

INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

December 5, 2022

Board of Education
Madison District Public Schools
Madison Heights, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **Madison District Public Schools** (the "District") as of and for the year ended June 30, 2022, and have issued our report thereon dated December 5, 2022. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 9, 2022, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

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

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

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated December 5, 2022. In addition, we noted certain other matters which are included in Attachment A to this letter.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on August 29, 2022.

Compliance with All Ethics Requirements Regarding Independence

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

Significant Risks Identified

We have identified the risks of management override of internal control and revenue recognition as significant risks, and have obtained an understanding of the District's related controls, including control activities, relevant to such risks.

Qualitative Aspects of the District's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements.

The District changed accounting policies related to leases by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 87, *Leases*.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the discount rate used for leases, the lease term and lease receipts is based on the District's incremental borrowing rate and consideration of the noncancelable period of the lease and reasonably certain lease options.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

In addition, the financial statements include net pension and other postemployment benefit liabilities and other related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards but are not within the control of management.

Significant Difficulties Encountered During the Audit

The timing of our audit procedures was delayed from the schedule agreed to during the planning stages of our engagement due to appropriate supporting information not being made available to us in a timely fashion. As such, the District's audit was issued after the deadline from the Michigan Department of Education.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The material misstatements detected as a result of audit procedures and corrected by management are described in the Schedule of Findings and Questioned Costs issued in connection with the Single Audit.

The schedule of adjustments passed is included with management's written representations in Attachment C to this letter, and summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in Attachment C to this letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment B to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of **Madison District Public Schools** and is not intended to be and should not be used by anyone other than these specified parties.

MADISON DISTRICT PUBLIC SCHOOLS

Attachment A - Comments and Recommendations

For the June 30, 2022 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of the District's internal control over financial reporting is described in our report, dated December 5, 2022, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated December 5, 2022, on the financial statements of **Madison District Public Schools**.

Other Matters

Property Taxes. During the audit we noted certain differences between property tax revenue reported by local taxing units and expected property tax revenue based on the District's tax rate request and taxable values. General fund revenue was overstated as compared to expected values. Property tax values and captures are determined by the local taxing units and some of this information, such as property tax settlements, is outside the control of the District. We recommend that the District work with the State, Oakland County, and local taxing units to compare reported values against expectations and determine the underlying cause of the discrepancies between expected and actual values.

Review and Approval of Manual Journal Entries. The District uses manual journal entries to account for various types of transactions, such as: wire transfers, indirect cost allocations, and corrections of errors. Journal entries, which are an essential part of any accounting system, represent an opportunity to enter information into the District's records in a way that bypasses normal internal controls. Accordingly, the District should have a system in place to ensure that all journal entries, and similar adjustments made to the District's accounting records, are reviewed and approved. During our audit, we noted that due to staffing constraints, the District did not consistently follow their practice of having independent review and approval of all journal entries. We recommend that the District incorporate independent review and approval whenever possible, and that this review be signed and dated as evidence of the control activity.

Credit Card Policy. During the audit we noted that the District did not retain proper documentation to support credit card charges for two of the five transactions tested. While the District has a credit card policy in place, the District is not consistently following its policy, and, as such, does not have proper controls and procedures in place to ensure all credit card charges are supported by proper documentation and approval. We recommend that the District review its procedures to ensure that the policy is followed in all instances.

MADISON DISTRICT PUBLIC SCHOOLS

Attachment A - Comments and Recommendations

For the June 30, 2022 Audit

Wire and ACH Payments (repeat). During our audit, it was noted that outgoing wire and ACH payments do not require a secondary approval before they leave the District's MILAF account. Certain members of management receive immediate notification of any outbound wire or ACH payments via email once they are made. Furthermore, outbound wire and ACH payments can be made only to preapproved vendors. New vendors can be added only after secondary approval, and payments are limited to vendors listed on the District's approved vendor list. While the controls in place around the vendor approval process mitigate the risk of material misstatement, there is still a risk that the District's cash could be wired out without proper approval. While the District attempted to implement new review and approval procedures during the year, those procedures were not consistently documented due to staff turnover. We recommend the District implement a preventive control to require a secondary approval on outbound wires or ACH payments before they leave the District's account and ensure that control is consistently documented in all instances.

Unclaimed property. During our audit, we noted that the District has a significant amount of unclaimed property in the form of outstanding checks older than two years. The District should review its outstanding check registers and remit any unclaimed property to the State in accordance with the Department of Treasury's unclaimed property reporting manual.



MADISON DISTRICT PUBLIC SCHOOLS

Attachment B – Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2022 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the District in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the District. For the complete text of these and other GASB standards, visit www.gasb.org and click on the “Standards & Guidance” tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 91 ■ Conduit Debt Obligations

Effective 12/15/2022 (your FY 2023)

This standard defines "conduit debt obligations", where a government issues debt whose proceeds are received and repaid by a third-party obligor without the issuer being primarily liable. The standard requires issuers to disclose conduit debt obligations, but not to record a liability unless it is more likely than not that a commitment made by the issuer will require it to support one or more debt payments for a conduit debt obligation. We do not expect this standard to have any significant effect on the District.

GASB 94 ■ Public-Private and Public-Public Partnerships and Availability Payment Arrangements

Effective 06/15/2023 (your FY 2023)

This standard addresses accounting and financial reporting for arrangements in which a government contracts with an operator to provide public services by conveying control of the right to operate or use a capital asset for a period of time in an exchange or exchange-like transaction. We do not expect this standard to have any significant effect on the District.

GASB 96 ■ Subscription-Based Information Technology Arrangements

Effective 06/15/2023 (your FY 2023)

This standard expands on the new guidance for leases and applies it to computer software contracts (subscriptions) with similar characteristics. Governments that subscribe to a vendor's IT software will now report offsetting intangible subscription assets and subscription liabilities equal to the present value of future subscription payments.

GASB 99 ■ Omnibus 2022

Effective 06/15/2023 (your FY 2023)

This standard includes a variety of small technical revisions to previously issued GASB statements. We do not expect this standard to have any significant effect on the District.

MADISON DISTRICT PUBLIC SCHOOLS

Attachment B – Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2022 Audit

GASB 100 ■ Accounting Changes and Error Corrections

Effective 06/15/2024 (your FY 2024)

This standard clarifies the presentation and disclosure requirements for prior period adjustments to beginning net position. We do not expect this standard to have any significant effect on the District.

GASB 101 ■ Compensated Absences

Effective 12/15/2024 (your FY 2025)

This standard revises the liability governments record for compensated absences payable to include any sick, vacation, personal time, or other PTO reasonably expected to be used by employees or paid out to them at termination.



MADISON DISTRICT PUBLIC SCHOOLS

Attachment C – Management Representations

For the June 30, 2022 Audit

The following pages contain the written representations that we requested from management.

MADISON DISTRICT PUBLIC SCHOOLS

Schedule of Adjustments Passed (SOAP)

For the June 30, 2022 Audit

In accordance with generally accepted auditing standards, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	Liabilities	Beginning Equity	Revenues	Expenses/ Expenditures
General fund					
MESSA insurance accrual variance	\$ -	\$ (26,789)	\$ -	\$ -	\$ (26,789)
MPSERS retirement accrual variance	-	37,197	-	-	37,197
Total general fund	<u>\$ -</u>	<u>\$ 10,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,408</u>
Governmental activities					
Cumulative effect of items noted above	<u>\$ -</u>	<u>\$ 10,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,408</u>
Misstatement as a percentage of total assets and deferred outflows - governmental activities	0.00%	0.02%	0.00%	0.00%	0.02%