



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

Parshall Public School District No. 3

Parshall, North Dakota

Audit Report for the Years Ended June 30, 2019 and June 30, 2018

Client Code: PS31310



Photo credit: North Dakota Tourism



Office of the
State Auditor



WHAT WE LOOKED AT AND WHY

Our team conducted this audit pursuant to a citizen initiated petition under N.D.C.C. 54-10-15 which included reviewing financial transactions, expenditures, and compliance with laws and regulations.

WHAT WE FOUND



A total of 17 findings were discovered by our team.
Complete details on these can be found in the full audit report.



FINDING 3

Over Three Million Dollars in Unreconciled Net Difference

Our team found an unreconciled net difference of \$2,832,310 in 2018 and \$940,363 in 2019. This led to inconsistent information between the District's account balances.

Read more on page 35



FINDING 4

Missing Documentation For Over Half a Million Dollars in Purchases

Documentation was not kept for various purchases, including three months of credit card statements. These purchases included fuel, hotels, and retail warehouse purchases.

Read more on page 36



FINDING 6

No Documentation For Capital Assets

Supporting documentation for capital assets including accumulated depreciation was not found. This is important for financial reporting.

Read more on page 38



FINDING 7

Health Insurance Paid For Two Individuals Who Are Not Current Employees

Health insurance benefits were paid for two individuals who are not presently employees of the School District.

Read more on page 39



FINDING 8

Missing Board Approvals For Over \$800,000

School board approval was not maintained for 50 out of the 76 expenditures our team tested. The total amount found was \$892,205.

Read more on page 40



FINDING 16

Incorrect Reporting of Children For Federal Funds

The School District inaccurately reported the number of federally connected children on the impact aid grant application.

Read more on page 48

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Table of Contents

For the Years Ended June 30, 2019 and 2018

School Officials and Audit Personnel	1
Independent Auditor's Report.....	2
Basic Financial Statements	
2019 Statements	
Statement of Net Position – Modified Cash Basis	4
Statement of Activities – Modified Cash Basis	5
Balance Sheet - Governmental Funds – Modified Cash Basis	6
Reconciliation of Governmental Funds Balance Sheet to the	
Statement of Net Position – Modified Cash Basis	7
Statement of Revenues, Expenditures, and Changes in Fund Balances -	
Governmental Funds – Modified Cash Basis	8
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures, and Changes in Fund Balances to the Statement of Activities – Modified Cash Basis	9
Statement of Fiduciary Assets & Liabilities - Agency Funds – Modified Cash Basis	10
2018 Statements	
Statement of Net Position – Modified Cash Basis	11
Statement of Activities – Modified Cash Basis	12
Balance Sheet - Governmental Funds – Modified Cash Basis	13
Reconciliation of Governmental Funds Balance Sheet to the	
Statement of Net Position – Modified Cash Basis	14
Statement of Revenues, Expenditures, and Changes in Fund Balances -	
Governmental Funds – Modified Cash Basis	15
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures, and Changes in Fund Balances to the Statement of Activities – Modified Cash Basis	16
Statement of Fiduciary Assets & Liabilities - Agency Funds – Modified Cash Basis	17
Notes to the Financial Statements	18
Supplementary Information	
Schedule of Expenditures of Federal Awards	26
Notes to the Schedule of Expenditures of Federal Awards	27
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	28
Report on Compliance for Each Major Federal Program; and Report on	
Internal Control Over Compliance Required by the Uniform Guidance	30
Summary of Auditor's Results	32
Schedule of Audit Findings and Questioned Costs	33
Management's Corrective Action Plan	50
Schedule of Prior Year Findings.....	58
Governance Communication.....	59

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

School Officials and Audit Personnel
June 30, 2019 and 2018

SCHOOL DISTRICT OFFICIALS

At June 30, 2019

Michelle Hoff	President
Billy Moran	Vice-President
Kenton Onstad	Board Member
Jay Clauson	Board Member
Jacobi Jarski	Board Member
Shane Sagert	Interim Superintendent
Joani Tucker	Business Manager

At June 30, 2018

Michelle Hoff	President
Billy Moran	Vice-President
Kenton Onstad	Board Member
Jay Clauson	Board Member
Jacobi Jarski	Board Member
Beth Schwarz	Superintendent
Joani Tucker	Business Manager

AUDIT PERSONNEL

Heath Erickson, CPA	Audit Manager
Michael Schmitcke, CPA	Audit In-Charge



INDEPENDENT AUDITOR'S REPORT

Parshall Public School Board
Parshall Public School District No. 3
Parshall, North Dakota

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Parshall Public School District No. 3, Parshall, North Dakota, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Parshall Public School District No. 3's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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 fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for our audit opinions.

Basis for Disclaimer of Opinion

The Parshall Public School District No. 3 does not maintain adequate accounting records to provide sufficient information for the preparation of the financial statements including the following:

- Bank reconciliations were not performed during the audited period.
- Approximately 35% of expenditures tested were not supported by receipts or invoices resulting in a potential error to the financial statements of approximately \$1.4 million.
- Approximately 65% of expenditures tested lacked evidence of school board approval resulting in a potential error to the financial statements of approximately \$890,000.
- Capital asset records were not available and unable to be audited. The prior auditor reported approximately \$6.3 million in net capital assets.

Disclaimer of Opinion

We do not express an opinion on the financial statements of Parshall Public School District No. 3. Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the financial statements.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that matter.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the 2017 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *schedule of expenditures of federal awards* is presented for purposes of additional analysis 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 (Uniform Guidance), and is not a required part of the financial statements. Because of the significance of the matter described above in the *Basis for Disclaimer of Opinion* paragraph, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 30, 2021 on our consideration of the Parshall Public School District No. 3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Parshall Public School District No. 3's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Parshall Public School District No. 3's internal control over financial reporting and compliance.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
July 30, 2021

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Statement of Net Position – Modified Cash Basis

June 30, 2019

	<u>Governmental Activities</u>
ASSETS	
Cash	<u>\$ 4,316,133</u>
NET POSITION	
Restricted	
Capital Projects	\$ 1,128,502
Debt Service	44,253
Special Purposes	4,010
Unrestricted	<u>3,139,368</u>
Total Net Postion	<u><u>\$ 4,316,133</u></u>

The notes to the financial statements are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Statement of Activities – Modified Cash Basis

For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Regular Instruction	\$ 2,469,682	\$ -	\$ -	\$ (2,469,682)
Special Education	358,364	-	-	(358,364)
Vocational Education	88,766	-	-	(88,766)
Federal Programs	491,016	-	1,642,252	1,151,236
District Wide Services	177,107	-	-	(177,107)
Administration	555,814	-	-	(555,814)
Operations and Maintenance	552,802	-	-	(552,802)
Transportation	172,884	-	71,525	(101,359)
Co-Curricular Activities	107,898	-	-	(107,898)
Other Programs and Services	62,194	-	-	(62,194)
Capital Outlay	360,488	-	-	(360,488)
School Food Services	414,134	36,618	4,093	(373,423)
Total Governmental Activities	\$ 5,811,149	\$ 36,618	\$ 1,717,870	\$ (4,056,661)
General Revenues				
Property Taxes				\$ 1,479,599
Unrestricted State Grants				2,386,747
Interest Earnings				12,058
Miscellaneous Revenue				414,816
Total General Revenues				\$ 4,293,220
Change in Net Position				\$ 236,559
Net Position - July 1				\$ 4,079,574
Net Position - June 30				\$ 4,316,133

The notes to the financial statements are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Balance Sheet – Governmental Funds – Modified Cash Basis

June 30, 2019

	General	Building Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 3,139,368	\$ 1,128,502	\$ 48,263	\$ 4,316,133
Due from Other Funds	213,349	-	-	213,349
Total Assets	<u>\$ 3,352,717</u>	<u>\$ 1,128,502</u>	<u>\$ 48,263</u>	<u>\$ 4,529,482</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to Other Funds	\$ -	\$ -	\$ 213,349	\$ 213,349
Fund Balances				
Restricted				
Capital Projects	\$ -	\$ 1,128,502	\$ -	\$ 1,128,502
Debt Service	-	-	44,253	44,253
Special Purposes	-	-	4,010	4,010
Unassigned				
General Fund	3,352,717	-	-	3,352,717
Negative Fund Balance	-	-	(213,349)	(213,349)
Total Fund Balances	<u>\$ 3,352,717</u>	<u>\$ 1,128,502</u>	<u>\$ (165,086)</u>	<u>\$ 4,316,133</u>
Total Liabilities and Fund Balances	<u>\$ 3,352,717</u>	<u>\$ 1,128,502</u>	<u>\$ 48,263</u>	<u>\$ 4,529,482</u>

The notes to the financial statements are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position – Modified Cash Basis
June 30, 2019

Total Fund Balances for Governmental Funds	<u>\$ 4,316,133</u>
Total Net Position of Governmental Activities	<u><u>\$ 4,316,133</u></u>

The notes to the financial statements are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis
For the Year Ended June 30, 2019

	General	Building Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local Sources	\$ 2,041,645	\$ -	\$ 36,651	\$ 2,078,296
State Sources	2,322,967	-	4,093	2,327,060
Federal Sources	1,510,216	-	132,036	1,642,252
Other Sources	-	-	100	100
Total Revenues	<u>\$ 5,874,828</u>	<u>\$ -</u>	<u>\$ 172,880</u>	<u>\$ 6,047,708</u>
EXPENDITURES				
Current				
Regular Instruction	\$ 2,469,682	\$ -	\$ -	\$ 2,469,682
Special Education	358,364	-	-	358,364
Vocational Education	88,766	-	-	88,766
Federal Programs	491,016	-	-	491,016
District Wide Services	177,107	-	-	177,107
Administration	555,814	-	-	555,814
Operations and Maintenance	552,802	-	-	552,802
Transportation	172,884	-	-	172,884
Co-Curricular Activities	107,898	-	-	107,898
Other Programs and Services	62,194	-	-	62,194
Capital Outlay	850	359,638	-	360,488
School Food Services	19,485	-	394,649	414,134
Total Expenditures	<u>\$ 5,056,862</u>	<u>\$ 359,638</u>	<u>\$ 394,649</u>	<u>\$ 5,811,149</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 817,966</u>	<u>\$ (359,638)</u>	<u>\$ (221,769)</u>	<u>\$ 236,559</u>
Fund Balances - July 1	<u>\$ 2,534,751</u>	<u>\$ 1,488,140</u>	<u>\$ 56,683</u>	<u>\$ 4,079,574</u>
Fund Balance - June 30	<u>\$ 3,352,717</u>	<u>\$ 1,128,502</u>	<u>\$ (165,086)</u>	<u>\$ 4,316,133</u>

The notes to the financial statements are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
to the Statement of Activities – Modified Cash Basis
For the Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 236,559</u>
Change in Net Position of Governmental Activities	<u><u>\$ 236,559</u></u>

The notes to the financial statements are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Statement of Fiduciary Assets and Liabilities – Agency Funds - Modified Cash Basis
June 30, 2019

	Agency Funds
ASSETS	
Cash	<u>\$ 3</u>
LIABILITIES	
Due to Student Activities Groups	<u>\$ 3</u>

The notes to the financial statements are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Statement of Net Position – Modified Cash Basis

June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash	<u>\$ 4,079,574</u>
NET POSITION	
Restricted	
Capital Projects	\$ 1,488,140
Debt Service	44,253
Special Purposes	4,010
Food Service	8,420
Unrestricted	<u>2,534,751</u>
Total Net Postion	<u><u>\$ 4,079,574</u></u>

The notes to the financial statements are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Statement of Activities – Modified Cash Basis

For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Regular Instruction	\$ 2,378,319	\$ -	\$ -	\$ (2,378,319)
Special Education	501,218	-	-	(501,218)
Vocational Education	92,036	-	-	(92,036)
Federal Programs	249,150	-	1,409,364	1,160,214
District Wide Services	245,407	-	-	(245,407)
Administration	524,121	-	-	(524,121)
Operations and Maintenance	840,542	-	-	(840,542)
Transportation	169,705	-	72,201	(97,504)
Co-Curricular Activities	127,648	-	-	(127,648)
Other Programs and Services	481,278	-	-	(481,278)
Capital Outlay	25,533	-	-	(25,533)
School Food Services	246,831	67,296	-	(179,535)
Total Governmental Activities	\$ 5,881,788	\$ 67,296	\$ 1,481,565	\$ (4,332,927)
General Revenues				
Property Taxes				\$ 1,332,185
Unrestricted State Grants				2,334,368
Interest Earnings				1,264
Miscellaneous Revenue				841,898
Total General Revenues				\$ 4,509,715
Change in Net Position				\$ 176,788
Net Position - July 1				\$ 9,953,143
Prior Period Adjustments				\$ (6,050,357)
Net Position - July 1, as Restated				\$ 3,902,786
Net Position - June 30				\$ 4,079,574

The notes to the financial statements are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Balance Sheet – Governmental Funds – Modified Cash Basis

June 30, 2018

	General	Building Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 2,534,751	\$ 1,488,140	\$ 56,683	\$ 4,079,574
FUND BALANCES				
Restricted				
Capital Projects	\$ -	\$ 1,488,140	\$ -	1,488,140
Debt Service	-	-	44,253	44,253
Special Purposes	-	-	4,010	4,010
Food Service	-	-	8,420	8,420
Unassigned	2,534,751	-	-	2,534,751
Total Fund Balances	\$ 2,534,751	\$ 1,488,140	\$ 56,683	\$ 4,079,574
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 2,534,751	\$ 1,488,140	\$ 56,683	\$ 4,079,574

The notes to the financial statements are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position – Modified Cash Basis
June 30, 2018

Total Fund Balances for Governmental Funds	<u>\$ 4,079,574</u>
Total Net Position of Governmental Activities	<u><u>\$ 4,079,574</u></u>

The notes to the financial statements are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis
For the Year Ended June 30, 2018

	General	Building Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Local Sources	\$ 2,057,342	\$ -	\$ 67,363	\$ 2,124,705
State Sources	2,124,506	-	-	2,124,506
Federal Sources	1,358,958	-	50,407	1,409,365
Other Sources	-	400,000	-	400,000
Total Revenues	\$ 5,540,806	\$ 400,000	\$ 117,770	\$ 6,058,576
EXPENDITURES				
Current				
Regular Instruction	\$ 2,378,319	\$ -	\$ -	\$ 2,378,319
Special Education	501,218	-	-	501,218
Vocational Education	92,036	-	-	92,036
Federal Programs	249,150	-	-	249,150
District Wide Services	245,407	-	-	245,407
Administration	524,121	-	-	524,121
Operations and Maintenance	840,542	-	-	840,542
Transportation	169,705	-	-	169,705
Co-Curricular Activities	127,648	-	-	127,648
Other Programs and Services	481,278	-	-	481,278
Capital Outlay	3,881	21,652	-	25,533
School Food Services	119,963	-	126,868	246,831
Total Expenditures	\$ 5,733,268	\$ 21,652	\$ 126,868	\$ 5,881,788
Excess (Deficiency) of Revenues Over Expenditures	\$ (192,462)	\$ 378,348	\$ (9,098)	\$ 176,788
OTHER FINANCING SOURCES (USES)				
Transfers In	\$ -	\$ -	\$ 30,793	\$ 30,793
Transfers Out	(30,793)	-	-	(30,793)
Total Other Financing Sources and Uses	\$ (30,793)	\$ -	\$ 30,793	\$ -
Net Change in Fund Balances	\$ (223,255)	\$ 378,348	\$ 21,695	\$ 176,788
Fund Balances - July 1	\$ 1,842,486	\$ 1,600,285	\$ 120,092	\$ 3,562,863
Prior Period Adjustment	\$ 915,520	\$ (490,493)	\$ (85,104)	\$ 339,923
Fund Balance - July 1, as restated	\$ 2,758,006	\$ 1,109,792	\$ 34,988	\$ 3,902,786
Fund Balance - June 30	\$ 2,534,751	\$ 1,488,140	\$ 56,683	\$ 4,079,574

The notes to the financial statements are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
to the Statement of Activities – Modified Cash Basis
For the Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 176,788</u>
Change in Net Position of Governmental Activities	<u><u>\$ 176,788</u></u>

The notes to the financial statements are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Statement of Fiduciary Assets and Liabilities – Agency Funds - Modified Cash Basis

June 30, 2018

	Agency Funds
ASSETS	
Cash	<u>\$ 3</u>
LIABILITIES	
Due to Student Activities Groups	<u>\$ 3</u>

The notes to the financial statements are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Notes to the Financial Statements

For the Years Ended June 30, 2019 and 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Parshall Public School District No. 3 (hereafter referred to as "School District") have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The accompanying financial statements present the activities of the School District. The School District has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationships with the School District are such that exclusion would cause its financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the School District to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the School District.

Based on these criteria, there are no component units to be included within the School District's reporting entity.

Basis of Presentation

Government-wide statements. The statement of net position and the statement of activities display information about the School District. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, interest, and non-restricted grants and contributions, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the School District's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The School District reports the following major governmental funds:

General Fund - This is the School District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Building Fund - This fund is used to account for financial resources to be used for acquisition or construction of major capital facilities.

Additionally, the School reports the following fund type:

Agency Funds. These funds account for assets by the School in a custodial capacity as an agent on behalf of others. The agency fund accounts for the financial transactions related to the student activity program.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide and Fiduciary Fund Financial Statements. The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Notes to the Financial Statements – Continued

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified cash basis of accounting. Under this method, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when incurred.

This basis differs from accounting principles generally accepted in the United States of America because accounts receivable, accounts payable, and accrued expenses are not included in the financial statements. Only capital assets are recorded under the basis of accounting described above on the statement of net position. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Cash

Cash includes amounts in demand deposits and money market accounts.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Teachers' Fund for Retirement (TFFR) and additions to/deductions from TFFR's fiduciary net position have been determined on the same basis as they are reported by TFFR. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due payable in accordance with the benefit term. Investments are reported at fair value. The net pension liability is not reported under the modified cash basis of accounting, but the information is disclosed in the pension note disclosure. Note 6, is shown as additional information to the users of the financial statements.

Fund Balances

Fund Balance Spending Policy. It is the policy of the School District to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed and then unassigned.

Restricted Fund Balances. Restricted fund balances are shown by primary function on the balance sheet. Restricted fund balances are restricted by tax levies (enabling legislation) and by outside 3rd parties (state and federal governments for various grants & reimbursements).

Unassigned Fund Balances. Unassigned fund balances are reported in the general fund and for negative fund balances at year-end.

Net Position

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Restrictions of net position in the statement of net position are due to restricted tax levies and restricted Federal & State grants/reimbursements.

Unrestricted net position is primarily unrestricted amounts related to the general fund and negative fund balances.

Interfund Transactions

In the governmental fund statements, transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except reimbursements, are reported as transfers.

In the government-wide financial statements, interfund transactions have been eliminated.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Notes to the Financial Statements – Continued

NOTE 2 PRIOR PERIOD ADJUSTMENTS

Net Position Correction

Adjustments were required to accurately reflect beginning net position in the government-wide financial statements. Adjustments to beginning net position are as follows:

Governmental Activities	
Beginning Net Position, as previously reported	\$ 9,953,143
Adjustments to restate the July 1, 2017 Net Position:	
Net Position Correction	339,923
Capital Asset Elimination	(6,390,280)
Net Position July 1, as restated	\$ 3,902,786

Fund Balance Correction

Adjustments were necessary to restate the beginning fund balances for the General Fund, Building Fund, and Other Governmental Funds. Adjustments are as follows:

Fund Balances - Governmental Funds	General Fund	Building Fund	Other Governmental Funds
Beginning Fund Balance, as previously reported	\$ 1,842,486	\$ 1,600,285	\$ 120,092
Adjustments to restate the July 1, 2017 Fund Balance			
Fund Balance Correction	915,520	(490,493)	(85,104)
Fund Balance July 1, as restated	\$ 2,758,006	\$ 1,109,792	\$ 34,988

NOTE 3 DEPOSITS

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository institution, such that in the event of a depository financial institution's failure, the School District would not be able to recover the deposits or collateralized securities that in the possession of the outside parties. The School District does not have a formal policy regarding deposits that limits the amount it may invest in any one issuer.

In accordance with North Dakota Statutes, deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any school district, city, township, park district, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At year ended June 30, 2019, the School District's carrying amount of deposits totaled \$5,255,705, and the bank balances totaled \$4,428,147. Of the bank balances, \$500,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Notes to the Financial Statements – Continued

At year ended June 30, 2018, the School District's carrying amount of deposits totaled \$6,911,088, and the bank balances totaled \$6,870,555. Of the bank balances, \$500,000 was covered by Federal Depository Insurance. The remaining bank balances were collateralized with securities held by the pledging financial institution's agent in the government's name.

NOTE 4 PROPERTY TAXES

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

NOTE 5 TRANSFERS

Transfers are used to move unrestricted general revenue to finance programs that are accounted for in other funds in accordance with budget authority and to subsidize other programs.

NOTE 6 PENSION PLAN

General Information about the TFFR Pension Plan

North Dakota Teachers' Fund for Retirement TFFR

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, death and disability benefits. The cost to administer the TFFR plan is financed by investment income and contributions.

Responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two active teachers, one active school administrator, and two retired members. The TFFR Board submits any necessary or desirable changes in statutes relating to the administration of the fund, including benefit terms, to the Legislative Assembly for consideration. The Legislative Assembly has final authority for changes to benefit terms and contribution rates.

Pension Benefits

For purposes of determining pension benefits, members are classified within one of three categories. Tier 1 grandfathered and Tier 1 non-grandfathered members are those with service credit on file as of July 1, 2008. Tier 2 members are those newly employed and returning refunded members on or after July 1, 2008.

Tier 1 Grandfathered

A Tier 1 grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Notes to the Financial Statements – Continued

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Tier 1 Non-grandfathered

A Tier 1 non-grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Tier 2

A Tier 2 member is entitled to receive unreduced benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Death and Disability Benefits

Death benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated five years of service credited service in North Dakota, and (c) the Board of trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 11.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 12.75% of the teacher's salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches a 100% funded ratio on an actuarial basis.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Notes to the Financial Statements – Continued

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70 ½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

Inflows of Resources Related to Pensions

If reporting on the full accrual basis of accounting, at June 30, 2019 and June 30, 2018, the School District would report the following net pension liabilities for its proportionate share of net pension liability:

	Net Pension Liability
2019	\$ 3,663,602
2018	3,287,017

The net pension liability was measured as of June 30, 2018 and June 30, 2017 respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The proportion of the net pension liability was based on its respective share of covered payroll in the main system pension plan relative to the covered payroll of all participating main system employers. At June 30, 2019 and June 30, 2018, the entity had the following proportions and changes in proportions:

	Proportion	Increase (Decrease) in Proportion from June 30, 2018 and 2017 Measurement
2019	0.274868%	0.035556%
2018	0.239312%	-0.021531%

There were no deferred inflows or outflows of resources reported on the School District's financial statements as they are reporting on the modified cash basis of accounting.

Actuarial Assumptions

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary Increases	4.25% to 14.50%, varying by service, including inflation and productivity
Investment Rate of Return	7.75%, net of investment expenses
Cost-of-Living Adjustments	None

For active and inactive members, mortality rates were based on the RP-2014 Employee Mortality Table, projected generationally using scale MP-2014. For healthy retirees, mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table set back one year, multiplied by 50% for ages under 75 and grading up to 100% by age 80, projected generationally using scale MP-2014. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table set forward four years.

The actuarial assumptions used were based on the results of an actuarial experience study dated April 30, 2015. They are the same as the assumptions used in the July 1, 2018 funding actuarial valuation for TFFR.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Notes to the Financial Statements – Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equities	58%	6.70%
Global Fixed Income	23%	1.50%
Global Real Assets	18%	5.10%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2018, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of July 1, 2018. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount rate

The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the district's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

Proportionate Share of the Net Pension Liability	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
2019	\$ 4,946,922	\$ 3,663,602	\$ 2,596,278
2018	4,370,147	3,287,017	2,385,343

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued TFFR financial report. TFFR's Comprehensive Annual Financial Report (CAFR) is located at <https://www.rio.nd.gov/newsletters-reports>

NOTE 7 RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The School District pays an annual premium to NDIRF for its general liability and automobile coverage. For the School District the coverage by NDIRF is limited to losses of three million dollars per occurrence for general liability and automobile.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Notes to the Financial Statements – Continued

The School District also participates in the State Bonding Fund. The State Bonding Fund currently provides the School District with blanket fidelity bond coverage in the amount of \$1,300,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 8 CONSTRUCTION COMMITMENTS

The School District has one open construction project at June 30, 2019 for a new school building. Construction commitments exist as outlined below:

Project	Contract Amount	Change Orders	Total Contract	Total Completed	Retainages	Remaining Balance
New School Construction	\$ 4,354,812	\$10,370,224	\$14,725,036	\$ 8,232,750	\$ 365,637	\$ 6,857,923

NOTE 9 SUBSEQUENT EVENTS

Subsequent to June 30, 2019, the Parshall Public School District issued general obligation school building bonds through the Bank of North Dakota in the amount of \$5,400,000 for the purpose of paying for school construction costs. Future bond principal payments are due annually and range from \$259,479 to \$310,375, with interest at a fixed rate of 2%. The bonds mature in FY2039.

NOTE 10 CONTINGENT LIABILITIES

The School District is a defendant in various lawsuits incident to its operations. In the opinion of School District Counsel and management, such claims against the School District not covered by insurance would not materially affect the financial condition of the School District.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Schedule of Expenditures of Federal Awards
For the Years Ended June 30, 2019 and 2018

CFDA Number	Program Title	Pass-Through Grantor's Number	Fiscal Year 2019 Expenditures	Fiscal Year 2018 Expenditures	Total Expenditures
U.S. DEPARTMENT OF AGRICULTURE					
Passed through the North Dakota State Department of Public Instruction					
Child Nutrition Cluster					
10.555	National School Lunch Program - Cash	F10555	\$ 58,738	\$ 74,092	\$ 132,830
10.555	National School Lunch Program - Commodities *	F10555	12,281	10,982	23,263
10.553	School Breakfast Program	F10553	19,311	24,029	43,340
10.559	Summer Food Service Program For Children	F10559	5,607	3,538	9,145
Total Child Nutrition Cluster			\$ 95,937	\$ 112,641	\$ 208,578
10.560	State Administrative Expenses for Child Nutrition	F10560A	\$ 1,158	\$ 1,160	\$ 2,318
10.582	Fresh Fruit and Vegetable Program	F10582	6,518	4,110	10,628
Total U.S. Department of Agriculture			\$ 103,613	\$ 117,911	\$ 221,524
U.S. DEPARTMENT OF EDUCATION					
Direct Assistance					
84.041	Impact Aid	N/A	\$ 1,106,204	\$ 1,247,371	\$ 2,353,575
84.060	Indian Education-Grants to Local Education Agencies	N/A	18,316	37,037	55,353
Total Direct Assistance			\$ 1,124,520	\$ 1,284,408	\$ 2,408,928
Passed through the North Dakota State Department of Public Instruction					
84.010	Title I Grants to Local Education Agencies	F84010	\$ 275,569	\$ 216,783	\$ 492,352
84.358	Small, Rural School Achievement Program	F84358	3,039	-	3,039
84.367	Supporting Effective Instruction State Grants	F84367	-	37,740	37,740
84.371	Comprehensive Literacy Development	F84371C	-	69,862	69,862
84.424	Student Support and Academic Enrichment Program	F84424A	-	8,158	8,158
Total U.S. Department of Education			\$ 1,403,128	\$ 1,616,951	\$ 3,020,079
Total Expenditures of Federal Awards			\$ 1,506,741	\$ 1,734,862	\$ 3,241,603

* - Noncash assistance

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Notes to the Schedule of Expenditures of Federal Awards

For the Years Ended June 30, 2019 and 2018

NOTE 1 BASIS OF PRESENTATION / ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School District under programs of the federal government for the years ended June 30, 2019 and 2018. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Uniform Guidance. Because the schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position or changes in net position of the School District. Expenditures represent only the federally funded portions of the program. School District records should be consulted to determine amounts expended or matched from non-federal sources.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E of the *Uniform Guidance*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

NOTE 3 NON-CASH AWARDS

The amount of commodities reported on the schedule is the value of the supplemental food program distributed by the School District during the year as priced by the North Dakota Department of Public Instruction.

NOTE 4 PASS-THROUGH GRANT NUMBER

For Federal programs marked "N/A", the School District was unable to obtain a pass-through grant number.

NOTE 5 INDIRECT COST RATE

Parshall Public School District has not elected to use the 10-percent de minimis cost rate as allowed under Uniform Guidance.



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*

Independent Auditor's Report

Parshall Public School Board
Parshall Public School District No. 3
Parshall, North Dakota

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Parshall Public School District No. 3, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Parshall Public School District No. 3's basic financial statements, and have issued our report thereon dated July 30, 2021. Our report disclaims an opinion on such financial statements because the School District did not maintain adequate accounting records to provide sufficient information for the preparation of the financial statements.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered Parshall Public School District No. 3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Parshall Public School District No. 3's internal control. Accordingly, we do not express an opinion on the effectiveness of the Parshall Public School District No. 3's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying *schedule of findings and questioned costs* as items 2019-001 through 2019-012 that we consider to be material weaknesses.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

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* - Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Parshall Public School District No. 3's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *schedule of audit findings and questioned costs* as items 2019-009, 2019-010, and 2019-012.

Parshall Public School District No. 3's Response to Findings

Parshall Public School District No. 3's response to the findings identified in our audit is described in the accompanying *schedule of audit findings and questioned costs* and *corrective action plan*. Parshall Public School District No. 3's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
July 30, 2021



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditor's Report

Parshall Public School Board
Parshall Public School District No. 3
Parshall, North Dakota

Report on Compliance for Each Major Federal Program

We were engaged to audit Parshall Public School District No. 3's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Parshall Public School District No. 3's major federal programs for the years ended June 30, 2019 and 2018. Parshall Public School District No. 3's major federal programs are identified in the summary of auditor's results.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Parshall Public School District No. 3's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Parshall Public School District No. 3's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Because of the matter described in the Basis for Disclaimer of Opinion on All Major Federal Programs paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the Parshall Public School District No. 3's compliance with major compliance requirements and therefore, express no opinion. However, our audit does not provide a legal determination of Parshall Public School District No. 3's compliance.

Basis for Disclaimer of Opinion on All Major Federal Programs

As described in the accompanying *schedule of audit findings and questioned costs* under items 2019-013, Parshall Public School District No. 3 was unable to provide the auditor with detailed financial reports and supporting documentation for the years ended June 30, 2019 and 2018, consequently we were unable to test all material compliance requirements regarding the Parshall Public School District No. 3's major programs as listed in the *schedule of audit findings and questioned costs*. Compliance with such requirements is necessary, in our opinion, for Parshall Public School District No. 3 to comply with the requirements applicable to that program.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Report on Compliance for Each Major Federal Program; and Report on Internal Control over Compliance of Federal Awards Required by the Uniform Guidance – Continued

Disclaimer of Opinion on All Major Federal Programs

Because of the significance of the effects of the noncompliance described in the Basis for Disclaimer of Opinion on All Major Federal Programs paragraph, we were unable to obtain sufficient appropriate audit evidence to provide an audit opinion on the Parshall Public School District No. 3's compliance with material compliance requirements. Accordingly, we do not express an opinion on the Parshall Public School District No. 3's compliance with material compliance requirements.

Other Matters

The Parshall Public School District No. 3's responses to the noncompliance findings identified in our audit are described in the accompanying *schedule of findings and questioned costs and corrective action plan*. The Parshall Public School District No. 3's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of Parshall Public School District No. 3 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Parshall Public School District No. 3's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Parshall Public School District No. 3's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying *schedule of audit findings and questioned costs* as items 2019-013 through 2019-017 that we consider to be material weaknesses.

Parshall Public School District No. 3's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of audit findings and questioned costs and corrective action plan. Parshall Public School District No. 3's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
July 30, 2021

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Summary of Auditor's Results

For the Years Ended June 30, 2019 and 2018

Financial Statements

Type of Report Issued:

Governmental Activities

Major Funds

Aggregate Remaining Fund Information

Disclaimer of Opinion

Disclaimer of Opinion

Disclaimer of Opinion

Internal control over financial reporting

Material weaknesses identified?

X Yes None Noted

Significant deficiencies identified not considered to be material weaknesses?

Yes X None Noted

Noncompliance material to financial statements noted?

Yes X None Noted

Federal Awards

Internal Control Over Major Programs

Material weaknesses identified?

X Yes None noted

Reportable conditions identified not considered to be material weaknesses?

Yes X None noted

Type of auditor's report issued on compliance for major programs:

Disclaimer of Opinion

Any audit findings disclosed that are required to be reported in accordance with CFR §200.516 (Uniform Guidance) requirements?

X Yes None noted

Identification of Major Programs

CFDA Number

Name of Federal Program or Cluster

84.041

Impact Aid

Dollar threshold used to distinguish between Type A and B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

Yes X No

PARSHALL PUBLIC SCHOOL DISTRICT No. 3

Schedule of Audit Findings and Questioned Costs

For the Years Ended June 30, 2019 and 2018

Section I - Financial Statement Findings

2019-001 LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Condition

Parshall Public School District has one business manager responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, perform bank reconciliations, and prepare financial statements.

Effect

The lack of segregation of duties increases the risk of fraud and the risk of misstatement of Parshall Public School District's financial condition whether due to error or fraud.

Cause

Management has chosen to allocate its economic resources to other functions of Parshall Public School District.

Criteria

Proper internal control according to the COSO framework include controls surrounding the custody of assets, the recording of transactions, reconciling bank accounts and preparation of financial statements. The framework dictates there should be sufficient accounting personnel so that duties of employees are properly segregated. Proper segregation of duties would provide better control over the assets of the Parshall Public School District.

Prior Recommendation

Yes.

Recommendation

To mitigate the risk associated with this lack of segregation of duties, we will recommend the following:

- Expenditures, financial statements, bank reconciliations, credit memos, and payroll registers should be reviewed, analyzed, and spot-checked by a responsible official.
- Where possible, segregate the functions of approval, posting, custody of assets, and reconciliation as they relate to any amounts which impact the financial statements.

Parshall Public School District's Response

See Corrective Action Plan

2019-002 FRAUD RISK ASSESSMENT – MATERIAL WEAKNESS

Condition

Parshall Public School District does not currently prepare a fraud risk assessment of the entire entity.

Effect

If Parshall Public School District does not prepare an adequate fraud risk assessment, there is an increased risk of fraudulent financial reporting, asset misappropriation, and corruption.

Cause

Parshall Public School District may not have considered preparing a fraud risk assessment.

Criteria

Fraud risk governance is a key component of entity-wide governance and the internal control environment according to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework principles. This entity-wide governance addresses the manner in which the board of directors and management meet their respective obligations to achieve the entities goals in reporting, reliance, and accountability.

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District prepare a fraud risk assessment in order to identify areas of concern within the entity to appropriately mitigate the risk of fraudulent financial reporting, misappropriation of assets, and corruption.

Parshall Public School District's Response

See Corrective Action Plan

2019-003 BANK RECONCILIATIONS – MATERIAL WEAKNESS

Condition

During testing of the June 30, 2018 and 2019 bank reconciliations of Parshall Public School District, there was an unreconciled net difference of \$2,832,310 for 2018 and \$940,363 for 2019. Management has not resolved the net difference as of the audit report date.

Effect

There is an increased risk of material misstatement to Parshall Public School District's financial statements whether due to error or fraud if bank reconciliations are not complete and accurate.

Cause

Parshall Public School District did not prepare accurate bank reconciliations, on a timely basis.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to the bank reconciliations, management is responsible policies and procedures for accurate and timely bank reconciliations.

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District resolve its unreconciled net difference, review its current procedures, and ensure that all bank reconciliations are accurately completed on a monthly basis.

Parshall Public School District's Response

See Corrective Action Plan

2019-004 LACK OF SUPPORTING DOCUMENTATION – MATERIAL WEAKNESS

Condition

Parshall Public School District did not maintain supporting documentation for 27 out of 76 expenditures tested, totaling \$578,348. In addition, the Parshall Public School District did not maintain supporting documentation for three card statements.

Effect

Parshall Public School District may be subject to an increased risk of errors, fraudulent financial reporting, asset misappropriation, and corruption.

Cause

The Parshall Public School District does not have a filing system in place to ensure records are ready and available.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to supporting documentation, management is responsible for adequate internal controls surrounding the review process and without supporting documentation, the review process will not be effective.

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District ensure all payments for goods and services have supporting documentation. We further recommend Parshall Public School District review its current record keeping procedures and update, if necessary, to decrease the risk of loss whether due to error or fraud.

Parshall Public School District's Response

See Corrective Action Plan

2019-005 REVENUE CLASSIFICATION – MATERIAL WEAKNESS

Condition

During testing of revenues, Parshall Public School District had the following errors:

- Revenue in the amount of \$179,142 was not recorded into the appropriate general ledger account
- Revenue in the amount of \$265,435 was not included in the general ledger but was accurately included in the bank account

Effect

Parshall Public School District may be subject to an increased risk of errors, fraudulent financial reporting, asset misappropriation, and corruption.

Cause

Parshall Public School District, at times, may be unaware of which general ledger accounts are appropriate for various revenue transactions.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to revenue recording, management is responsible for adequate internal controls surrounding the revenue recording process to ensure proper financial reporting.

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District review all revenue transactions to ensure appropriate classification and presentation in its financial statements.

Parshall Public School District's Response

See Corrective Action Plan

2019-006 CAPITAL ASSETS SUPPORTING DOCUMENTATION – MATERIAL WEAKNESS

Condition

Parshall Public School District does not have supporting documentation for capital assets including accumulated depreciation.

Effect

Parshall Public School District may be subject to an increased risk of errors, fraudulent financial reporting, asset misappropriation, and corruption. Further, a disclaimer of opinion was given on Parshall Public School District's financial statements.

Cause

Parshall Public School District did not maintain a capital asset listing including accumulated depreciation.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to the capital assets, management is responsible for adequate internal controls surrounding the review process and subsidiary ledger reconciliations.

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District ensure the capital asset listing, including accumulated depreciation, is complete and accurate for future financial statement periods.

Parshall Public School District's Response

See Corrective Action Plan

2019-007 IMPROPER HEALTH INSURANCE PAYMENTS – MATERIAL WEAKNESS

Condition

Parshall Public School District improperly paid for health insurance benefits on behalf of two individuals who were not current employees of the School District. The audit was unable to determine the total amount of overpayments as supporting documentation was not maintained by the district.

Effect

Parshall Public School District improperly used available school resources for the benefit of individuals not employed by the Parshall Public School District.

Cause

Parshall Public School District does not have sufficient internal controls in place to ensure health insurance benefits are only paid on behalf of current employees.

Criteria

Article X Section 18 of the North Dakota State Constitution states “Neither the state nor any political subdivision thereof shall otherwise loan or give its credit or make donations to or in aid of any individual, association or corporation except for reasonable support of the poor.”

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District ensure all health insurance benefits are paid only to the approved school district employees. Further, we recommend Parshall Public School District resolve any current circumstances, if deemed appropriate by management.

Parshall Public School District's Response

See Corrective Action Plan

PARSHALL PUBLIC SCHOOL DISTRICT No. 3
Schedule of Audit Findings and Questioned Costs – Continued

2019-008 BOARD APPROVAL OF EXPENDITURES– MATERIAL WEAKNESS

Condition

Parshall Public School District did not maintain evidence of School Board approval for 50 out of 76 expenditures tested, totaling \$892,205.

Effect

Without adequate reviewing and approving of Parshall Public School District expenditures, Parshall Public School District exposes itself to an increased risk of loss of assets, potential liabilities, and damage to Parshall Public School District's reputation, whether due to error or fraud.

Cause

Parshall Public School District does not have an adequate process to ensure all invoices are included in the listing for board approval.

Criteria

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) model defines internal control as a process designed to provide reasonable assurance of the achievement of objectives that involve the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pertaining to invoices to be paid by the school district, management is responsible for adequate internal controls surrounding the review process.

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District review and update, if necessary, its current board approval process to ensure that all payments are appropriate and approved by the school board.

Parshall Public School District's Response

See Corrective Action Plan

2019-009 CONSTRUCTION MANAGER AT-RISK– MATERIAL WEAKNESS AND MATERIAL NON-COMPLIANCE

Condition

Parshall Public School District hired a construction manager at-risk (CMAR) for the construction of its new school building. The School District did not complete the CMAR selection process as required under N.D.C.C. §48-01.2-20.

Effect

Parshall Public School District may be in violation of N.D.C.C. §48.01.2-20.

Cause

Documentation of the CMAR selection process was not maintained by Parshall Public School District.

Criteria

N.D.C.C. §48-01.2-20 includes, but is not limited to, the following requirements:

- A governing body electing to utilize a construction management at-risk delivery process for a proposed public improvement shall create a selection committee composed of; an administrative individual from the governing body, a registered architect, a registered engineer, and a licensed contractor.
- The selection committee shall establish the content of the request for qualifications, which must include (but is not limited to); the identity of the governing body and a list of the members of the selection committee, description of the proposed public improvement, proposed budget limits of the public improvement, commencement and completion date of the proposed public improvement, and the description of the scope of services to be provided.
- The selection committee shall determine the appropriate evaluation criteria for each request for qualifications including (but not limited to); the person's experience on any similar project, the person's existing workload and available capacity, the person's key personnel experience on any similar project, the person's safety record, the person's fees and expenses, and the person's compliance with state and federal law.
- The selection committee shall evaluate each submission based on the qualification criteria and shall include the numeric scoring of each criteria item on a weighted basis, with no item being weighted at more than twenty percent and no less than five percent. The weighting of the qualification criteria must be done in a manner to ensure no subjective bias and encourage the maximum participation of qualified construction managers at-risk.
- The selection committee shall review each proposal submitted. The selection committee shall then recommend to the governing body the construction manager at-risk receiving the highest score on the evaluation criteria. If unable to agree to a contract with the highest ranked construction manager at-risk, the governing body shall terminate negotiations and begin negotiations with the construction manager at-risk with the next highest score.

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District review N.D.C.C. §48-01.2-20 and update procedures, if necessary, to ensure compliance with Construction Manager At-Risk requirements. We further recommend Parshall Public School District review record retention procedures to ensure documentation is maintained.

Parshall Public School District's Response

See Corrective Action Plan

2019-010 SCHOOL DISTRICT FINANCIAL REPORT– MATERIAL WEAKNESS AND MATERIAL NON-COMPLIANCE

Condition

Parshall Public School District submitted a School District Financial Report for 2018 and 2019 to the North Dakota Department of Public Instruction (DPI) that contained revenues, expenditures, and fund balances that did not agree with their underlying records.

Effect

Parshall Public School District financial information was not accurately reported to DPI, which could impact its funding.

Cause

Parshall Public School District has not implemented procedures to ensure amounts included in the School District Annual Financial Report agree to the financial records such as the trial balance and general ledger.

Criteria

The North Dakota School District Financial Accounting and Reporting Manual, provided by DPI, states “The School District Financial Report is the primary source of financial information regarding the revenue and expenditures for K-12 education in North Dakota. It is used for many purposes, including data for inter-district tuition, public information, federal reporting, indirect costs and legislative budget and policy making decisions.”

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District update procedures for preparing the School District Financial Report to ensure it is accurate and agrees to underlying records. Further, we recommend Parshall Public School District contact the Department of Public Instruction (DPI) to determine if additional information is required.

Parshall Public School District’s Response

See Corrective Action Plan

PARSHALL PUBLIC SCHOOL DISTRICT No. 3
Schedule of Audit Findings and Questioned Costs – Continued

2019-011 FUND BALANCE/NET POSITION ADJUSTMENTS – MATERIAL WEAKNESS

Condition

During testing, we found Parshall Public School District required beginning fund balance adjustments and net position adjustments, for fiscal year 2018, due to the lack of bank reconciliations and capital asset records.

Adjustments are shown below:

Fund	Fund Balance Adjustment
General Fund	\$ 915,520
Building Fund	(490,493)
Other Governmental Funds	(85,104)
Total	<u>\$ 339,923</u>

Net Position	Net Position Adjustment
Net Position Correction	\$ 339,923
Capital Assset Elimination	(6,390,280)
Total	<u>\$ (6,050,357)</u>

Effect

There is an increased risk of material misstatement of Parshall Public School District's financial statements whether due to fraud or error. Furthermore, Parshall Public School District received a disclaimer of opinion on the financial statements of the governmental activities, and each major fund.

Cause

Parshall Public School District is not preparing accurate bank reconciliations on a monthly basis or maintaining capital asset records.

Criteria

Parshall Public School District is responsible for the adjusting entries to its annual financial statements and to ensure the financial statements are reliable, accurate, free of material misstatement, and in accordance with the modified cash basis of accounting.

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District review the fund balance and net position adjustments and resolve any general ledger differences, if deemed appropriate by management. Further, we recommend Parshall Public School District perform timely bank reconciliations and maintain capital asset records.

Parshall Public School District's Response

See Corrective Action Plan

2019-012 FRINGE BENEFITS – MATERIAL WEAKNESS AND MATERIAL NON-COMPLIANCE

Condition

Parshall Public School District is providing fringe benefits for housing to employees and is not including the amounts of those fringe benefits on their W2 tax forms.

Effect

Parshall Public School District may not be in compliance with Internal Revenue Service (IRS) publication 15-B. In addition, Parshall Public School District may not be withholding the proper amount of taxes from various employee wages.

Cause

Parshall Public School District may be unaware of the IRS rules surrounding fringe benefits.

Criteria

IRS Publication 15-B states a fringe benefit is a form of pay for the performance of services. Any fringe benefit provided is taxable and must be included in the recipient's pay unless the law specifically excludes it.

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District review IRS Publication 15-B and ensure fringe benefits are properly reported on all employees W2 tax forms. Further, we recommend Parshall Public School District resolve any current circumstances, if deemed appropriate by management.

Parshall Public School District's Response

See Corrective Action Plan

PARSHALL PUBLIC SCHOOL DISTRICT No. 3
Schedule of Audit Findings and Questioned Costs – Continued

Section II - Federal Award Findings and Questioned Costs

2019-013 IMPACT AID SPENDING ERRORS – CFDA 84.041 – MATERIAL WEAKNESS AND MATERIAL NON-COMPLIANCE

Condition

Parshall Public School District received \$74,834 of Section 7003(d) funding for fiscal years 2018 and 2019. These funds are required to be spent to conduct programs or projects for the free, appropriate public education of the federally connected children with disabilities who generated the funds but instead were recorded and spent in the same manner as the basic support payments 7003(b) which are treated as general aid to Parshall Public School District and can be used for current operating expenditures or capital outlays in accordance with State laws.

Effect

Section 7003(d) - Federally connected children with disabilities funding may have been spent as general aid instead of toward programs or projects for the free, appropriate public education of the federally connected children with disabilities who generated those funds.

Cause

Parshall Public School District may not have been aware of the spending requirements for funding received under Section 7003(d) - Federally connected children with disabilities. Further, Parshall Public School District does not have procedures in place to ensure funds received under Section 7003(d) are spent to conduct programs or projects for the free, appropriate public education of the federally connected children with disabilities who generated the funds.

Criteria

34 CFR 222.53 requires local education agencies (LEAs) to use payments provided under Section 7003(d) - Federally connected children with disabilities, to conduct programs or projects for the free, appropriate public education of the federally connected children with disabilities who generated those funds.

"Standards for Internal Control in the Federal Government" (Green Book) requires management to design, implement, and operate internal controls to achieve its objectives related to operations, reporting, and compliance. Management is to design appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.

Questioned Costs

\$74,834

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District develop procedures to ensure funds received under Section 7003(d) - Federally connected children with disabilities, are being spent to conduct programs or projects for the free, appropriate public education of the federally connected children with disabilities who generated the funds in accordance with 34 CFR 222.53.

Parshall Public School District's Response

See Corrective Action Plan

PARSHALL PUBLIC SCHOOL DISTRICT No. 3
Schedule of Audit Findings and Questioned Costs – Continued

2019-014 IMPACT AID LEVEL OF EFFORT INTERNAL CONTROLS – CFDA 84.041 – MATERIAL WEAKNESS
Condition

Parshall Public School District does not have internal controls in place to ensure Section 7003(d) funds are not used to supplant any State funds (either general or special education State Aid) that were or would have been available to the LEA for the free, appropriate public education of federally connected children with disabilities counted under Section 7003(d).

Effect

Parshall Public School District may be supplanting State funds which may go undetected by the Parshall Public School District.

Cause

Parshall Public School District may not have been aware of the level of effort requirement and as a result did not establish procedures to verify compliance.

Criteria

34 CFR 222.54 states that funds provided under section 7003(d) may not supplant any State funds that were or would have been available to the local education agency (LEA) for the free appropriate public education of children counted under section 7003(d).

"Standards for Internal Control in the Federal Government" (Green Book) requires management to design, implement, and operate internal controls to achieve its objectives related to operations, reporting, and compliance. Management is to design appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.

Questioned Costs

None.

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District develop internal controls to ensure Section 7003(d) funds are not used to supplant any State funds (either general or special education State aid) that were or would have been available to the LEA for the free, appropriate public education of federally connected children with disabilities counted under Section 7003(d).

Parshall Public School District's Response

See Corrective Action Plan

2019-015 IMPACT AID REPORTING INTERNAL CONTROLS – CFDA 84.041 – MATERIAL WEAKNESS

Condition

Parshall Public School District does not have internal controls established to ensure annual Impact Aid applications are accurate. The Superintendent obtains support to prepare the application and once completed submits the application to the Department of Education. No independent review of the application is performed to help ensure all amounts in the report are accurate and agree to support.

Effect

Parshall Public School District may have improperly reported application information, affecting Impact Aid Grant allocations to Parshall Public School District.

Cause

Parshall Public School District does not have adequate policies and procedures to review the application for the Impact Aid Grant prior to submission.

Criteria

"Standards for Internal Control in the Federal Government" (Green Book) requires management to design, implement, and operate internal controls to achieve its objectives related to operations, reporting, and compliance. Management is to design appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.

Questioned Costs

None.

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District implement policies and procedures to ensure Impact Aid Grant applications are reviewed by someone other than the preparer, prior to submission to ensure accuracy.

Parshall Public School District's Response

See Corrective Action Plan

PARSHALL PUBLIC SCHOOL DISTRICT No. 3
Schedule of Audit Findings and Questioned Costs – Continued

2019-016 IMPACT AID APPLICATION – CFDA 84.041 – MATERIAL WEAKNESS AND MATERIAL NON-COMPLIANCE

Condition

Parshall Public School District incorrectly reported the number of Federally connected children on tables 1,3, and 5 of the Impact Aid grant application.

- Parshall Public School District reported 33 children in table 1 but should have only reported 17. The school erroneously included children with disabilities that did not reside on eligible federal property or eligible Indian lands.
- Parshall Public School District reported 109 students in table 3. The school district had 110 students who resided on eligible Indian lands but 17 of those students should have been reported in table 1. As a result, the School District should have only reported 93 students in table 3.
- Parshall Public School District reported 33 students in table 5. The total number of Federally connected children attending the School District for school year 2017-2018 was 178. Table 1 should have reported 17 students with disabilities, table 3 should have reported 93 students living on eligible Indian lands, and table 5 should have reported the remaining 68 students who reside with a parent employed on federal property.

Effect

Funding received by Parshall Public School District was based on incorrect information included in the Impact Aid grant application, likely causing incorrect funding to be received from the U.S. Department of Education.

Cause

Supporting documentation maintained by Parshall Public School District did not match the amounts included in the Impact Aid grant application.

Criteria

The application for Impact Aid - Section 7003 (OMB No. 1810-0687) instructions include the following:

- Table 1 should include the children with disabilities who reside on eligible federal property or who reside on eligible Indian lands.
- Table 3 should include: (1) children who reside on federal property with a parent employed on eligible federal property located at least partly within the school district; or (2) reside on eligible federal property and have a parent on active duty in the uniformed services of the United States; or (3) reside on eligible federal property and have a parent who is both an accredited foreign government official and a foreign military officer; or (4) reside on eligible Indian lands (no parental employment required) This table does not include the children reported in table 1.
- Table 5 should include children who do not reside on federal property but: (1) reside with a parent employed on federal property; or (2) have a parent on active duty in the uniformed services of the United States; or (3) have a parent who is both an accredited foreign government official and a foreign military officer.

Questioned Costs

None.

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District maintain supporting documentation to ensure all Impact Aid grant applications include the proper number of Federally connected children.

Parshall Public School District's Response

See Corrective Action Plan

2019-017 IMPACT AID REQUIRED LEVEL OF EXPENDITURE – CFDA 84.041 – MATERIAL WEAKNESS

Condition

Parshall Public School District does not have internal controls in place to ensure the required level of expenditure for Federally connected children requirement is met related to Section 7003(d) funding.

Effect

Parshall Public School District may not be providing the required services to Federally connected children with disabilities.

Cause

Parshall Public School District was not aware of the extra requirements related to Section 7003(d) funding received and therefore did not implement internal controls to ensure compliance with the Federal regulations.

Criteria

34 CFR 222.53 states that for each fiscal year, the amount of expenditures for special education and related services provided to Federally connected children with disabilities must be at least equal to the amount of funds received and credited under Section 7003(d) of the Elementary and Secondary Education Act (ESEA).

"Standards for Internal Control in the Federal Government" (Green Book) requires management to design, implement, and operate internal controls to achieve its objectives related to operations, reporting, and compliance. Management is to design appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.

Questioned Costs

None.

Prior Recommendation

No.

Recommendation

We recommend Parshall Public School District develop internal controls and implement procedures to ensure the required level of expenditure for Federally connected children requirement is met.

Parshall Public School District's Response

See Corrective Action Plan

Parshall School District #3

High School
601 N Main Street
PO Box 158
Parshall, ND 58770
701-862-3129
Fax 701-862-3801

Elementary School
211 1st Street NW
PO Box 69
Parshall, ND 58770
701-862-3417
Fax 701-862-3419



Date: July 27th, 2021
To: Joshua C. Gallion, ND State Auditor
FROM: Shane Sagert, Superintendent
RE: Parshall Public School District – FY2019 and FY2018 Corrective Action Plan

Contact Person Responsible for Corrective Action Plan: Shane Sagert, Superintendent

Section I – Financial Statement Findings:

2019-001 LACK OF SEGREGATION OF DUTIES – MATERIAL WEAKNESS

Condition:

Parshall Public School District has one business manager responsible for the primary accounting functions. A lack of segregation of duties exists as one employee is responsible to collect monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, perform bank reconciliations, and prepare financial statements.

Corrective Action Plan:

We agree with the recommendation.

- The Parshall School Board will create a finance committee with two board members maximum to assess the invoices and bank reconciliations monthly to make sure the bank balance and general fund are equal.
- The Superintendent will have read-only access to Software Unlimited to oversee the general fund ledger.
- An excel spreadsheet will be provided to help organize general ledger to compare to bank reconciliations
- Business manager will report complete account of bills at board meetings
- Review an excel document with recording Parshall School district ESSER funds

Anticipated Completion Date:

- Start with the end of the fiscal year 2021 bank reconciliations. And work back. Completion of June 2021 bank reconciliation by end of August 2021.
- A finance committee has been formed at the July 2021 board meeting
 - Review of documents has begun

2019-002 FRAUD RISK ASSESSMENT – MATERIAL WEAKNESS

Condition:

Parshall Public School District does not currently prepare a fraud risk assessment of the entire entity.

Corrective Action Plan:

We agree with the recommendation.

- Adopt fraud prevention and investigation policy

Anticipated Completion Date:

- Board adopted and approved policy June 2021 board meeting

2019-003 BANK RECONCILIATIONS – MATERIAL WEAKNESS

Condition:

During testing of the June 30, 2018 and 2019 bank reconciliations of Parshall Public School District, there was an unreconciled net difference of \$2,832,310 for 2018 and \$940,363 for 2019. Management has not resolved the net difference as of the audit report date.

Corrective Action Plan:

We agree with the recommendation.

- Finance committee will meet to review bank reconciliations
- Parshall School District will consider professional accounting assistance to help manage the difference

Anticipated Completion Date:

- Parshall School District will work towards completion for the 2021 audit.

2019-004 LACK OF SUPPORTING DOCUMENTATION – MATERIAL WEAKNESS

Condition:

Parshall Public School District did not maintain supporting documentation for 27 out of 76 expenditures tested, totaling \$578,348. In addition, the Parshall Public School District did not maintain supporting documentation for three card statements.

Corrective Action Plan:

We agree with the recommendation.

- Parshall school district purchased a new receipt/invoice scanner to create digital copies of all
- Finance committee will select 10 to 15 invoices and receipts for review
- Finance committee will review credit card statements
- Superintendent will have read only access to do check reports on the general ledger and run reports to be able to check for errors

Anticipated Completion Date:

- Finance committee has been created and will begin for the August 2021 board meeting
-

2019-005 REVENUE CLASSIFICATION – MATERIAL WEAKNESS

Condition:

During testing of revenues, Parshall Public School District had the following errors:

- Revenue in the amount of \$179,142 was not recorded into the appropriate general ledger account
- Revenue in the amount of \$265,435 was not included in the general ledger but was accurately included in the bank account

Corrective Action Plan:

We agree with the recommendation.

- Finance committee will check all revenue when completing bank reconciliations

Anticipated Completion Date:

- Finance committee has been formed June 2021

2019-006 CAPITAL ASSETS SUPPORTING DOCUMENTATION – MATERIAL WEAKNESS

Condition:

Parshall Public School District does not have supporting documentation for capital assets including accumulated depreciation.

Corrective Action Plan:

We agree with the recommendation.

- Superintendent will receive a spreadsheet to help list all properties, vehicles, land, and any other assets recorded/inventoried
- Listing value, condition, age to satisfy financial statement period
- This will be updated as property/assets are purchased.
- These items will be compared to the list of items insured by the district
- School District adopt capital asset policy
- Parshall School District building committee will review the information

Anticipated Completion Date:

- Parshall School District adopted policy July 2021
- List of assets completed by December 2021

2019-007 IMPROPER HEALTH INSURANCE PAYMENTS – MATERIAL WEAKNESS

Condition:

Parshall Public School District improperly paid for health insurance benefits on behalf of two individuals who were not current employees of the School District. The audit was unable to determine the total amount of overpayments as supporting documentation was not maintained by the district.

Corrective Action Plan:

We agree with the recommendation.

- List will be reviewed or revised for the October 2021 board meeting. Unfilled positions will be reviewed for insurance benefits at the time of employment, subject to board approval.
- Reviewal of policy holders will be in October and January to review lists each policy year

Anticipated Completion Date:

- January 2022

2019-008 BOARD APPROVAL OF EXPENDITURES– MATERIAL WEAKNESS

Condition:

Parshall Public School District did not maintain evidence of School Board approval for 50 out of 76 expenditures tested, totaling \$892,205.

Corrective Action Plan:

We agree with the recommendation.

- Finance committee will review
- Fiscal improvements should remedy this problem. It is important to follow through with the recommendations of improvement of expenditures.
- Board is responsible for all expenditures

Anticipated Completion Date:

- August 2021

2019-009 CONSTRUCTION MANAGER AT-RISK– MATERIAL WEAKNESS AND MATERIAL NON-COMPLIANCE

Condition:

Parshall Public School District hired a construction manager at-risk (CMAR) for the construction of its new school building. The School District did not complete the CMAR selection process as required under N.D.C.C. §48-01.2-20.

Corrective Action Plan:

We agree with the recommendation.

- Parshall School District will comply with NDCC 48.01.2-20. Follow steps of criteria 5 bullet points by updating procedures to ensure compliance

Anticipated Completion Date:

- Will follow completion of NDCC 48.01.2-20 going forward with any projects in the district.
-

2019-010 SCHOOL DISTRICT FINANCIAL REPORT– MATERIAL WEAKNESS AND MATERIAL NON-COMPLIANCE

Condition:

Parshall Public School District submitted a School District Financial Report for 2018 and 2019 to the North Dakota Department of Public Instruction (DPI) that contained revenues, expenditures, and fund balances that did not agree with their underlying records.

Corrective Action Plan:

We agree with the recommendation.

- School district financial information must be reviewed before submitted to DPI.
- Data affects inter-district tuition, public information, federal reporting, indirect costs and legislative budget and policy decisions
- Contact DPI following submission to request if additional information is required

Anticipated Completion Date:

- September 2021

2019-011 FUND BALANCE/NET POSITION ADJUSTMENTS – MATERIAL WEAKNESS

Condition:

During testing, we found Parshall Public School District required beginning fund balance adjustments and net position adjustments, for fiscal year 2018, due to the lack of bank reconciliations and capital asset records.

Adjustments are shown below:

Fund	Fund Balance Adjustment
General Fund	\$ 915,520
Building Fund	(490,493)
Other Governmental Funds	(85,104)
Total	<u>\$ 339,923</u>

Net Position	Net Position Adjustment
Net Position Correction	\$ 339,923
Capital Asset Elimination	(6,390,280)
Total	<u>\$ (6,050,357)</u>

Corrective Action Plan:

We agree with the recommendation.

- Finance committee will review fund balance and compare to general ledger for differences and again review of monthly bank reconciliations
- Following recommendations from previous statements should assist in this problem
- Capital asset policy has been adopted

Anticipated Completion Date:

- August 2021

2019-012 FRINGE BENEFITS – MATERIAL WEAKNESS AND MATERIAL NON-COMPLIANCE

Condition:

Parshall Public School District is providing fringe benefits for housing to employees and is not including the amounts of those fringe benefits on their W2 tax forms.

Corrective Action Plan:

We agree with the recommendation.

Review current housing policy.
Building committee form June 2021

Anticipated Completion Date:

September 2021

Section II – Federal Awards Findings and Questioned Costs:

2019-013 IMPACT AID SPENDING ERRORS – CFDA 84.041 – MATERIAL WEAKNESS AND MATERIAL NON-COMPLIANCE

Condition:

Parshall Public School District received \$74,834 of Section 7003(d) funding for fiscal years 2018 and 2019. These funds are required to be spent to conduct programs or projects for the free, appropriate public education of the federally connected children with disabilities who generated the funds but instead were recorded and spent in the same manner as the basic support payments 7003(b) which are treated as general aid to Parshall Public School District and can be used for current operating expenditures or capital outlays in accordance with State laws.

Corrective Action Plan:

We agree with the recommendation.

Parshall School District will track funds with an excel spreadsheet.
District will separate these funds appropriately and funding will not be used for Section 7003 (d) support, which is general aid.
Accounting practices will ensure this problem will be corrected.

Anticipated Completion Date:

April 2022

2019-014 IMPACT AID LEVEL OF EFFORT INTERNAL CONTROLS – CFDA 84.041 – MATERIAL WEAKNESS

Condition:

Parshall Public School District does not have internal controls in place to ensure Section 7003(d) funds are not used to supplant any State funds (either general or special education State Aid) that were or would have been available to the LEA for the free, appropriate public education of federally connected children with disabilities counted under Section 7003(d).

Corrective Action Plan:

We agree with the recommendation.

Follow recommendation by auditors to develop procedures to ensure funds received under Section 7003 (d) be used to conduct programs or projects for the free, appropriate public education of the federally connected children with disabilities who generated the funds in accordance with 34 CFR 222.53.

Follow guidelines set up for 2019-13

Anticipated Completion Date:

April 2022

2019-015 IMPACT AID REPORTING INTERNAL CONTROLS – CFDA 84.041 – MATERIAL WEAKNESS

Condition:

Parshall Public School District does not have internal controls established to ensure annual Impact Aid applications are accurate. The Superintendent obtains support to prepare the application and once completed submits the application to the Department of Education. No independent review of the application is performed to help ensure all amounts in the report are accurate and agree to support.

Corrective Action Plan:

We agree with the recommendation.

Follow recommendation by auditors to implement policies and procedures to ensure Impact Aid Grant applications are reviewed by someone other than preparer, prior to submission of report to ensure accuracy of reporting to DPI.

Anticipated Completion Date:

April 2022

2019-016 IMPACT AID APPLICATION – CFDA 84.041 – MATERIAL WEAKNESS AND MATERIAL NON-COMPLIANCE

Condition:

Parshall Public School District incorrectly reported the number of Federally connected children on tables 1,3, and 5 of the Impact Aid grant application.

- Parshall Public School District reported 33 children in table 1 but should have only reported 17. The school erroneously included children with disabilities that did not reside on eligible federal property or eligible Indian lands.
- Parshall Public School District reported 109 students in table 3. The school district had 110 students who resided on eligible Indian lands but 17 of those students should have been reported in table 1. As a result, the School District should have only reported 93 students in table 3.
- Parshall Public School District reported 33 students in table 5. The total number of Federally connected children attending the School District for school year 2017-2018 was 178. Table 1 should have reported 17 students with disabilities, table 3 should have reported 93 students living on eligible Indian lands, and table 5 should have reported the remaining 68 students who reside with a parent employed on federal property.

Corrective Action Plan:

We agree with the recommendation.

Need for a second pair of eyes reviewing the application checking for accuracy.

Acquire updated software to facilitate Impact Aid application. Review of application with formed Housing Committee before submission.

Anticipated Completion Date:

November 2021

2019-017 IMPACT AID REQUIRED LEVEL OF EXPENDITURE – CFDA 84.041 – MATERIAL WEAKNESS

Condition:

Parshall Public School District does not have internal controls in place to ensure the required level of expenditure for Federally connected children requirement is met related to Section 7003(d) funding.

Corrective Action Plan:

We agree with the recommendation.

34.CFR 222.53 states that each fiscal year, the amount of expenditures for special education and related services provided to the Federally connected children with disabilities must be a least equal to the amount of funds received and credited under Section 7003 (d) of the Elementary and Secondary Act.

Follow recommendations from auditors with developing internal controls and implementing procedures to ensure the required level of expenditure for federally connected children.

Anticipated Completion Date:

November 2021

Parshall School District #3

High School
601 N Main Street
PO Box 158
Parshall, ND 58770
701-862-3129
Fax 701-862-3801

Elementary School
211 1st Street NW
PO Box 69
Parshall, ND 58770
701-862-3417
Fax 701-862-3419



Date: July 27th, 2021
To: Joshua C. Gallion, ND State Auditor
FROM: Shane Sagert, Superintendent
RE: Parshall Public School District – FY2019 Schedule of Prior Year Findings

2017-001 SIGNIFICANT DEFICIENCY

Condition:

The limited number of staff prevents a proper segregation of duties.

Recommendation

While I recognize that the District office staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal accounting control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve the efficiency and effectiveness of the District.

Current Status

Financial committee has been formed and will review all accounting functions monthly.
District office will review additional segregation to improve the efficiency and effectiveness of the school district.

STATE AUDITOR
Joshua C. Gallion



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GOVERNANCE COMMUNICATION

Parshall Public School Board
Parshall Public School District No. 3
Parshall, North Dakota

We were engaged to audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Parshall Public School District No. 3, North Dakota, as of and for the years ended June 30, 2019 and 2018, which collectively comprise Parshall Public School District No. 3's basic financial statements, and have issued our report thereon dated July 30, 2021. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in The United States of America, Government Auditing Standards and by the Uniform Guidance

As stated in our engagement letter dated February 22, 2021, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered the Parshall Public School District No. 3, North Dakota's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinions on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance, and for reporting on the schedule of expenditures of federal awards required by the Uniform Guidance.

As part of obtaining reasonable assurance about whether the Parshall Public School District No. 3, North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the Parshall Public School District No. 3's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the purpose of expressing an opinion on the Parshall Public School District No. 3's compliance with those requirements over the major federal program. While our audit provides a reasonable basis for our opinion over compliance for the major federal program, it does not provide a legal determination on the Parshall Public School District No. 3's compliance with those requirements.

PARSHALL PUBLIC SCHOOL DISTRICT No. 3
Corrective Action Plan – Continued

Significant Accounting Policies/Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Parshall Public School District No. 3 are described in Note 1 to the financial statements. Application of existing policies was not changed during the years ended June 30, 2019 and 2018. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. Management has corrected all such misstatements. The schedules list all misstatements detected as a result of audit procedures that were corrected by management.

2019	General Fund	Building Fund	Nonmajor Funds	Total Adjustment
Fund Level Adjustments				
<u>Eliminate Payables to Reflect Modified Cash Basis</u>				
Miscellaneous Account	13,464	-	-	13,464
Payroll Withholding	358,892	-	-	358,892
Accounts Payable	-	-	16,856	16,856
Expenditures	-	351,665	-	368,521
Accounts Payable	-	14,691	-	14,691
<u>Eliminate Receivables to Reflect Modified Cash Basis</u>				
Revenues	-	-	10,900	10,900
Accounts Receivable	-	-	-	10,900
<u>Record Donated Commodities</u>				
Expenditures	-	-	10,982	10,982
Revenues	-	-	-	10,982
2018	General Fund	Building Fund	Nonmajor Funds	Total Adjustment
Fund Level Adjustments				
<u>Eliminate Payables to Reflect Modified Cash Basis</u>				
Miscellaneous Account	22,328	-	-	22,328
Payroll Withholding	318,384	-	-	318,384
Accounts Payable	-	-	4,809	4,809
Expenditures	-	326,021	-	330,830
Accounts Payable	-	14,691	-	14,691
<u>PPA to Adjust Beginning Fund Balance</u>				
Fund Balance	-	490,493	85,104	575,597
Fund Balance	-	915,520	-	915,520
<u>Eliminate Receivables to Reflect Modified Cash Basis</u>				
Revenues	-	-	10,900	10,900
Accounts Receivable	-	-	-	10,900
<u>Record Donated Commodities</u>				
Expenditures	-	-	12,281	12,281
Revenues	-	-	-	12,281
Government Wide Statements				
<u>To record PPA to Eliminate Capital Assets</u>				
Net Position	-	-	-	6,390,280
Net Capital Assets	-	-	-	6,390,280
<u>To record PPA to Adjust Beginning Net Position</u>				
Net Position	-	-	-	339,923

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, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 30, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit other than what is listed below:

The Parshall Public School District No. 3 does not maintain adequate accounting records to provide sufficient information for the preparation of the financial statements including the following:

- Bank reconciliations were not performed during the audited period.
- Approximately 35% of expenditures tested were not supported by receipts or invoices resulting in a potential error to the financial statements of approximately \$1.4 million.
- Approximately 65% of expenditures tested lacked evidence of school board approval resulting in a potential error to the financial statements of approximately \$890,000.
- Capital asset records were not available and unable to be audited. The prior auditor reported approximately \$6.3 million in net capital assets.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We do not express an opinion on the financial statements of Parshall Public School District No. 2. Because of the significance of the matter described in the Difficulties Encountered in Performing the Audit paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion on the financial statements.

This information is intended solely for the use of the School Board and management of Parshall Public School District No. 3, and is not intended to be, and should not be, used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you to the employees of Parshall Public School District No. 3 for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve Parshall Public School District No. 3.

/S/

Joshua C. Gallion
State Auditor

Bismarck, North Dakota
July 30, 2021



Office of the
State Auditor

NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE

600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505