

Auditor Letterhead

To the Board of Directors and Management  
Sample School of Sample Church  
Milwaukee, Wisconsin

In planning and performing our audit of the financial statements of Sample School of Sample Church ("School") as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in the School's internal control to be a material weakness:

- One or more audit adjustments were required to prevent the School's financial statements from being materially misstated. This is indicative that controls may be inadequate to ensure the proper recording of all of the School's financial transactions in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). This condition represents a material weakness in internal controls. We recommend that management review the nature of these entries in order to determine if these types of adjustments could be made during the year as part of the ordinary financial reporting process. This would reduce the likelihood of this comment in the future and also increase the accuracy of interim financial statements.

A significant deficiency is a deficiency, or 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. We consider the following deficiencies in the School's internal control to be significant deficiencies:

- Proper internal controls dictate that one person should not have control of two or more of the following duties related to any one cycle (disbursements cycle, revenue cycle, payroll cycle, etc.):
  - Authorization
  - Custody
  - Recordkeeping
  - Reconciliation

The School operates its accounting and reporting function with a limited number of staff, which precludes a proper segregation of duties. The lack of duty segregation represents a significant deficiency in internal controls. This condition is not, however, unusual in entities the size of the School. It is important for management to be aware of this condition and realize that the concentration of duties and responsibilities in a few individuals is not desirable from a control point of view. Under these conditions, the most effective controls rest in management's knowledge and monitoring of matters relating to the School's financial affairs.

- Preparation of the School's financial statements and footnote disclosures in accordance with U.S. GAAP requires a very high level of technical experience and expertise. The School's staff does not have the necessary resources to properly apply U.S. GAAP in the preparation of these documents. Accordingly, the School has decided to rely on the technical experience and expertise of its auditors and have requested us to prepare the financial statements and footnote disclosures in accordance with U.S. GAAP. This condition, although very common, represents a significant deficiency in internal controls, as defined by current auditing standards.

In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated August 30, 2019 on the financial statements of the School. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations.

### **Outstanding Checks**

During our audit procedures it was revealed that several checks had been outstanding for a long period of time. This hinders the accounting personnel's ability to reflect an accurate cash balance in the financial statements and adds an unnecessary step to the process of bank reconciliation. The accounting personnel should investigate outstanding checks on a regular basis. Stop payment notices should be sent when necessary. This practice will provide a much stronger control over cash and the bank reconciliation process.

### **Credit Card Support**

During the audit process, it was determined that several receipts and/or other supporting documentation for charges made to the School's credit cards were not maintained. This practice could result in the payment of unsubstantiated expenses. We recommend that the School require the supporting receipts be submitted for all charges for which it is practical to obtain a receipt.

We have audited the financial statements of Sample School of Sample Church ("School") for the year ended June 30, 2019, and have issued our report thereon dated August 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 30, 2019. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Findings**

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year audited. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared 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. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciable lives of fixed assets is based on estimated useful lives.
- Management's estimate of the allocation of various assets, liabilities, and/or expenses between School and non-School related activities is based on management's estimates using various methods.
- Management's estimate of the allocation of functional expenses is based on management's estimate(s) using various methods.
- Management's estimate of the allowance for doubtful accounts on accounts receivable is based on the nature of the donor or customer.
- Management's estimate of the value of donated services and materials is based on the donor's estimate.
- Management's estimate of the allocation of the value between land and building are based on the assessed values of the property.

We evaluated the key factors and assumptions used to develop the aforementioned estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Financial Statement Disclosures**

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

The financial statement disclosures are neutral, consistent, and clear.

## **Significant Audit Findings (continued)**

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, there were misstatements as a result of audit procedures and corrected by management that were material, either individually or in the aggregate, to the financial statement taken as a whole. Management has been given a list of all misstatements and we can discuss them with you at any time.

### **Disagreements with Management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' 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 August 30, 2019.

### **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's financial statements or a determination of the type of auditors' 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.

### **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 School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Other Information in Documents Containing Audited Financial Statements**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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This communication is intended solely for the use of the Board of Directors and management of the School and is not intended to be and should not be used by anyone other than these specified parties.

August 30, 2019  
Milwaukee, Wisconsin