit report and written comments to the BOARD and to the State Committee for School District Audits (COMMITTEE).
- C. ACCOUNTANT shall deliver the audit report in accordance with Section VII.A. DELIVERY OF AUDIT REPORT. If the audit report cannot be timely submitted, the ACCOUNTANT shall submit an Audit Extension Request in accordance with Section VI.A. AUDIT EXTENSION REQUEST.

### **II. DUTIES OF BOARD**

- A. The BOARD shall make available to the ACCOUNTANT no later than August 2, 2019, all books, accounts, reports, vouchers, correspondence files, records, money, and property under its control which may be requested by the ACCOUNTANT in the course of performing the audit.

### **III. AUTHORITY OF COMMITTEE**

- A. The COMMITTEE and the Kentucky Department of Education (KDE) may examine work papers of the ACCOUNTANT and may perform quality control reviews of the audit procedures utilized during the course of the audit;
- B. The COMMITTEE and the BOARD may prohibit the use of any subcontractor by the ACCOUNTANT in their sole discretion. During the term of the contract, no subcontractor shall be used without the prior written approval of the COMMITTEE and the BOARD; and
- C. The COMMITTEE will consider Audit Extension Requests submitted by ACCOUNTANT prior to October 1, 2019. Provided the COMMITTEE determines the delay is unavoidable and due to factors beyond the ACCOUNTANT'S control, the COMMITTEE may, in their sole discretion, allow for the audit to be submitted to KDE without penalty after the November 15, 2019 due date.

### **IV. COMPENSATION**

- A. The ACCOUNTANT shall be paid an amount agreed upon between the ACCOUNTANT and the BOARD, consistent with the Audit Acceptance Statement, which is incorporated herein by reference, for the successful completion of the work defined by this agreement.
- B. Final payment is predicated upon completion of the work as described in Section I. DUTIES OF ACCOUNTANT and delivery of documentation as described in Section VII. DELIVERY OF AUDIT REPORT.
- C. Compensation to the ACCOUNTANT in excess of the amount stated on the AUDIT ACCEPTANCE STATEMENT must be approved by the COMMITTEE if said increase exceeds \$1,000 or 10% of the audit fee, whichever is less. The ACCOUNTANT must submit a written explanation to the BOARD and the COMMITTEE for the requested increase in compensation before the COMMITTEE will consider any increase. The requested increase and written explanation must be submitted to the BOARD and Committee no later than submission of ACCOUNTANT'S invoice for payment.
- D. The ACCOUNTANT shall submit to the BOARD an invoice for payment which shall be signed by the ACCOUNTANT and contain adequate supporting documentation such as: detail of hours worked by each auditor classification (e.g., partner, manager, supervisor, senior, staff, etc.) in major audit areas or supervisory/administrative functions.



## **V. SUPPLEMENTAL AGREEMENTS**

- A. The scope of the audit may be increased or decreased by written supplemental agreement between the BOARD and the ACCOUNTANT, if the reasons for the increase or decrease have first been reported in writing by the ACCOUNTANT to the COMMITTEE and the COMMITTEE approves the increase or decrease. The audit fee may be adjusted for the increase or decrease in the scope of the audit in accordance with Section IV.C. COMPENSATION.

## **VI. AUDIT EXTENSION REQUEST**

- A. If the audit cannot be completed on or before November 15, 2019, due to factors beyond the control of the ACCOUNTANT, the ACCOUNTANT shall electronically submit an Audit Extension Request form, fully completed by both the ACCOUNTANT and the BOARD, to KDE on or before October 1, 2019. The form is provided in **Appendix I - Audit Extension Request**.

## **VII. DELIVERY OF AUDIT REPORT**

- A. The ACCOUNTANT agrees to begin the audit of the BOARD on or before August 2, 2019 or 15 days from execution date of this contract, whichever is later, and further agrees to complete and deliver a signed paper copy of the audit report to the BOARD, one signed paper copy to the COMMITTEE in care of KDE, and an electronic copy to KDE in accordance with **Appendix II - Instructions for Submission of the Audit Report** on or before November 15, 2019, or at a later date approved by the COMMITTEE. All electronic and paper copies of the audit report must be received by KDE on or before November 15, 2019 for it to be considered filed timely. If the audit report has not been received by KDE on or before November 15, 2019 or by the later date approved by the COMMITTEE, the audit will be considered late and penalties as outlined in Section VIII. PENALTIES may be imposed at the discretion of the COMMITTEE.

## **VIII. PENALTIES**

- A. There may be a 10% reduction of the audit fee if one or more of the following conditions occur: (1) the audit report is not submitted in accordance with VII.A. DELIVERY OF AUDIT REPORT; or (2) the audit report does not contain the information shown under Audit Report Requirements.
- B. The ACCOUNTANT may, in the sole discretion of the COMMITTEE, be ineligible to conduct a school district audit for the upcoming fiscal year if one or more of the conditions in section A occur.
- C. The COMMITTEE may, in its sole discretion, waive penalties for delays caused by circumstances beyond the control of the ACCOUNTANT.

## **IX. EFFECTIVE DATE**

- A. This agreement, between the ACCOUNTANT and the BOARD, shall not become effective until this contract has been approved by the COMMITTEE and signed by the COMMITTEE Chair. This agreement is effective for the 2018-2019 fiscal year.

## **X. TERMINATION**

- A. The BOARD shall have the right to terminate and cancel this contract at any time without cause upon 30 days written notice served on the ACCOUNTANT by registered or certified mail. The BOARD shall have the right to terminate and cancel this contract for cause upon five days written notice served on the ACCOUNTANT by registered or certified mail.
- B. If cause exists to terminate the contract, and the BOARD does not terminate, the COMMITTEE may terminate and cancel this contract for cause upon five days written notice served on the ACCOUNTANT by registered or certified mail.
- C. "Cause" includes, but is not limited to any of the following:
  - 1. Failure to commence work within 15 days of execution of the contract or on or before August 2, 2019, whichever is later;
  - 2. Previous history of extension requests by the same ACCOUNTANT for the same district;
  - 3. Failure to submit the audit on or before November 15, 2019;

4. Failure to communicate to KDE timely about problems encountered in conducting the audit;
5. Violation of any of the provisions in Section XI. REPRESENTATIONS AND WARRANTIES; or
6. Failure to abide by any of the terms and conditions of this agreement.

**Cause shall not include any factor wholly the fault of the BOARD.**

## **XI. REPRESENTATION AND WARRANTIES**

- A. The ACCOUNTANT is legally able and authorized to enter into contracts with the BOARD, including on behalf of any entity under which the ACCOUNTANT practices.
- B. The performance of this agreement would not violate any conflict of interest law, including but not limited to KRS 156.480.
- C. The ACCOUNTANT has no personal interest in the financial affairs of the BOARD or any of its officers or employees.

## **XII. MATERIALS INCORPORATED BY REFERENCE**


- A. Any materials referred to herein are incorporated by reference and made a part of this contract, which shall include the materials attached hereto and supplied to the ACCOUNTANT, consisting of 32 pages.

## **XIII. MISCELLANEOUS**

- A. ACCOUNTANT or Partner has authority to enter into this contract on behalf of the FIRM noted below.
- B. A copy or electronic copy of this contract shall be enforceable the same as an original.
- C. This contract may be executed in counterparts and taken together shall serve as a single enforceable contract.

**THIS AGREEMENT ENTERED INTO AS DATED BELOW:**

**AGREED TO BY:**

<hr/>		<u>George S. Sparks, Jr./Barnes Dennig &amp; Co., Ltd.</u>	
<b>BOARD OF EDUCATION</b>		<b>ACCOUNTANT/FIRM</b>	
<hr/>	<hr/>		<u>4/12/19</u>
<b>BY: SCHOOL BOARD CHAIR</b>	<b>DATE</b>	<b>BY: PARTNER</b>	<b>DATE</b>
<hr/>	<hr/>		
<b>SECRETARY</b>	<b>DATE</b>		

**ACCEPTED BY:**

**STATE COMMITTEE FOR SCHOOL DISTRICT AUDITS**

<hr/>	<hr/>
<b>BY: STATE COMMITTEE CHAIR</b>	<b>DATE</b>

**One signed audit contract is due to KDE by close of business on May 28, 2019.  
Please send to:**

**Division of District Support  
Kentucky Department of Education  
Attn: District Financial Management Branch  
300 Sower Blvd, 4<sup>th</sup> Floor  
Frankfort, KY 40601  
Attn: Financial Management Branch**





# **Kentucky Public School Districts' Audit Contract and Requirements**

**Fiscal Year 2018-2019**

**April 1, 2019**

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## **Introduction**

The Kentucky Department of Education (KDE) is sending the enclosed audit contract and supporting documents to school districts on behalf of the State Committee for School District Audits (SCSDA). The purpose of the supporting documents is to provide information and tools to local school districts and independent auditors to assist in the completion of fiscal year 2019 audits.

## **District and Auditor Helpful Resources**

Financial Audit Contract Information - Kentucky Department of Education -  
<https://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx>

District Financial Audits - Kentucky Department of Education -  
<https://education.ky.gov/districts/FinRept/Pages/District-Financial-Audits.aspx>

District/School Support - Kentucky Department of Education -  
<https://education.ky.gov/districts/Pages/default.aspx>

District Financial Reporting - Kentucky Department of Education -  
<https://education.ky.gov/districts/FinRept/Pages/default.aspx>

MUNIS Support and Guides - Kentucky Department of Education -  
<https://education.ky.gov/districts/Pages/MUNIS-Guides.aspx>

## **Auditor Alert**

This section includes, but is not limited to, the following high risk areas that auditors should consider when conducting a school district's annual financial audit.

- Auditors are strongly encouraged to review the Auditor of Public Accounts' webpage located at Auditor of Public Accounts - <http://auditor.ky.gov/Pages/default.aspx> to determine if any reports have been issued for a school district and to identify potential high risk areas that may need to be examined during any school district audit.
- Auditors should review activity fund transfers to ensure that schools are not transferring money from student generated funds (fees and fundraisers) to support other activity fund accounts. Student generated funds are raised for a specific purpose and should be spent for that purpose.
- It is important for both the school district (superintendent and finance officer) and auditor to communicate and work together to reconcile the Annual Financial Report (AFR), Balance Sheet and Audit Report **prior** to the reports being submitted to KDE. The district, working with its auditor, is strongly encouraged to complete the **optional** Audit Review Templates accessible through the KDE SEEK program and resolve any discrepancies identified among the AFR, Balance Sheet and Audit Report.

- Auditors should not submit multiple unsolicited versions of Audit Reports. Auditors shall notify KDE prior to resubmitting.
- Desk Review of Audits - Auditors **shall correct** technically deficient audit reports within 30 days of being notified by KDE. The auditors shall correct all findings noted, in addition to correcting the technically deficient matters. If the auditor does not issue a corrected audit report, then the auditor may not be allowed to conduct future Kentucky public school district audits. For district audit reports deemed technically deficient as a result of the prior fiscal year Desk Review, the auditor shall compare the prior fiscal year audit report and Desk Review findings to the current fiscal year audit report to verify all findings are addressed and an old version of the audit report has not been used.

If the audit report receives a rating of acceptable or acceptable with deficiencies, the auditor is **not required** to issue a corrected report; however, the auditor is required to use the prior fiscal year Desk Review as a resource in the following year so that findings are not repeated in the current fiscal year audit report. During KDE's initial review of the current fiscal year audit report, KDE reserves the right to require the auditor to submit a corrected audit report if the auditor fails to correct prior fiscal year Desk Review findings, regardless of the finding classification.

- MUNIS Financial System and Uniform Chart of Accounts – Auditors shall be familiar with the district's financial system and the Uniform Chart of Accounts (COA). Auditors shall use this information to provide the districts with the specific fiscal year 2018-2019 MUNIS COA coding/segment when recommending journal entries to districts [Example: org – object – project]. The Uniform COA is located on the KDE website at

Chart of Accounts - Kentucky Department of Education - District/School Support - District Financial Reporting

- Management Letter Comments Spreadsheet - If the audit report consists of management letter comments, the auditor shall complete the Management Letter Comments spreadsheet located on the KDE website at Management Letter Comments Spreadsheet - <https://education.ky.gov/districts/FinRept/Pages/District-Financial-Audits.aspx>. The Management Letter Comments spreadsheet became an additional requirement beginning with FY 2017. The completed spreadsheet shall be submitted electronically to the KDE Finance Reports email account with the "District Name Mgmt Letter Comments" in the subject line. The auditor shall copy the school district's superintendent and finance officer on the email that is sent to the KDE Finance Reports email account.

- Auditors should be aware that GASB Statement No. 77 became effective for financial statements for periods beginning after December 15, 2015. GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

1. Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
2. The gross dollar amount of taxes abated during the period.
3. Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.



- KDE encourages auditors and district finance personnel to submit electronic audit reports and associated documents in a format that meets section 508 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794d). Information on complying with Section 508 can be found at Create Accessible Electronic Documents-<https://www.section508.gov/content/build/create-accessible-documents> and Standards and Guidelines of Section 508-<https://www.access-board.gov/guidelines-and-standards/communications-and-it/about-the-ict-refresh/final-rule/text-of-the-standards-and-guidelines>.
- Auditors should be aware that GASB 84 became effective for financial statements for periods beginning after December 15, 2018, and will be applicable in fiscal year 2019-2020 audits. GASB 84 provides guidance regarding what constitutes fiduciary activities and how they should be reported.

### **Annual Cycle for Local School District Audits**

<b>DUE DATE</b>	<b>RESPONSIBLE PARTY</b>	<b>REQUIRED INFORMATION</b>
May 28	District	<ul style="list-style-type: none"> <li>• FY 2018-2019 Audit Acceptance Statement web form, which includes the justification section for using the same auditor/audit firm for five consecutive years - electronically submit to KDE</li> <li>• One signed contract to KDE</li> <li>• One signed copy of the latest peer review report and, <b>if applicable</b>,</li> <li>• One signed copy of any letter of response and KyCPA Peer Review Committee letter to KDE</li> </ul>
June 20	State Committee for School District Audits	Approval of Audit Contracts
June 30	State Committee for School District Audits	Notification of approval or disapproval of the contract to the local board
July 25	District	Initial Annual Financial Report (AFR) and Balance Sheet (electronic reports) to KDE
October 1	Auditor	Audit Extension Request to KDE
November 15	Auditor	Audit Reports: <ul style="list-style-type: none"> <li>• One signed paper copy to school district</li> <li>• One signed paper copy &amp; one electronic copy to KDE</li> <li>• One electronic copy to Single Audit Clearinghouse</li> </ul> See Appendix II for submission instructions.
November 15	District	Second AFR and Balance Sheet, which includes the Statement of Certification verification section, (electronic reports) to KDE. Copy of Second AFR and Balance Sheet to Auditor. Management Letter Comments Spreadsheet, if applicable.
November 15 - March 1	KDE	Audit Reports, AFRs and Balance Sheets reviewed; corrective action plans received and monitored; Audit Reports, AFRs and Balance Sheets corrections received.
December 1	District	Report on Local School District Administrative Expenditures
December 31 <sup>st</sup> or 45 days after district receives audit reports, whichever occurs first	District	Corrective action plan per 702 KAR 3:150 to KDE
March 31, 2020 or no later than 30 days after release of the auditor's report.	District	For Single Audits, one electronic copy of the Audit Report, along with the Data Collection Form, shall be submitted by the district, directly to the Single Audit Clearinghouse, in accordance with 2 CFR 200.
March – May 2020	KDE	Corrective action monitoring continues

**Use the following address for mailing items to KDE:**

**Division of District Support**  
**Kentucky Department of Education**  
**Attn: District Financial Management Branch**  
**300 Sower Blvd, 4<sup>th</sup> Floor**



**Frankfort, KY 40601**

## **Statutory Authority of the State Committee for School District Audits**

KRS 156.265 authorizes the State Committee for School District Audits (SCSDA) to conduct audits of the financial records of local boards of education. The audits shall be performed by a Certified Public Accountant (CPA), approved by the SCSDA, and conducted according to current auditing standards. Increases or decreases in the scope of the audit are addressed in the Supplemental Agreements section of the audit contract.

The SCSDA requires all local school boards to have an annual audit of the fiscal records and accounts under the board's control. The SCSDA shall notify the local board of education of approval or disapproval of the executed contract in accordance with the timeframe set forth in the "Annual Cycle for Local School District Audits."

### **156.255 Definitions for KRS 156.255 to 156.295.**

As used in KRS 156.255 to 156.295:

- 1) "Accountant" means a certified public accountant or a public accountant registered with the State Board of Accountancy.
- 2) "Board" means the board of education of a school district.
- 3) "Committee" means the State Committee for School District Audits.
- 4) "State board" means the Kentucky Board of Education.

**Effective:** July 15, 1996

### **156.265 State Committee for School District Audits.**

- 1) There shall be a State Committee for School District Audits comprised of the Governor, or a person designated by him, the Attorney General, the Auditor of Public Accounts, a person designated by the Legislative Research Commission to represent the Office of Education Accountability, and the commissioner of education. The Auditor of Public Accounts shall be the chair of the committee.
- 2) The committee shall have the accounts of each board audited not less than once every fiscal year. The committee also may, at any time, cause to be made a comprehensive and complete audit of any board. Upon the written request of the state board, the commissioner of education, the Attorney General, the Auditor of Public Accounts, the Governor, or the Office of Education Accountability, the committee may cause the accounts of a board to be audited. Each audit shall cover such period of time, and shall include such auditing procedures and standards, as the committee may designate.
- 3) Audits authorized under this section are in addition to any audits contemplated under KRS 11.090 or 156.200 or KRS Chapter 43.
- 4) The actual expense of any audit authorized under this section shall be borne equally by the district board of education and by the committee from funds allocated to it.\*
- 5) The committee shall meet at least quarterly. Additional or special meetings may be called by the chair.

**Effective:** July 14, 2000

\* No funds currently allocated.



**156.275 Accountant -- Selection -- Reports.**

- 1) The committee shall select, to make the audit authorized under KRS 156.265, accountants who are qualified under KRS Chapter 325 and the administrative regulations promulgated by the Kentucky State Board of Accountancy.
- 2) Immediately upon completion of each audit, the accountant shall prepare a report of his findings and recommendations in such form and in such detail as the committee may prescribe. The report shall be to the committee and in such number of copies as specified by the committee. The committee shall furnish one (1) copy to the Kentucky Board of Education, one (1) copy to the district board of education to which the report pertains, one (1) copy to the chief state school officer and one (1) copy to the Auditor of Public Accounts. The district board of education shall keep a copy of the report on file in the office of the superintendent of schools of the district and the report shall be open to inspection by any interested person, subject to reasonable rules as to time and place of inspection.

**Effective:** July 15, 1996

**156.285 Access to records -- Witnesses -- Subpoena.**

- 1) The accountant shall have access to and may examine all books, accounts, reports, vouchers, correspondence files, records, money, and property of any board. Every officer or employee of any such board having such records or property in his possession or under his control shall permit access to and examination of them upon the request of the accountant.
- 2) The committee may require information on oath from any person touching any matters relative to any account that the accountant is required to audit. The committee may administer the oath, or have it done by any officer authorized to administer an oath.
- 3) The committee may issue process and compel the attendance of witnesses before it, and administer oaths and compel witnesses to testify in any of the investigations the accountant is authorized to make.

**Effective:** July 15, 1994

**156.295 Offenses -- Penalties.**

- 1) Any officer or employee of a board or any other person who prevents, attempts to prevent, or obstructs an examination by the accountant made under KRS 156.265 and 156.275 is guilty of a high misdemeanor and shall, upon indictment and conviction in the Circuit Court of competent jurisdiction, be fined five hundred dollars (\$500).
- 2) Any person who fails or refuses to permit the examination provided for in KRS 156.285 or who interferes with such examination shall be fined not less than one hundred dollars (\$100) or imprisoned in the county jail for not less than one (1) month nor more than twelve (12) months, or both. Each refusal shall constitute a separate offense.
- 3) Any person who has custody of any books, accounts, reports, vouchers, correspondence, files, records, money, and property that the accountant is authorized to examine under KRS 156.265 and 156.285 who fails or refuses when called upon by the committee for that purpose to permit the accountant to inspect any of such materials shall, upon conviction in the Circuit Court of competent jurisdiction, be fined not more than five hundred dollars (\$500) and be subject to removal as provided by law.
- 4) Any person who refuses to be sworn when required by the committee to be sworn for the purpose mentioned in subsection (2) of KRS 156.285 shall be fined not more than five hundred dollars (\$500).

- 5) Any witness called by the committee under subsection (3) of KRS 156.285 who fails, without legal excuse, to attend or testify shall be fined not more than five hundred dollars (\$500).

**Effective:** July 15, 1994

**156.480 Employees of department or school districts with decision-making authority prohibited from supplying goods or services for which school funds are expended -- Penalties.**

- 1) No commissioner, associate commissioner, deputy commissioner, director, manager, purchasing agent, or other employee of the Department of Education with decision-making authority over the financial position of a school, school district, or school system shall have any pecuniary interest in the school, school district, or school system, either directly or indirectly, in an amount exceeding twenty-five dollars (\$25) per year, either at the time of or after his appointment to office, in supplying any goods, services, property, merchandise, or services, except personal services that are in addition to those required by contract for employment, of any nature whatsoever for which school funds are expended. If any person specified in this subsection receives, directly or indirectly, any gift, reward, or promise of reward for his influence in recommending or procuring the use of any goods, services, property, or merchandise of any kind whatsoever for which school funds are expended, he shall upon conviction be fined not less than fifty dollars (\$50) nor more than five hundred dollars (\$500), and his office or appointment shall without further action be vacant. \*\*
- 2) No employee of any county or independent school district with decision-making authority over the financial position of the school district shall have any pecuniary interest, either directly or indirectly, in an amount exceeding twenty-five dollars (\$25) per year, either at the time of or after his appointment to office, in supplying any goods, services, property, merchandise, or services, except personal services that are in addition to those required by contract for employment, of any nature whatsoever for which school funds are expended. If any person specified in this subsection receives, directly or indirectly, any gift, reward, or promise of reward for his influence in recommending or procuring the use of any goods, services, property, or merchandise of any kind whatsoever for which school funds are expended, he shall upon conviction be fined not less than fifty dollars (\$50) nor more than five hundred dollars (\$500), and his office or appointment shall without further action be vacant.

**Effective:** July 15, 1994

\*\* OAG 94-61 provides guidance for determining who has decision-making authority over the financial position of the school district.



## **Qualifications of the Independent Auditor**

The auditor must be a certified public accountant licensed to practice in the Commonwealth of Kentucky, pursuant to KRS 325.261.

### **Competence**

The audit firm should be currently registered with the Kentucky State Board of Accountancy and should have participated in an external quality control review at least once every three years. The auditor should have adequate training and experience in governmental accounting and be in good standing in the profession. The auditor in charge of the field work should have a practical working knowledge of applicable state and federal laws and regulations.

### **Independence**

The American Institute of Certified Public Accountants (AICPA) and generally accepted government auditing standards (GAGAS) require the auditor to maintain independence in all matters relating to the audit engagement. Auditors must meet the independence standards established by the Government Accountability Office (GAO).

### **Continuing Professional Education**

All audit staff assigned to the audit should have the necessary hours of continuing professional education required by GAGAS. Each auditor performing audit work under GAGAS should complete 80 hours of CPE every two years. At least 24 hours of CPE should be in subjects directly related to government auditing, the government environment, or the unique environment in which the entity operates. At least 20 hours of the 80 should be completed in any one year of the 2-year period.

### **External Peer Review**

Auditors shall provide their most recent peer review report, letter of response, if applicable, and Kentucky Society of Certified Public Accountants (KyCPA) Peer Review Committee letter to the local board and a copy of these documents shall be submitted to KDE with each audit contract. Audit contracts submitted without the required peer review report and related documents will not be approved by the SCSDA. An auditor's contract will not be approved by the SCSDA if the auditor's peer review has a **fail** rating without evidence of appropriate corrective action.

Auditors who have been conducting audits for less than three years and have not yet been peer reviewed are exempted from the peer review report and related documents requirement.

## **Auditor Responsibilities**

Auditors are responsible for maintaining the proper knowledge of all accounting and auditing standards relating to school district audits.

If the BOARD has also incorporated as a "Finance Corporation," that entity and related fiscal records and accounts are to be included in the audit.

If the contracted CPA firm changes names or merges with another firm, it is the firm's responsibility to inform the local board of the name change and to inform the SCSDA through KDE.

If any difficulties are encountered while performing the audits that do not pertain to requesting an audit extension, the auditor should inform KDE of the difficulties as soon as possible.

It is the auditors' responsibility to contact KDE with criminal activity concerns.

### **Timing, Location, and Conduct of Audit Work**

The official records and reports of the school district shall not be taken from the board of education office during the course of the audit engagement.

### **Management Letter Comments Spreadsheet**

If the audit report consists of management letter comments, the auditor shall complete the Management Letter Comments spreadsheet located on the KDE website at Management Letter Comments Spreadsheet - <https://education.ky.gov/districts/FinRept/Pages/District-Financial-Audits.aspx>. The Management Letter Comments spreadsheet became an additional requirement beginning with FY 2017. The completed spreadsheet shall be submitted electronically to the KDE Finance Reports email account with the "District Name Mgmt Letter Comments" in the subject line. The auditor shall copy the school district's superintendent and finance officer on the email that is sent to the KDE Finance Reports email account.

### **Reissuance or Resubmission of an Audit Report**

If an audit report needs to be reissued and resubmitted, it shall be reissued in accordance with current auditing standards. The entire audit report shall be resubmitted to the local board, KDE, and all other parties to whom the original audit report was submitted. Individual audit report pages will not be accepted.

### **Audit Extension Request**

If the audit cannot be completed by the deadline, the auditor shall submit an Audit Extension Request form, fully completed by both the auditor and the district, to KDE in accordance with the timeframe set forth in the "Annual Cycle for Local School District Audits." The form is provided in Appendix I.



### **Desk Review of Audits**

- Auditors **shall correct** technically deficient audit reports within 30 days of being notified by KDE. The auditors shall correct all findings noted in addition to correcting the technically deficient matters. If the auditor does not issue a corrected audit report, then the auditor may not be allowed to conduct future Kentucky public school district audits. For district audit reports deemed technically deficient as a result of the prior fiscal year Desk Review, the auditor shall compare the prior fiscal year audit report and Desk Review findings to the current fiscal year audit report to verify all findings are addressed and an old version of the audit report has not been used.
- If the audit report receives a rating of acceptable or acceptable with deficiencies, the auditor is **not required** to issue a corrected report; however, the auditor is required to use the prior fiscal year Desk Review as a resource in the following year so that findings are not repeated in the current fiscal year audit report. During KDE's initial review of the current fiscal year audit report, KDE reserves the right to require the auditor to submit a corrected audit report if the auditor fails to correct prior fiscal year desk review findings, regardless of the finding classification.

### **MUNIS Financial System and Uniform Chart of Accounts**

Auditors shall be familiar with the district's financial system and the Uniform Chart of Accounts (COA). Auditors shall use this information to provide the districts with the specific fiscal year 2018-2019 MUNIS COA coding/segment when recommending journal entries to districts [Example: org – object – project]. The Uniform COA is located on the KDE website at Chart of Accounts - Kentucky Department of Education - District /School Support - District Financial Reporting.

### **Audit Scope**

The audit shall cover an entire fiscal year ending June 30 unless otherwise specified by the SCSDA.

The audit shall cover **ALL** accounts of the local board of education including activity funds at all schools and bank accounts in the name of the district's finance corporation, if applicable.

Audits shall be conducted in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS), *Government Auditing Standards* and, the provisions of 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

The scope of the audit shall include but not be limited to:

- Fund 1 - General Fund;
- Fund 2 - Special Revenue Fund;
- Fund 21 - Special Revenue District Activity Fund (annual);
- Fund 22 - Special Revenue District Activity Fund (multi-year);
- Fund 3XX - Capital Projects Funds;
- Fund 400 - Debt Service Fund;
- Fund 51 - Food Service Fund;
- Fund 5X - Other Enterprise Funds;

Fund 6X - Fiduciary Funds -- Agency Funds (**including** student activity funds);  
Fund 7XXX - Fiduciary Funds -- Pension, Investment, and Private-Purpose Trust Funds (**no longer used** for student activity fund); and  
Fund 8X - Fixed Assets

The auditor shall also ensure the allocation of tax receipts between the general and building funds is accurate.

If, in the course of field work, it is determined that funds have been transferred to a school through the school based council allocation process, those funds shall be considered board funds, not activity funds, and audited as part of the general fund.

Financial statements presented in the auditor's report shall comply with generally accepted accounting principles.

The auditor shall express an opinion on the financial statements of all funds covered in the scope of the audit. If the auditor is unable to express an unmodified opinion, the auditor shall state fully the reasons for the modification of opinion. The district recognizes it has the responsibility to correct any deficiency that results in a modified opinion.

KDE encourages auditors and district finance personnel to submit electronic audit reports and associated documents in a format that meets section 508 of the Rehabilitation Act of 1973, as amended (29 U.S.C. 794d). Information on complying with Section 508 can be found at Create Accessible Electronic Documents-<https://www.section508.gov/content/build/create-accessible-documents> and Standards and Guidelines of Section 508-<https://www.access-board.gov/guidelines-and-standards/communications-and-it/about-the-ict-refresh/final-rule/text-of-the-standards-and-guidelines>.

## **Audit Report Requirements**

Auditor's reports should follow the AICPA's requirements – refer to the AICPA's website at [AICPA - http://www.aicpa.org/](http://www.aicpa.org/). The following items should be included in the audit report.

A. Introductory Section (Table of Contents, Letter(s) of Transmittal, if applicable)

B. Financial Section

1. Independent Auditor's Report on the Financial Statements
2. Management's Discussion and Analysis
3. Financial Statements
4. Notes to the Financial Statements
5. Required Supplementary Information (RSI)
6. Combining Statements
7. Individual Fund Statements
8. Schedule of Expenditures of Federal Awards, if applicable.
9. Statistical Information and any other required Supplemental Schedules, if applicable.
10. Independent Auditor's Report(s) on Internal Control and Compliance
11. The Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and, if applicable, the Report on Compliance for Each Major Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance.
12. The report(s) on internal control and compliance shall contain all control deficiencies identified during the audit that are classified as significant deficiencies or material weaknesses and any instances of noncompliance. These control deficiencies must be appropriately segregated and identified in the report and numbered by the fiscal year under audit (i.e. 2019-001, 2019-002). Findings presented as part of the report shall be well developed in accordance with *Government Auditing Standards* and 2 CFR 200 as applicable.
13. If a written management letter is issued, then it is required to be submitted to the BOARD and referred to in the audit report within the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and be submitted to KDE. Each management letter shall include management's responses to current year comments and report on the status of previous management letter comments and the progress toward the resolution of concerns identified during the preceding audit. The management letter shall identify the applicable school



associated with each reportable condition(s). The comments shall comply with *Government Auditing Standards* and 2 CFR 200 requirements. If there were no management letter comments to report, then the auditor shall submit to KDE an email or letter stating that there were no management letter comments to report.

14. The High School Activity Fund Schedule shall categorize each individual activity fund by account, reflecting all activity funds of the high school. The High School Activity Fund Schedule shall show at a minimum, receipts, expenditures, beginning balance and ending balance. Elementary and Middle School Activity Funds shall be summarized showing at a minimum, receipts and expenditures, beginning balance and ending balance in a single line per school. No school activity fund or individual activity account shall end or begin the fiscal year with a deficit balance.
15. The General Fund shall cover any negative balances in Governmental Funds. Deficits in Enterprise/Proprietary funds, with the exception of food services, are not to be covered by General Funds, unless they are discontinued, then General Funds shall cover the deficit.
16. The following on-behalf payments shall be properly displayed in the audit report and fully disclosed in the notes to the financial statements:
  - Health Insurance
  - Life Insurance
  - Administrative Fee
  - Health Reimbursement Account – HRA/Dental/Vision
  - Federal Reimbursements of Health Benefits (reduction)
  - Teacher’s Retirement System (TRS)
  - Technology
  - Kentucky Interlocal School Transportation Association (KISTA) Energy Savings Capital Leases
  - School Facilities Construction Commission (SFCC) Debt Service

The “On-behalf Payments” link below may be used to obtain the on-behalf payments amounts.  
On-behalf Payments - <https://education.ky.gov/districts/FinRept/Pages/On-Behalf-Payments-Information.aspx>

17. The Schedule of Prior Year Findings and Questioned Costs shall reflect the status of prior year findings for both the financial statements and the federal awards.

## District Responsibilities

- Each local board of education shall enter into contracts with CPA firms on forms provided by KDE. One signed contract, is due to KDE on or before the due date reflected in the Annual Cycle for Local School District Audits. **The local board of education does not have a valid contract with the auditor until the SCSDA approves and the Chair signs the contract.**
- Except in cases where special audits are authorized by the SCSDA, local boards of education shall select the auditor. Selection shall be made from the current licensure list provided by the Kentucky Board of Accountancy.
- The school district must obtain an engagement letter from the contracted CPA firm confirming the understanding of the terms of the engagement. The engagement letter may include additional items to address the specific needs of the district.
- 702 KAR 3:150 requires all local boards of education to report to the Commissioner of Education, “in writing, progress being made to correct exceptions appearing in school audits authorized by the State Committee for School District Audits or, in writing, justify any failure to correct exceptions appearing in any school audit authorized by the State Committee for School District Audits.” The report shall be due to the Commissioner within 45 days after receipt of the final audit report by the local board, or no later than December 31 following the close of the fiscal year, whichever occurs first.
- It is the responsibility of the district’s management (superintendent and finance officer) to properly record all adjusting entries on both the first and second AFRs and Balance Sheets. This responsibility includes entries for on behalf payments, fixed asset transactions, accruals and deferrals, and all other financial transactions. The district finance officer must possess suitable skills, knowledge, and experience (SKE) and understand the recommended audit adjustments provided by the auditor. The district shall also provide the auditor with an AFR and Balance Sheet which are in agreement with the audit report.
- —Donated Commodities shall be included in the proprietary fund financial statements and it is strongly encouraged that they be stated as a separate line item. Donated Commodities shall be stated separately as part of the nutrition cluster on the SEFA and fully disclosed in the Notes to the SEFA.
- No school activity fund or individual activity account shall end or begin the fiscal year with a deficit balance.
- The General Fund shall cover any negative balances in Governmental Funds. Deficits in Enterprise/Proprietary funds, with the exception of food services, are not to be covered by General Funds, unless they are discontinued, then General Funds shall cover the deficit.
- Costs incurred in the audit of federal grants, the federal school food programs, and school construction accounts may be charged back to those funds. Determine which grants allow audit costs as an administrative expense and in what amount. Districts expending less than \$750,000 in federal funds may not charge audit costs to federal grants but may charge other programs and



accounts as appropriate. If a district charges indirect costs to federal programs and food service, then they cannot also charge auditing services directly to those accounts.

- On-behalf payments should be coded accurately in the MUNIS accounting system. The following link may be used by districts to record on-behalf payments.  
On-behalf payments - <https://education.ky.gov/districts/FinRept/Pages/On-Behalf-Payments-Information.aspx>
- The school district is responsible for informing their auditors of any property they possess that is located in a flood plain as determined by the FEMA Flood Insurance Rate Map (FIRM) located at FEMA - <https://msc.fema.gov/portal>.
- The SCSDA recommends an audit firm rotation once every five years as a best practice. After five consecutive fiscal years, if there is no audit firm rotation the district shall provide a written explanation justifying why the district continues to use the same auditor. The written explanation shall be submitted to KDE through the Audit Acceptance Statement electronic web form process within the KDE SharePoint on or before **May 28<sup>th</sup>**.
- The school district must complete and submit the Audit Acceptance Statement (Statement) **electronic web form** through the KDE SharePoint on or before **May 28<sup>th</sup>**. The Statement shall be completed and submitted to KDE by the district's superintendent or finance officer, **on behalf** of the local board of education, requesting the financial accounts of the BOARD be audited for FY 2018-2019 in accordance with the procedures adopted by the SCSDA. Also, the Statement shall consist of the board chosen auditor or audit firm name; contact information; audit cost; if applicable, explanation of the audit cost increase compared to the prior fiscal year audit cost; if applicable, explanation of why the local board elected to obtain the same auditor or audit firm for the last five consecutive fiscal years; and some additional general auditor information. The Statement electronic web form submission instructions are located on the KDE website at Audit Acceptance Web Form Instructions- Kentucky Department of Education- <http://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx>.
- The school district must **certify** that all audit adjustments have been entered into MUNIS and that an Annual Financial Report and Balance Sheet, which are in agreement with the audit report, will be transferred to KDE in conjunction with the audit report **by selecting the Statement of Certification (SOC) option** during the electronic submission process of the FY 2018-2019 Audited AFR and Balance Sheet to KDE on or before **November 15<sup>th</sup>**. The MUNIS Annual Financial Report Guide STW GL 2 instructions for creating and submitting the Annual Financial Report and Balance Sheet electronically to KDE and the Audited AFR and Balance Sheet Submission Guide are located on the KDE MUNIS Support and Guides website at MUNIS Support and Guides - <https://education.ky.gov/districts/Pages/MUNIS-Guides.aspx>, choose the General Ledger-Year End section in the drop down box.
- It is important for both the school district (superintendent and finance officer) and auditor to communicate and work together to reconcile the Annual Financial Report (AFR), Balance Sheet and Audit Report **prior** to the reports being submitted to KDE. The district, working with its auditor, is strongly encouraged to complete the **optional** Audit Review Templates accessible



through the KDE SEEK program and resolve any discrepancies identified among the AFR Balance Sheet and Audit Report.

## **KDE Responsibilities**

### **Desk Review of Audits**

KDE reviews the audit reports in comparison with the financial data reported in the districts' audited Annual Financial Report and Balance Sheet. KDE communicates discrepancies to districts and/or auditors and requests corrections or explanations as needed.

KDE has contracted with the Auditor of Public Accounts (APA) to perform detailed 2 CFR 200 Desk Reviews of the school district audit reports. Auditors shall correct technically deficient audit reports within 30 days of being notified by KDE. KDE will review the revised audit reports to ensure the auditors corrected all findings noted in addition to correcting the technically deficient matters. During KDE's initial review of the current fiscal year audit report, KDE reserves the right to require the auditor to submit a corrected audit report if the auditor fails to correct prior fiscal year Desk Review findings, regardless of the report classification.

## State Compliance Requirements

### State Compliance Requirements

FY 06/30/2019

The Kentucky Revised Statutes and Administrative Regulations contain many restrictions and requirements that school districts must follow. The auditor shall perform the necessary procedures to determine district compliance with the following items and any others that may come to their attention during the course of the audit. The following list of statutes and regulations is not all inclusive and is provided merely to highlight certain significant statutes and regulations.

- ***Bonded Indebtedness (KRS 157.632):***

The auditor shall confirm with the trustee, or perform appropriate alternative procedures, to determine the beginning balance, receipts, disbursements, and ending balance of each bond issue. The auditor shall determine if receipts were in agreement with amounts as specified in the pay schedules and if each bond account was reconciled for the period. The degree of compliance shall be disclosed. The composite bond schedule shall be reviewed, including all information relative to the various issues.

- ***Nickels and Equalization (KRS 157.621, KRS 160.470, HB200-2017 Regular Session):***

Previously, to accommodate districts with growing numbers of students, school districts meeting the criteria in KRS 157.621 could levy an additional nickel for building fund needs. This nickel was levied by districts that met the criteria of a growth district, which is based on growth in the number of students, bonded indebtedness, current student enrollment in excess of available classroom space, and facility plan requirements. The statute also provides the criteria for the district to levy the second growth nickel, Base Realignment and Closure (BRAC) nickel, equalized facility funding nickel, and state equalization.

***HB200-2018 Regular Session, Equalization Funding for Critical Construction Needs Schools:*** (a) Included in the above General Fund appropriation is \$6,506,300 in fiscal year 2018-2019 and \$6,473,400 in fiscal year 2019-2020 to school districts in accordance with KRS 157.621(5).

**KRS 160.470(8)(a):** That portion of a general tax rate, except as provided in subsections (9) and (10) of this section, KRS 157.440, and KRS 157.621, levied by an action of a district board of education which will produce, respectively, revenue from real property, exclusive of revenue from new property, more than four percent (4%) over the amount of revenue produced by the compensating tax rate defined in KRS 132.010, shall be subject to a recall vote or reconsideration by the district board of education as provided for in KRS 132.017, and shall be advertised as provided for in paragraph (b) of this subsection.

The 2018 budget bill (HB200) states, "Notwithstanding KRS 157.611 to 157.665, the School Facilities Construction Commission is authorized to make an additional offer of assistance of \$7,612,400 to Fort Thomas Independent Schools for during the 2018-2020 fiscal biennium, which shall be used for Johnson Elementary School and \$7,650,300 to Menifee County Schools for Menifee Elementary School. These schools are designated as the two schools ranked within the top 100 schools on both the Kentucky Facilities Inventory and Classifications System reports released in 2011 and 2017 that are A1 schools, are ranked as a Priority 1 on the local school district's facility plan, and have levied a ten-cent equivalent tax dedicated to capital improvements but remain unable to cash fund or to sufficiently support the required annual debt service for replacement or renovation of the school. The amounts stated represent the difference between the cost to replace or renovate the designated facility and the amount of available local resources."



## State Compliance Requirements

- ***Use of Local District Capital Funds (HB200-2018 Regular Session):***

“Notwithstanding KRS 157.420(4) and (6), 157.440, and 157.621, a local board of education may submit a request to the Commissioner of Education to utilize any capital funds, for general operating expenses in fiscal year 2018-2019 without forfeiting the district's eligibility to participate in the School Facilities Construction Commission Program. The Commissioner of Education shall not approve any capital funds request that exceeds 25 percent of a local board of education's available capital funds in fiscal year 2018-2019. Prior to August 1, 2018, the Kentucky Department of Education shall approve guidelines for requests from local boards of education. Notwithstanding KRS 157.615(14) and 157.622, the School Facilities Construction Commission shall include the capital funds transferred under the provisions of this subsection among the local board of education's available local revenue for the purposes of calculating unmet facilities need for the 2018-2020 fiscal biennium. Notwithstanding KRS 157.618, no local school district shall be eligible for a grant from the Emergency and Targeted Investment Fund in fiscal year 2018-2019 if any of its capital funds have been transferred under the provisions of this subsection.”

- ***Eligibility for Membership on Local Board of Education (KRS 160.180):***

Obtain a signed statement from each board member attesting that they are in compliance with the requirements per the statute.

**160.180** (1) As used in this section, "relative" means father, mother, brother, sister, husband, wife, son, and daughter.

(2) No person shall be eligible for membership on a board of education:

(a) Unless he has attained the age of twenty-four (24) years; and

(b) Unless he has been a citizen of Kentucky for at least three (3) years preceding his election and is a voter of the district for which he is elected; and

(c) Unless he has completed at least the twelfth grade or has been issued a High School Equivalency Diploma; and

(d) Unless an affidavit signed under penalty of perjury certifying completion of the twelfth grade or the equivalent as determined by passage of the twelfth grade equivalency examination held under regulations adopted by the Kentucky Board of Education has been filed with the nominating petition required by KRS 118.315; and

(e) For a candidate who files a nominating petition as required by KRS 118.315 on or after April 4, 2018, unless a transcript evidencing completion of the twelfth grade or results of a twelfth grade equivalency examination has been filed with the nominating petition; or

(f) Who holds any elective federal, state, county, or city office; or

(g) Who, at the time of his election, is directly or indirectly interested in the sale to the board of books, stationery, or any other property, materials, supplies, equipment, or services for which school funds are expended; or

(h) Who has been removed from membership on a board of education for cause; or

(i) Who has a relative as defined in subsection (1) of this section employed by the school district and is elected after July 13, 1990. However, this shall not apply to a board member holding office on July 13, 1990, whose relative was not initially hired by the district during the tenure of the board member.

(3) If, after the election of any member of the board, he becomes interested in any contract with or claims against the board, of the kind mentioned in paragraph (g) of subsection (2) of this section, or if he moves his residence from the district for which he was chosen, or if he attempts to influence the hiring of any school employee, except the superintendent of schools or school board attorney, or if he does anything that would render him ineligible for reelection, he shall be subject to removal from office pursuant to KRS 415.050 and 415.060.



## State Compliance Requirements

(4) A board member shall be eligible for reelection unless he becomes disqualified.

(5) The annual in-service training requirements for all school board members in office as of December 31, 2014, shall be as follows:

(a) Twelve (12) hours for school board members with zero to three (3) years of experience;

(b) Eight (8) hours for school board members with four (4) to seven (7) years of experience; and

(c) Four (4) hours for school board members with eight (8) or more years of experience.

The Kentucky Board of Education shall identify the criteria for fulfilling this requirement.

(6) (a) For all board members who begin their initial service on or after January 1, 2015, the annual in-service training requirements shall be twelve (12) hours for school board members with zero to eight (8) years of experience and eight (8) hours for school board members with more than eight (8) years of experience.

(b) Training topics for school board members shall include:

1. Three (3) hours of finance, one (1) hour of ethics, and one (1) hour of superintendent evaluation annually for members with zero to three (3) years' experience;

2. Two (2) hours of finance, one (1) hour of ethics, and one (1) hour of superintendent evaluation annually for members with four (4) to seven (7) years' experience; and

3. One (1) hour of finance, one (1) hour of ethics, and one (1) hour of superintendent evaluation biennially for members with eight (8) or more years' experience.

The Kentucky Board of Education shall identify criteria for fulfilling this requirement.

- ***Salary Schedules (KRS 157.320(12) and KRS 157.350(3); 702 KAR 3:070):***

Observance of approved single salary schedule (KRS 157.320(12) and 157.350(3); and 702 KAR 3:070) means a schedule adopted by a local board from which all teachers are paid for one hundred eighty-five (185) days and is based on training, experience, and such other factors as the Kentucky Board of Education may approve and which does not discriminate between salaries paid elementary and secondary teachers. If the budget bill contains a minimum statewide salary schedule, no teacher shall be paid less than the amount specified in the biennial budget salary schedule for the individual teacher's educational qualifications and experience.

- ***Compliance with applicable laws and regulations governing procurement:***

School district purchasing procedures must comply with KRS 424.260 unless the district has adopted the local public agency provisions of KRS Chapter 45A, the Model Procurement Code, KRS 45A.343 to 45A.460, by formal action of the local board.

***Bid Law KRS 424.260 and 702 KAR 3:135:*** If a district has not adopted the Model Procurement Code, the Bid Law requires districts to advertise for sealed bids for any contract, lease or other agreement for materials; supplies except for perishable meat, fish and vegetables; equipment; or for contractual services other than professional, involving an expenditure of more than \$20,000. The \$20,000 threshold applies to district wide purchases rather than individual schools and is deemed to apply to items which can be purchased from the same vendor or can be grouped together by expenditure code such as teaching supplies. Contracts for construction of new school buildings and additions and repairs to existing buildings which exceed \$7,500 must be awarded by competitive sealed bidding (KRS 162.070).

***KRS 45A.365:*** If a district has adopted the Model Procurement Code, KRS 45A.365 requires that all contracts or purchases be awarded by competitive sealed bidding, which may include the use of a reverse auction, except as otherwise provided by KRS 45A.370 to 45A.385.

## State Compliance Requirements

**KRS 45A.370:** Competitive Negotiations are possible when specifications cannot be made sufficiently specific to permit award on the basis of either the lowest bid price or the lowest evaluated bid price; sealed bidding is inappropriate because available sources of supply are limited; or the bid prices received through sealed bidding are unresponsive or unreasonable.

**KRS 45A.380:** Noncompetitive Negotiation may be used when a written determination is made that competition is not feasible due to the following circumstances: (1) an emergency exists, (2) there is a single source within a reasonable geographic area of the product or service to be procured, (3) contract is for professional services other than construction management services, (4) contract is for perishable items purchased on a weekly or more frequent basis, (5) contract is for replacement parts, (6) contract is for proprietary items for resale, (7) contract is related to selling by students as an educational experience, (8) contract is related to authorized travel outside the school district, (9) contract is for purchase of supplies for sale at public auction, (10) contract is for group health and life insurance and accident insurance, group professional liability insurance, worker's compensation and unemployment insurance, (11) contract is for a sale of supplies that will result in a savings to the district, and (12) contract is with a private developer and contains a requirement.

**KRS 45A.385:** Small Purchase procedures may be used when the aggregate amount of the contract does not exceed \$20,000. Policy must be in writing and available to the public.

**KRS 45A.420:** State Price Contracts may be used when the result is a savings to the district and the purchase does not exceed two thousand five hundred dollars (\$2,500).

- **Conflicts of Interest (KRS 156.480):**  
No employee of a school district with decision making authority over the financial position of a school, school district, or school system shall have any pecuniary interest in an amount exceeding twenty-five dollars (\$25).
- **Collection of School Taxes (KRS 160.500 - .510):**  
Tax collector is entitled to a fee equal to his expenses but not less than 1.5% and not to exceed 4% for the collection of school taxes. The tax collector will, on or before the tenth day of each month, pay the depository of the board of education the amount of the school tax collected up to and including the last day of the preceding month. The amount paid, along with the classes of property from which it was received, is to be reported in writing to the treasurer of the board. This means that the sheriff or other property tax collector is not to deduct his fee from the taxes collected.
- **Interest on Investment of School Taxes (KRS 134.140(2)):**  
If the sheriff invests local tax receipts, he must turn over to the board of education a proportionate share of investment earnings.
- **Compliance with Bonds, Penal Sum:**  
**Fidelity bond, treasurer KRS 160.560(2):** "The treasurer shall execute an official bond for the faithful performance of the duties of his office to be approved by the local board and the Commissioner of Education. The bond shall be guaranteed by a surety authorized to do business in this state and shall be in an amount determined by the board of education in accordance with the administrative regulations promulgated by the Kentucky Board of Education. The premium on the bond shall be paid by the board of education. A copy of the bond shall be filed with the board of education and the Commissioner of Education."



## State Compliance Requirements

***Fidelity bond, penal sum 702 KAR 3:080 Section 2:*** As stipulated in Kentucky Administrative Regulations. “(1) A local board of education shall require a fidelity bond from the board treasurer, the finance officer, and others holding similar positions who are responsible for district funds or who receive and expend funds on behalf of the school district. (2) A local board of education, on the advice of the Commissioner of Education, shall determine the amount of the penal sum of the fidelity bond for all employees by July 1st of each year. (3) The local board of education shall submit the fidelity bonds to the Commissioner of Education for approval no later than July 31st of each year.” Review districts' personnel that have access or responsibility for local board funds and ensure that the districts comply with the administrative regulation by having that person(s) bonded appropriately.

***Bond of Depositories (KRS 160.570(1)):*** “Each board of education shall appoint a bank, trust company, or savings and loan association to serve as its depository, and if its annual receipts from all sources exceed one hundred thousand dollars (\$100,000), it may designate three (3) depositories, except boards of education of school districts in counties containing cities of the first class may designate up to six (6) depositories. The depository may be designated for a period not to exceed two (2) years, and before entering upon its duties shall agree with the board as to the rate of interest to be paid on average daily or monthly balances.”

***Depository bond, penal sum 702 KAR 3:090:*** As stipulated in Kentucky Administrative Regulations. (1) A local board of education, on the advice of the superintendent, shall determine the penal sum of the bond of depository at least thirty days prior to the depository entering upon its duties and by July 1 of each year. (2) The depository bond must be approved by the Commissioner of Education. (3) The penal sum of the depository bond shall be at least equal to either 103 percent of the current daily balances in each account as they may fluctuate throughout the life of the bond or the highest daily balance in each account each month for all accounts in the previous year. The escrow agent for a depository choosing to use a collateral bond shall file safekeeping receipts with the local board of education as evidence of any collateral that has been pledged in accordance with the provisions of the bond executed by the depository institution. To reduce the penal sum of a collateral bond, the local board of education shall submit a notice, with reasons for the reduction, to the Commissioner of Education. A local board of education shall not permit a reduction of the collateral of a bond without execution of a new bond with prior approval of the Commissioner of Education.

- ***Substitute Teacher Pay (702 KAR 3:075):***  
Boards of education shall adopt a per diem pay schedule for substitute teachers which will take into account their training and experience.
- ***Transportation Reimbursement (KRS 158.110 and KRS 158.115):***  
Transportation of non-public school (private or parochial) children and reimbursement agreements per KRS 158.110 and accompanying attorney general opinions.
- ***Payment of Salaries to School Employees (KRS 160.291 and 702 KAR 3:060):***  
***KRS 160.291 and 702 KAR 3:060*** state that all school employees working on a continuing, regular basis shall be paid regularly on dates determined by the employing board of education during the school year or during the fiscal year for 12 month employees.

***KRS 161.011*** requires that districts provide contracts for all classified employees and that job descriptions are consistent with KDE Classification Plan for Classified Employees.

## State Compliance Requirements

- ***Publication of the Budget and Annual Financial Statement (KRS 424.220, KRS 424.250 and KRS 160.463):***

**KRS 424.220** (1) "Excepting officers of a city of the first class or a consolidated local government, a county containing such a city or consolidated local government, a public agency of such a city, consolidated local government, or county, or a joint agency of such a city, consolidated local government, and county, or of a school district of such a city, consolidated local government, or county, and excepting officers of a city with a population equal to or greater than twenty thousand (20,000) based upon the most recent federal decennial census or an urban-county government, every public officer of any school district, city, consolidated local government, county, or subdivision, or district less than a county, whose duty it is to collect, receive, have the custody, control, or disbursement of public funds, and every officer of any board or commission of a city, consolidated local government, county, or district whose duty it is to collect, receive, have the custody, control, or disbursement of funds collected from the public in the form of rates, charges, or assessments for services or benefits, shall at the expiration of each fiscal year prepare an itemized, sworn statement of the funds collected, received, held, or disbursed by him during the fiscal year just closed, unless he has complied with KRS 424.230." (4) "The financial reporting and publishing requirements for a school district are provided in KRS 160.463."

**KRS 424.250:** The board of education of the district shall cause the budget to be advertised for the district by publishing a copy of the budget in a newspaper.

**KRS 160.463:** "The school board of each public school system shall direct its superintendent to publish the complete annual financial statement and the school report card annually:

- (a) In the newspaper of the largest general circulation in the county;
- (b) Electronically on a Web site of the school district; or
- (c) By printed copy at a prearranged site at the main branch of the public library within the school district.

If publication on a Web site of the school district or by printed copy at the public library is chosen, the superintendent shall be directed to publish notification in the newspaper of the largest circulation in the county as to the location where the document can be viewed by the public.

The notification shall include the address of the library or the electronic address of the Web site where the documents can be viewed.

Each system's financial statements shall be prepared and presented on a basis consistent with that of the other systems."

- ***No Extensions of Credit (Sections 177 and 179 State Constitution):***  
Extension of credit by the Board of Education as prohibited in Sections 177 and 179 of the State Constitution.
- ***Incompatibility:***  
Incompatibility of offices and employment as stated in Sections 165 and 237 of the State Constitution. Refer also to KRS 61.080, 160.180, and 160.345.



## State Compliance Requirements

- ***Exceeding of Budget per KRS 160.550 and 702 KAR 3:050:***  
No expenditures are permitted in excess of the income and revenue of any year.  
A district is deemed to be in a deficit if it ends a fiscal year with a negative fund balance in the General Fund as reported on the district's Annual Financial Report.
- ***Adherence to budget and tax cycle outlined in KRS 160.470, KRS 160.345, 702 KAR 3:246, KRS 132.0225, HB 200 (2018 Regular Session):***  
KRS 160.345(2)(f) and 702 KAR 3:246 require local boards to make a tentative allocation to school councils by March 1 and notice of an updated allocation by May 1 of each year which shall include the amount of certified and classified staff based on the district's staffing policy and the amount for instructional supplies, materials, travel and equipment. KRS 132.0225 requires that a taxing district that does not elect to attempt to set a rate that will produce more than four percent (4%) in additional revenue, exclusive of revenue from new property as defined in KRS 132.010, over the amount of revenue produced by the compensating tax rate as defined in KRS 132.010 shall establish a final tax rate within forty-five (45) days of the department's certification of the county's property tax roll. A city that does not elect to have city ad valorem taxes collected by the sheriff as provided in KRS 91A.070(1) shall be exempt from this deadline. Any nonexempt taxing district that fails to meet this deadline shall be required to use the compensating tax rate for that year's property tax bills.

Allocations to School-Based Decision Making Councils: Notwithstanding 21 KRS 160.345(8), for fiscal years 2018-2019 and 2019-2020, a local board of education may reduce the allocations to individual schools within the district as outlined in 702 KAR 3:246, secs. 6, 7, and 8. The allocation under 702 KAR 3:246, sec. 6, shall not be less than \$100 per pupil in average daily attendance.

***KRS 160.470(6)(a), HB 200 (2018 Regular Session):*** also requires boards of education to adopt a tentative working budget for subsequent fiscal year by May 30 of each calendar year.-Notwithstanding KRS 160.470(6) or any statute to the contrary, during fiscal year 2018-2019 and fiscal year 2019-2020 local school districts may adopt and the Kentucky Board of Education may approve a working budget that includes a minimum reserve less than two percent of the total budget. The Kentucky Department of Education shall monitor the financial position of any district that receives approval for a working budget with a reserve of less than two percent and shall provide a financial report for those districts at each meeting of the Kentucky Board of Education.

***KRS 160.470(6)(b)*** requires local boards to submit a working budget to the Kentucky Board of Education by September 30 of each calendar year. Evidence of board action can be found in the official minutes of the board.

***HB200 (2018 Regular Session):*** Each local school district shall submit a report to the Legislative Research Commission and the Department of Education no later than December 1 of each fiscal year, which shall include:

- (1) All expenses charged to the Instruction (1XXX), Student Support Services (21XX), Instructional Staff Support Services (22XX), District Administrative Support Services (23XX), School Administrative Support Services (24XX), and Business Support Services (25XX) function codes in the "MUNIS Uniform Chart of Accounts" (revised effective July 1, 2017, delineated by the relevant subfunction codes, for the previous fiscal year;
- (2) A comparison of the previous fiscal year's expenses, as detailed in subsection (1) of this section, with the same expenses in the preceding fiscal year;



## State Compliance Requirements

- (3) A detailed section explaining steps taken to reduce administrative expenditures while maintaining and expanding instructional expenditures; and
- (4) A copy of the district's policy for maintaining a reserve fund balance in compliance with appropriate government and accounting standards.

- ***SFCC Participation (KRS 157.611 - .640):***

The School Facilities Construction Commission was established to help local school districts meet their school construction and education technology needs. The commission administers two separate programs: the school construction funding program and the education technology program. Funds appropriated for each program to the school district are to be maintained and audited separately.

For the School Facilities Construction program, noncompliance with KRS 157.611(2), .615(1), .620(1-3), .622(5), .625(4), .627(1-3), or .632(1) shall be noted.

For the Education Technology Funding program, refer to KRS 157.650 - .660 and 750 KAR 2:010. Expenditures from the technology fund must be consistent with the district's approved technology plan.

- ***Interest Earned on Restricted Accounts (KRS 157.615 and KRS 157.620):***

The school district shall transfer all available local revenue, as defined by KRS 157.615(1), to a restricted account for school building construction, to be utilized for the priorities defined by the approved school facilities plan.

Interest earned on funds deposited in the restricted accounts required by KRS 157.620(2) shall be deposited in the restricted account and shall become part of the restricted funds.

- ***Retirement Systems:***

Compliance with applicable statutes and regulations governing the Teachers' Retirement System (TRS) is located at Teachers Retirement System - <https://trs.ky.gov/employers/> and the County Employees' Retirement System (CERS) is located at County Employees' Retirement System - <https://kyret.ky.gov/Employers/Pages/default.aspx>.

- ***Property Insurance (KRS 160.105 and 702 KAR 3:030):***

Insurance required per KRS 160.105 and 702 KAR 3:030. The school district shall provide for fire and extended insurance coverage on each building owned by the board that is not surplus to its needs as shown by the approved facility plan. The requirement for such coverage shall not exceed replacement cost and shall allow for the features of coinsurance and deductibles. Refer to the following KDE, District Facilities Branch's webpage link for the fiscal year 2019 Property Insurance Replacement Cost.:

Property Insurance Replacement Costs - <https://education.ky.gov/districts/fac/Pages/Property-Insurance.aspx>. While the statute and regulation explicitly require replacement cost insurance for non-surplus property, surplus property should also be covered by an insurance policy to protect the district's investment. For surplus property, the suggested coverage would be based on fair market value of the structure(s) covered.

- ***Sick Leave (KRS 157.420(3)):***

Unused sick leave per KRS 157.420(3) provides guidance to school districts for funding a restricted sick leave account, and compensating teachers or employees, for unused sick leave. "A district that compensates its teachers or employees for unused sick leave at the time of retirement, pursuant to KRS 161.155, may create an escrow account to maintain the amount of funds necessary to pay teachers or

## State Compliance Requirements

employees who qualify for receipt of the benefit. The fund is limited to not more than fifty percent (50%) of the maximum liability for the current year to be determined according to the number of staff employed by the district on September 15. Interest generated by the account shall be calculated as part of the total amount. The funds shall not be used for any purpose other than compensation for unused sick leave at time of retirement and shall not be considered as part of the general fund balance in determining available local revenue for purposes of KRS 157.620.” Full disclosure of findings is desired.

- ***Per Diem and Expenses for Board Members (KRS 160.280):***

“Members of boards of education shall receive no salaries, but members of boards of education may receive a per diem for seventy-five dollars (\$75) in any calendar year, and their actual expenses for each regular or special meeting attended. Members shall receive this same per diem for training required by KRS 160.180. In no case shall the expenses incurred within the district or per diem of any member exceed three thousand dollars (\$3,000) in any calendar year.

Members of boards of education may be reimbursed for actual and necessary expenditures incurred outside the district in performance of their duties authorized by the board.

All claims shall be made out according to law and filed with the secretary of the board and shall be approved and paid as other claims against the board.

Board members shall be eligible to participate in any group medical or dental insurance plan provided to employees of the district pursuant to KRS 161.158. Participating board members shall pay the full cost of any premium required for their participation in the plan.”

**Legislative changes, if applicable, will supersede the data approved in the fiscal year 2018-2019 Audit Contract package.**

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## **Appendix I-Audit Extension Request**

**Audit Fiscal Year 2018 - 2019**

Audit Firm Name: \_\_\_\_\_ Audit Firm Telephone Number: \_\_\_\_\_

Auditor Name: \_\_\_\_\_

District Name: \_\_\_\_\_

Requested Extension Date: \_\_\_\_\_

Extensions are being carefully scrutinized by the State Committee for School District Audits, and are by no means automatically approved. It is of utmost importance that the audits be completed by the due date, and that the audits agree to the districts' AFRs per the audit contract.

### **THIS SECTION MUST BE COMPLETED BY AUDIT FIRM**

- 1) What are the specific reasons the audit cannot be completed on or before November 15<sup>th</sup>?
  - a) Audit Firm Issues?
  - b) School District Issues?
- 2) When did the audit firm begin work on the audit?
  - a) Summarize work completed to date.
  - b) Summarize work yet to be completed.
- 3) Has the firm encountered any difficulties working with the district personnel or their financial records?
- 4) Does the audit firm or district need guidance from KDE in order to complete the audit on time?
- 5) How many school district audits is this firm performing for the current audit year?
- 6) Has the audit firm requested extensions for any other districts?
  - a) If yes, how many?  
Provide the names of those districts.
  - b) What reasons are given for the other districts' extension requests?
- 7) Was an extension requested by this audit firm for this district for the prior audit year? If yes, what were the reasons given for the extension request?
- 8) Was an extension requested by this audit firm for any other districts for the prior audit year? If yes, what were the reasons given for the extension requests?

**Appendix I – Audit Extension Request**  
**Audit Fiscal Year 2018 - 2019**

Audit Firm Name: \_\_\_\_\_  
Superintendent Name: \_\_\_\_\_  
District Telephone Number: \_\_\_\_\_

District Name: \_\_\_\_\_  
Finance Officer Name: \_\_\_\_\_

**THIS SECTION MUST BE COMPLETED BY THE SCHOOL DISTRICT**

- 1) Were you aware that your audit firm has requested an extension?
- 2) Does the audit firm or district need guidance from KDE in order to complete the audit on time?
- 3) Have there been any difficulties or problems between the district and the audit firm?
- 4) Has the district provided the audit firm all of the documentation requested, including the Management Discussion and Analysis? If no, please explain what has not been submitted to the auditor and what steps are being taken to resolve the matter.
- 5) Does the district believe that an extension is necessary?

If the audit cannot be completed by the deadline, the auditor shall submit an Audit Extension Request form, fully completed by both auditor and the district, to KDE on or before October 1, 2019. This form is provided and must be completed and submitted electronically as follows:

[Finance.Reports@education.ky.gov](mailto:Finance.Reports@education.ky.gov)  
with the "DISTRICT NAME AUDIT EXTENSION REQUEST"  
in the subject line (SUBJECT: DISTRICT NAME AUDIT EXTENSION REQUEST)  
Carbon copy School District Superintendent and Finance Officer

## Appendix II - Submission Instructions

### Due to KDE on or before May 28, 2019

#### **ELECTRONIC COPIES:**

- The **Audit Acceptance Statement web form**, which includes the justification section for using the same auditor/audit firm for five consecutive years, must be completed and submitted electronically through KDE SharePoint at <https://staffkyschools.sharepoint.com/sites/dsapps/DFMB/Lists/DistAudAccStat/Default.aspx>. The Audit Acceptance Statement electronic web form submission instructions are located on the Financial Audit Contract Information KDE website at <http://education.ky.gov/districts/FinRept/Pages/District-Financial-Audit-Contracts.aspx>.

#### **SIGNED PAPER COPIES:**

- Send one signed **audit contract**, latest peer review report and, if applicable, any letter of response and KyCPA Peer Review Committee letter to KDE at the following address:  
Division of District Support  
Kentucky Department of Education  
Attn: District Financial Management Branch  
300 Sower Blvd, 4<sup>th</sup> Floor  
Frankfort, KY 40601

### Due to KDE on or before November 15, 2019

#### **ELECTRONIC COPIES:**

- The **Audited AFR and Balance Sheet** that are in agreement with the FY2018-2019 audit report must be submitted through the KDE SEEK District Data Submission program at [SEEK](#). The MUNIS Annual Financial Report Guide STW GL 2 instructions for creating and submitting the Annual Financial Report and Balance Sheet electronically to KDE and the Audited AFR and Balance Sheet Submission Guide are located on the KDE MUNIS Support and Guides website at [MUNIS Support and Guides-  
http://education.ky.gov/districts/Pages/MUNIS-Guides.aspx](http://education.ky.gov/districts/Pages/MUNIS-Guides.aspx), choose the General Ledger-Year End section.
- The **Statement of Certification (SOC)** must be certified and submitted by **selecting the SOC option** during the electronic submission of the FY 2018-2019 Audited AFR and Balance Sheet through the KDE SEEK District Data Submission program at [SEEK](#). One electronic copy of the **audit report** must be submitted to the following e-mail address: [Finance.Reports@education.ky.gov](mailto:Finance.Reports@education.ky.gov) with the "DISTRICT NAME AUDIT" in the subject line (SUBJECT: DISTRICT NAME AUDIT).
- The audit report shall be submitted in ADOBE ACROBAT (PDF) with the file name "FY2018-2019 FA District Name.pdf". Example: FY2018-2019 FA Adair Co.pdf. One electronic copy of the management letter must be submitted, either included with the audit report or in a separate PDF file. If submitted separately, it must be submitted to the same address listed above for submission of the audit report with the file name "FY2018-2019 FA District Name Mgt Ltr.pdf". Example: FY2018-2019 FA Adair Co Mgt Ltr.pdf.
- The audit report and management letter must be **signed** and saved as a PDF file. Files must be text-based PDF and unlocked for improved accessibility.
- Electronic audit documents cannot be password protected.
- Single Audits must be submitted electronically to the **Federal Audit Clearinghouse** at [Federal Audit Clearinghouse](#), in accordance with 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
- The Management Letter Comments Spreadsheet must be submitted to the following email address: [Finance.Reports@education.ky.gov](mailto:Finance.Reports@education.ky.gov) with the "District Name Mgmt Letter Comments" in the subject line. All auditor



firms or auditors must comply with the specified spreadsheet format located on the KDE website at Management Letter Comments Spreadsheet - <https://education.ky.gov/districts/FinRept/Pages/District-Financial-Audits.aspx>.

**SIGNED PAPER COPIES:**

- Send one signed paper copy of the **audit report** to KDE at the following address:

Division of District Support  
Kentucky Department of Education  
Attn: District Financial Management Branch  
300 Sower Blvd, 4<sup>th</sup> Floor  
Frankfort, KY 40601  
Attn: Financial Management Branch

- Deliver one signed paper copy of the **audit report** to the **school district**.

**Due to KDE within the timeframe designed by KDE**

**RESUBMISSION:**

- If it is determined that the audit report needs to be revised and resubmitted to KDE, either during the audit review process or as a result of 2 CFR 200 Desk Review findings, the auditor will submit one electronic revised and signed copy of the audit report to KDE within the timeframe designated by KDE. No hard copy of the revised audit report is required.
- The entire audit report shall be resubmitted to the local board, KDE, and all other parties to whom the original audit report was submitted.



# BARNES DENNIG

Accounting • Tax • Business Insight

## KENTUCKY OFFICE

2617 Legends Way  
Crestview Hills, KY 41017  
Main: 859.344.6400  
Fax: 859.578.7522

April 16, 2019

Amy Smith, Finance Director  
Woodford County Schools  
330 Pisgah Pike  
Versailles, KY 40383

Dear Amy:

We are pleased to confirm our understanding of the services we are to provide Woodford County Schools for the year ended June 30, 2019. We will audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements, of Woodford County Schools as of and for the year ended June 30, 2019. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement Woodford County Schools' basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to Woodford County Schools' RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist 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 will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1) Management's Discussion and Analysis.

We have also been engaged to report on supplementary information other than RSI that accompanies Woodford County Schools' financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole, in a report combined with our auditor's report on the financial statements:

- 1) Schedule of expenditures of federal awards.
- 2) Combining balance sheets of non-major governmental funds
- 3) Combining statements of revenues, expenditures and changes in fund balances of non-major governmental funds
- 4) Statement of receipts, disbursements and fund balances – bond redemption funds
- 5) Statements of receipts, disbursements and fund balances – school activity funds
- 6) General fund budgetary information



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April 16, 2019  
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### AUDIT OBJECTIVES

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states that (1) the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of Uniform Guidance, and will include tests of accounting records, a determination of major program(s) in accordance with Uniform Guidance, and other procedures we consider necessary to enable us to express such opinions. We will issue written reports upon completion of our Single Audit. Our reports will be addressed to the School Board of Woodford County Schools. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements or the Single Audit compliance opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or may withdraw from this engagement.



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### AUDIT PROCEDURES—GENERAL

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the government or to acts by management or employees acting on behalf of the government. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

### AUDIT PROCEDURES—INTERNAL CONTROL

Our audit will include obtaining an understanding of the government and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.



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As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and the Uniform Guidance.

### AUDIT PROCEDURES—COMPLIANCE

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Woodford County Schools' compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *Uniform Guidance Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of Woodford County Schools' major programs. The purpose of these procedures will be to express an opinion on Woodford County Schools' compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to Uniform Guidance.

### OTHER SERVICES

We will also assist in preparing the financial statements, schedule of expenditures of federal awards, and related notes of Woodford County Schools in conformity with U.S. generally accepted accounting principles and the Uniform Guidance based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*.

### MANAGEMENT RESPONSIBILITIES

Management is responsible for (1) establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.



## BARNES DENNIG

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Woodford County Schools

April 16, 2019

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Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws, regulations, contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by Uniform Guidance, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should be available for our review on June 30, 2019.

You are responsible for identifying all federal awards received and understanding and complying with the compliance requirements and for the preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in conformity with Uniform Guidance. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to [include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon OR make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon]. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance; (2) you believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.



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You are also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to [include the audited financial statements with any presentation of the supplementary information that includes our report thereon OR make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon]. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

You agree to assume all management responsibilities relating to the financial statements, schedule of expenditures of federal awards, related notes, and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements, schedule of expenditures of federal awards, and related notes and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

### **DISPUTE RESOLUTION**

Any dispute or claim arising out of or relating to this agreement now or thereafter (including any such matters involving any parent, subsidiary, affiliate, successor in interest, subcontractor or agent) shall be submitted first to voluntary mediation.

If any dispute, controversy or claim arises in connection with the performance or breach of this agreement, either party may, upon written notice to the other party, request facilitated negotiations. Such negotiations shall be assisted by a neutral facilitator acceptable to both parties and shall require the best efforts of the parties to discuss with each other in good faith their respective positions and, respecting their different interests, to finally resolve such dispute. If the parties cannot agree to a mediator, a mediator shall be designated by the American Arbitration Association (AAA). Any mediator so designated must be acceptable to all parties.



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Each party may disclose any facts to the other party or to the facilitator which it, in good faith, considers necessary to resolve the dispute. However, all such disclosures will be deemed in furtherance of settlement efforts and will not be admissible in any subsequent litigation against the disclosing party. Except as agreed to by both parties, the facilitator shall keep confidential all information disclosed during negotiations. The facilitator shall not act as a witness for either party in any subsequent arbitration between the parties.

Such facilitated negotiations shall conclude within ninety days from either receipt of the written notice unless extended by mutual consent. The parties may also agree at any time to terminate or waive facilitated negotiations. The costs incurred by each party in such negotiations will be borne by both, the fees and expenses of the facilitator, if any, shall be borne equally by the parties.

If any dispute, controversy or claim arises in connection with the performance or breach of this agreement and cannot be resolved by facilitated negotiations (or the parties agree to waive that process) then such dispute, controversy or claim shall be settled by arbitration in accordance with the laws of the State of Ohio and the then current Arbitration Rules for Professional Accounting and Related Disputes of the American Arbitration Association, except that no prehearing discovery shall be permitted unless specifically authorized by the arbitration panel, and shall take place in Ohio, unless the parties agree to a different locale.

Such arbitration shall be conducted before a panel of three persons, one chosen by each party and the third selected by the two parties – selected arbitrators. The arbitration panel shall have no authority to award non-monetary or equitable relief, and any monetary award shall not include punitive damages. The confidentiality provisions applicable to facilitated negotiation shall also apply to arbitration.

The award issued by the arbitration panel may be confirmed in a judgment by any federal or state court of competent jurisdiction. All reasonable costs of both parties, as determined by the arbitrators, including but not limited to (1) the costs, including reasonable attorneys' fees, of the arbitration; (2) the fees and the

expenses of the AAA and the arbitrators and (3) the costs, including reasonable attorneys' fees, necessary to confirm the award in court shall be borne entirely by the non-prevailing party (to be designated by the arbitration panel in the award) and may not be allocated between the parties by arbitration panel.

### **TRIAL BY JUDGE**

In the unlikely event that differences concerning our services or fees should arise that are not resolved by mutual agreement, we both recognize that the matter will probably involve complex business or accounting issues that would be decided most equitably to us by a judge hearing the evidence without a jury. Accordingly, you and we agree to waive any right to a trial by jury in any action, proceeding, or counterclaim, arising out of or relating to our services and fees for this engagement.

### **FEES FOR SERVICES AND BILLING TERMS**

Our fees for these services will be \$12,500. [Our fees assume that one/two major program(s) will be required to be tested under Uniform Guidance, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. If additional major programs are required to be tested, we will discuss the additional charge prior to the commencement of work.] You will also be billed for [travel and other] out-of-pocket costs such as delivery, report production for additional reports, word processing, postage, etc. The fees are based on timely and complete cooperation from your personnel in the form of preparation of audit schedules and providing us with other necessary documents and the assumption that new or unexpected circumstances will not be encountered during the audit such as the following:

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- New chart of accounts or new accounting software
- New and material financial statement accounts
- Additional procedures in response to fraud risks
- Adoption of new accounting or auditing standards
- Unusual transactions during the year
- Staff withdrawal from the established timetable
- Auditing findings related to internal control or non-compliance with laws, regulations and grant agreements
- Litigation or other contingencies
- Errors in your accounting records requiring audit adjusting entries
- Requests for information from regulatory agencies, funders, etc.

If significant additional time is necessary, we will discuss it with you and arrive at a new fee. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. It is our policy to assess a late charge of 1.5% per month (18% per annum) on the unpaid balance of all accounts over 30 days past due. Late charges will show as a separate line item on monthly statements. Additionally, work may be suspended if your account becomes 90 days or more overdue and will not be resumed until your account is paid in full. Further, we will not be responsible for any losses incurred as a result of such work stoppage. You will assume responsibility for any such losses.

### **RECORDS RETENTION**

It is our policy to retain engagement documentation for a period of seven years, after which time we will destroy the contents of our engagement files. Any of your original records we accumulate during the engagement will be returned to you promptly upon completion of the engagement.

Should this engagement continue six months past the statement of financial position date, our fees may increase by a small percentage (less than 5%) as a result of our firm's semi-annual review of our hourly rates.

### **CONSIDERATION OF EMPLOYMENT OF ENGAGEMENT PERSONNEL**

Our independence standards require that members of the engagement team who intend to seek or discuss potential employment or who have received a specific offer of employment be removed from the attest engagement team. In order to adhere to these standards, you agree to notify the Engagement Director prior to initiating or engaging in any discussion of employment with engagement personnel during the period of an attest engagement.

### **HIRING OF OUR PROFESSIONAL STAFF**

It may occur, in the course of our relationship that a member of our staff would leave our firm as a result of your offering employment. Since our firm frequently pays employment fees for staff and makes substantial investment in the development of our professionals, you will reimburse us a negotiated amount not to exceed twenty-five percent of the starting salary paid by your Organization.



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### **USE OF ELECTRONIC MAIL**

During the course of our engagements, we may need to electronically transmit confidential information to each other and to outside specialists or other entities engaged by Barnes, Dennig & Co., Ltd. or Woodford County Schools. E-mail is a fast and convenient way to communicate. However, E-mail travels over the public internet which is not a secure means of communication and, thus, confidentiality could be compromised. Woodford County Schools agrees to the use of E-mail and other electronic methods to transmit and receive information, including confidential information, between Barnes, Dennig & Co., Ltd. and Woodford County Schools and between Barnes, Dennig & Co., Ltd. and outside specialists or other entities engaged by either Barnes, Dennig & Co., Ltd. or Woodford County Schools. If a more secure medium of communication is desired we will provide you with various electronic alternatives.

### **FEES FOR PRODUCTION REQUESTS**

In the event we are requested or authorized by Woodford County Schools or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagements for Woodford County Schools, Woodford County Schools will, so long as we are not party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

### **USE OF OUR REPORTS IN PUBLIC OR PRIVATE OFFERING OF EQUITY OR DEBT SECURITIES**

Our professional standards require that we perform certain additional reviews and other procedures whenever our reports are included, or we are named as accountants, auditors or "experts" in a document used in a public or private offering of equity or debt securities. Accordingly, you agree that you will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is a matter for which separate arrangements will be necessary.

### **USE OF OUR REPORT ON WEBSITES OR WITH OTHER MATERIAL**

You are responsible to notify us in advance of your intent to reproduce our report for any reason, in whole or in part, and to give us the opportunity to review and approve any printed material containing our report before its issuance. Our fees for review and approval of any printed material, and any related services to be provided to you in connection therewith, will be established with you at the time such services are determined to be necessary or appropriate. Such notification does not constitute an acknowledgement on our part of any third party's intent to rely on the financial statements. With regard to financial statements published electronically on your internet website, you understand that electronic sites are a means to reproduce and distribute information. We are not required to read the information contained in your sites, or to consider the consistency of other information in the electronic site with the original document.

### **TERMINATION OF SERVICE FOR NONPAYMENT**

If we elect to terminate our services for nonpayment, or for any other reason provided for in this letter, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended, and to reimburse us for all of our out-of-pocket costs, through the date of termination.

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### **INDEMNIFICATION FOR INACCURATE OR INCOMPLETE INFORMATION PROVIDED**

In the event that we become obligated to pay any judgment or similar award, agree to pay any amount in settlement, and/or incur any costs as a result of any inaccurate or incomplete information that you provide to us during the course of this engagement, you agree to indemnify us, defend us, and hold us harmless as against such obligations, agreements, and/or costs.

### **LIMITATION OF LIABILITY**

Except to the extent finally determined to have resulted from our fraudulent behavior or willful misconduct: (1) our maximum liability to Woodford County Schools for any reason including our negligence, related to the services under this letter shall be limited to the fees paid to us for the services or work product giving rise to liability and (2) Woodford County Schools will indemnify and hold us harmless and our personnel from any claims, liabilities, costs, and expenses arising for any reason. Neither party to this engagement letter will directly or indirectly agree to assign, transfer or sell to anyone any claim against the other party arising out of this engagement letter.

### **LIMITATIONS ON CLAIMS**

It is agreed by the parties to this agreement, or any successors in interest, that no claim arising out of services rendered pursuant to this agreement by or on behalf of Woodford County Schools will be asserted more than two years after the date of issuance of the corresponding report or tax return.

### **OTHER TERMS**

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the Federal Audit Clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted 30 days after receipt of the auditor's report(s) or nine (9) months after the end of the fiscal year end date —whichever comes first, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

The audit documentation for this engagement is the property of Barnes Dennig & Co., Ltd., and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to your oversight agency, or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Barnes Dennig & Co., Ltd. personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the oversight agency or pass-through entity. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.



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*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2018 peer review report accompanies this letter.

This engagement is contractual in nature, and includes all of the relevant terms that will govern the engagement for which it has been prepared. The terms of this letter supersede any prior oral or written representations or commitments by or between the parties. Any material changes or additions to the terms set forth in this letter will only become effective if evidenced by a written amendment to this letter, signed by all of the parties.

If any portion of this letter is held invalid, it is agreed that such invalidity shall not affect any of the remaining portions.

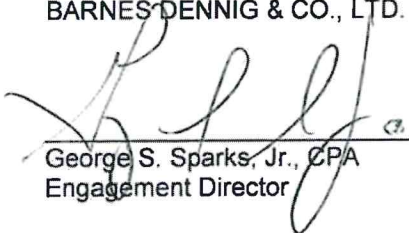
**CONCLUSION**

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

BARNES DENNIG & CO., LTD.

By:

  
George S. Sparks, Jr., CPA  
Engagement Director

GSS/sln

**RESPONSE:**

This letter correctly sets forth the understanding of the Woodford County Schools:

Signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_



## **Report on the Firm's System of Quality Control**

December 19, 2018

To the Partners of  
Barnes Dennig & Co., Ltd.  
and the National Peer Review Committee of the AICPA

We have reviewed the system of quality control for the accounting and auditing practice of Barnes Dennig & Co., Ltd. (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended June 30, 2018. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope limitations of, and the procedures performed in a System Review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### **Firm's Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **Peer Reviewer's Responsibility**

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

### **Required Selections and Considerations**

Engagements selected for review included engagements performed under Government Auditing Standards, including compliance audits under the Single Audit Act, audits of employee benefit plans, and an examination of a service organization [SOC 1 engagement].

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

### Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Barnes Dennig & Co., Ltd. applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended June 30, 2018, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass, pass with deficiency(ies) or fail. Barnes Dennig & Co., Ltd. has received a peer review rating of pass.

A handwritten signature in black ink, appearing to read "Weaver and Tidwell, LLP". The signature is written in a cursive, flowing style.

WEAVER AND TIDWELL, L.L.P.



