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ENGAGEMENT LETTER

January 26, 2015

Board of Directors
Morrow County School District No. 1
Heppner, Oregon

You have requested that we audit the financial statements of the governmental activities, the business-type activities, and each major fund of Morrow County School District No. 1 (the district), as of June 30, 2015, and for the year then ended and the related notes to the financial statements, which collectively comprise the district's basic financial statements as listed in the table of contents. In addition, we will audit the district's compliance over major federal award programs for the period ended June 30, 2015. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audits will be conducted with the objective of our expressing an opinion on each opinion unit and an opinion on compliance regarding the district's major federal award programs.

This audit agreement is in accordance with the requirements of Oregon Revised Statutes 297.405 through 297.555.

Accounting standards generally accepted in the United States of America require that management's discussion and analysis (MD&A), and budgetary comparison information on the General Fund and major special revenue funds be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the MD&A and it will be subjected to certain limited procedures but will not be audited.

We intend to provide an opinion on the budgetary comparison information in relation to the financial statements as a whole and it will be subjected to the auditing procedures applied in the basic financial statements.

Supplementary information other than RSI also accompanies the district's basic 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 the supplementary information to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and additional procedures in accordance with auditing standards generally accepted in the United States of America. We intend to provide an opinion on the following supplementary information in relation to the financial statements as a whole.

101 NE First Avenue, John Day, Oregon 97845
Phone (541) 575-2717 FAX (541) 575-2718
Toll free 1-877-2OPGCPA
www.opgcpa.com

- Combining and individual fund statements
- Supplemental supporting schedules

Schedule of Expenditures of Federal Awards

We will subject the schedule of expenditures of federal awards to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling the schedule to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and additional procedures in accordance with auditing standards generally accepted in the United States of America. We intend to provide an opinion on whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the financial statements as a whole.

Data Collection Form

Prior to the completion of our engagement, we will complete the sections of the Data Collection Form that are our responsibility. The form will summarize our audit findings, amounts and conclusions. It is management's responsibility to submit a reporting package including financial statements, schedule of expenditure of federal awards, summary schedule of prior audit findings and corrective action plan along with the Data Collection Form to the federal audit clearinghouse. The financial reporting package must be text searchable, unencrypted, and unlocked. Otherwise, the reporting package will not be accepted by the federal audit clearinghouse. We will assist you in the electronic submission and certification. You may request from us copies of our report for you to include with the reporting package submitted to pass-through entities.

The Data Collection Form is required to be submitted within the earlier of 30 days after receipt of our auditors' reports or nine months after the end of the audit period, unless specifically waived by a federal cognizant or oversight agency for audits. Data Collection Forms submitted untimely are one of the factors in assessing programs at a higher risk.

Audit of the Financial Statements

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and with *Minimum Standards for Audits of Oregon Municipal Corporations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements. 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.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and with *Minimum Standards for Audits of Oregon Municipal Corporations*.

In making our risk assessments, we consider internal control relevant to the district's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances but not for the purpose of expressing an opinion on the effectiveness of the district's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

We will issue a written report upon completion of our audit of the district's basic financial statements. Our report will be addressed to the governing body of the district. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.

In accordance with the requirements of *Government Auditing Standards*, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control and compliance will not be an objective of the audit and, therefore, no such opinion will be expressed.

Audit of Major Program Compliance

Our audit of the district's major federal award program(s) compliance will be conducted in accordance with the requirements of the Single Audit Act, as amended; and the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and will include tests of accounting records, a determination of major programs in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such an opinion on major federal award program compliance and to render the required reports. We cannot provide assurance that an unmodified opinion on compliance will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or withdraw from the engagement.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the district has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major federal award programs. Our procedures will consist of determining major federal programs and performing the applicable procedures described in the U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the district's major programs. The purpose of those procedures will be to express an opinion on the district's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Also, as required by OMB Circular A-133, we will perform tests of controls 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 of the district's major federal award programs. However, our tests will be less in scope than would be necessary to render an opinion on these controls and, accordingly, no opinion will be expressed in our report.

We will issue a report on compliance that will include an opinion or disclaimer of opinion regarding the district's major federal award programs, and a report on internal controls over compliance that will report any significant deficiencies and material weaknesses identified; however, such report will not express an opinion on internal control.

Management's Responsibilities

Our audit will be conducted on the basis that management and, when appropriate, those charged with governance acknowledge and understand that they have responsibility:

1. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;

2. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements;
3. For safeguarding assets;
4. For identifying all federal awards expended during the period;
5. For preparing the schedule of expenses of federal awards (including notes and noncash assistance received) in accordance with OMB Circular A-133 requirements;
6. For the design, implementation, and maintenance of internal control over compliance;
7. For identifying and ensuring that the district complies with laws, regulations, grants, and contracts applicable to its activities and its federal award programs;
8. For following up and taking corrective action on reported audit findings from prior periods and preparing a summary schedule of prior audit findings;
9. For following up and taking corrective action on current year audit findings and preparing a corrective action plan for such findings;
10. For submitting the reporting package and data collection form to the appropriate parties;
11. For making the auditor aware of any significant vendor relationships where the vendor is responsible for program compliance;
12. To provide us with:
 - a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, and relevant to federal award programs, such as records, documentation, and other matters;
 - b. Additional information that we may request from management for the purpose of the audit; and
 - c. Unrestricted access to persons within the district from whom we determine it necessary to obtain audit evidence.
13. For 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 current year period(s) under audit are immaterial, both individually and in the aggregate, to the financial statements as a whole; and
14. For confirming your understanding of your responsibilities as defined in this letter to us in your management representation letter.

With regard to the supplementary information referred to above, you acknowledge and understand your responsibility: (a) for the preparation of the supplementary information in accordance with the applicable criteria; (b) to provide us with the appropriate written representations regarding supplementary information; (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information; and (d) to present the supplementary information with the audited financial statements, or if the supplementary information will not be presented with the audited financial statements, to make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.

As part of our audit process, we will request from management and, when appropriate, those charged with governance, written confirmation concerning representations made to us in connection with the audit.

We understand that your employees will prepare all confirmations we request and will locate any documents or invoices selected by us for testing.

If you intend to publish or otherwise reproduce the financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

Fees and Timing

Based on our estimates, the fee for the audit will be \$25,250. This estimate is based on anticipated cooperation from district personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss the reasons with management and arrive at a new fee estimate before we incur the additional costs.

This fee does not include additional costs related to the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and the related Management's Discussion and Analysis. We anticipate the cost of assisting in the preparation of the financial statements and MD&A will be \$5,050.

We do not charge for incidental telephone calls and inquiries, and we encourage management to use us as a resource throughout the year. Where we find that the district needs services that will require an additional fee, we can discuss those services and estimate a fee at that time.

The audit shall be started as soon after the contract is executed as is agreeable to the parties hereto, and shall be completed and a written report thereon delivered within a reasonable time, but not later than six months after the close of the audit period, unless an extension of time is agreed upon.

Robert M. Armstrong is the engagement partner for the audit services specified in this letter. His responsibilities include supervising Oster Professional Group, CPA's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report. Adequate copies of the audit shall be delivered to the district and its form and content shall be in accordance with and not less than that required by the *Minimum Standards for Audits of Oregon Municipal Corporations*.

We will be available during the year to consult with you on financial management and accounting matters of a routine nature.

With respect to any nonattest services we perform, the district's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal controls, including monitoring ongoing activities.

Government Auditing Standards require that we document an assessment of the skills, knowledge, and experience of management, should we participate in any form of preparation of the basic financial statements and related schedules or disclosures as these actions are deemed a non-audit service.

Other Matters

The audit documentation for this engagement is the property of OPG and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a cognizant or 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 management of any such request. If requested, access to such audit documentation will be provided under the supervision of OPG 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 date the auditors' report is issued or for any additional period requested by interested parties. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the parties contesting the audit finding for guidance prior to destroying the audit documentation.

During the course of the audit we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.

At the conclusion of our audit engagement, we will communicate to those charged with governance the following significant findings from the audit:

- Our view about the qualitative aspects of the district's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

Once the books are ready for audit, we will begin fieldwork as scheduled. Generally the books will be considered ready for audit when:

1. All activity is recorded in the accounting records and properly classified by fund.
2. Trial balance, in electronic Microsoft Excel format, has been provided **at least 2 weeks prior** to scheduled fieldwork.
3. General ledger cash accounts have been reconciled to the statements provided by the district financial institutions.
4. A listing of accounts receivable (FY2015 revenue received after 6/30/15), if applicable, have been listed by fund and income account, evaluated for collectability and amounts received within 60 days of year-end identified.
5. Inventories, if applicable, have been counted and valued.
6. A list of property and equipment acquired or disposed of, with dates and amounts, is prepared and depreciation has been calculated and a complete listing of fixed assets is available.
7. A listing of accounts payable (FY2015 expenses paid after 6/30/15), if applicable, to vendors and others is prepared and summarized by fund and expense account.
8. Payroll tax reports through the end of the fiscal year have been completed and reconciled to the general ledger.
9. A list of elected officials and their addresses at June 30 is prepared and made available.
10. New leases, contracts, and notes payable are summarized and made available for review.
11. A summary of current, pending or threatened litigation is prepared.
12. A schedule of expenditures of federal awards is prepared and reconciled to the general ledger revenue accounts.

If the district is unable to complete some part of the necessary accounting work to have the district books ready for audit, we are available to assist the district. If the district desires to engage Oster Professional Group, CPA's (OPG) for assistance, a separate contract for services may be prepared prior to commencement. To maintain our independence and, therefore our ability to perform the audit in

accordance with professional standards, there may be some limitations on the type of services that can be provided.

We will provide copies of our reports to the district; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

In accordance with the requirements of *Government Auditing Standards*, we have attached a copy of our latest external peer review report of our firm for your consideration and files.

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

Very truly yours,



Robert M. Armstrong, CPA
Oster Professional Group, CPA's

This letter correctly sets forth the understanding of the district.

By: _____

Title: Board Chairperson

Date: _____

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In accordance with the requirements of *Government Auditing Standards*,
following is a copy of our latest external peer review report
of our firm for your consideration and files.

If you have any questions or would like additional information on the
peer review process please give our office a call.

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System Review Report

August 30, 2013

To the Partners of
Oster Professional Group, CPAs, P.C.
and the Peer Review Committee of the Oregon Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Oster Professional Group, CPAs, P.C., (the firm) in effect for the year ended May 31, 2013. 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. As a part of our peer review, we considered regulatory entities, if applicable, in determining the nature and extent of our procedures. 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. 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. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*.

We noted the following significant deficiencies during our review:

1. Deficiency - The firm's quality control policies and procedures require that the partners, who have sufficient and appropriate experience and ability to identify and understand quality control issues and to develop appropriate policies and procedures, as well as the authority to implement those policies and procedures, be in charge of the operational responsibility for the firm's system of quality control. However, the firm's leadership failed to implement and maintain sufficient procedures to enable the firm to follow and comply with neither its own quality control policies nor professional standards. As a result, we noted certain documentation deficiencies in the Single Audits reviewed subject to *OMB Circular A-133* in that if a major program had compliance requirements identified as applicable in part 2 matrix of the *Compliance Supplement*, and the auditor determined those requirements were not direct or material, this analysis and judgment was not appropriately and/or adequately documented within the audit working papers. Additionally, inadequate documentation was evident of internal control over compliance that was sufficient to plan the audit to support a low assessed level of control risk for major programs, and, there was little to no documentation of internal control over the COSO element compliance requirements, (control environment, activities, risk assessment, information and communication, and monitoring).

We also noted that Single Audit documentation did not always provide evidence of compliance testing including tests of transactions, dual-purpose testing, and other audit procedures sufficient to support an opinion on compliance for each major program. Furthermore, we noted that the Single Audit documentation did not always adequately provide evidence of compliance testing for each of the 14 compliance requirements that have a direct and material effect on each of the major programs, including certain programs that are part of a cluster.

Additionally, we noted in some Single Audit engagements reviewed subject to OMB Circular A-133, that certain Schedules of Expenditures of Federal Awards (SEFA) presentations including total federal awards expended for each individual federal program, and, the Catalog of Federal Domestic Assistance (CFDA) number or other indentifying numbers were not always grouped or presented appropriately by clusters, as required. Documentation of the firm's sampling approach was not always completely documented, material appropriation over expenditures were not always properly identified or disclosed, and some language within the required GAS Yellow Book report was incomplete. The firm plans on correcting all of these deficiencies on the subsequent Single Audit engagements, which are imminent, and, recalling and reissuing these engagements, where necessary.

Recommendation - The firm should comply with its policies and procedures by having partners with sufficient and appropriate experiences to develop appropriate policies and procedures, as well as implementing those policies and procedures related to the firm's system of quality control, and, quality assurances and culture of the firm.

Deficiency - The firm has a written quality control document that requires the firm to perform comprehensive monitoring and annual internal inspection procedures. However, during our review, we noted that the firm partners responsible for overseeing the firm's monitoring or annual inspection procedures did not completely perform and document adequate monitoring or annual inspection procedures as required by firm policy. If adequate and more complete monitoring and inspection procedures had been performed each year, some of the departures from professional standards noted in other deficiencies in the peer review report, especially within the OMB A-133 Single Audit requirement areas, might have been identified and corrected.

Recommendation - The firm should further comply with its policies and procedures for monitoring and, at minimum, a more comprehensive written report should be prepared on the scope of the monitoring process, the results of the monitoring procedures, and the corrective actions the firm plans to implement especially enhancing this monitoring within the Single Audit areas. Also, the firm should consider performing more careful and thorough inspections on an annual basis while thoroughly and completely documenting these and all other monitoring procedures performed.

In our opinion, as a result of the significant deficiencies described above, the system of quality control for the accounting and auditing practice of Oster Professional Group, CPAs, P.C. in effect for the year ended May 31, 2013, was not suitably designed or compiled 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*. Oster Professional Group, CPAs, P.C. has received a peer review rating of *fail*.

Wall & Wall PC, CPA's

Wall & Wall, P.C., Certified Public Accountants