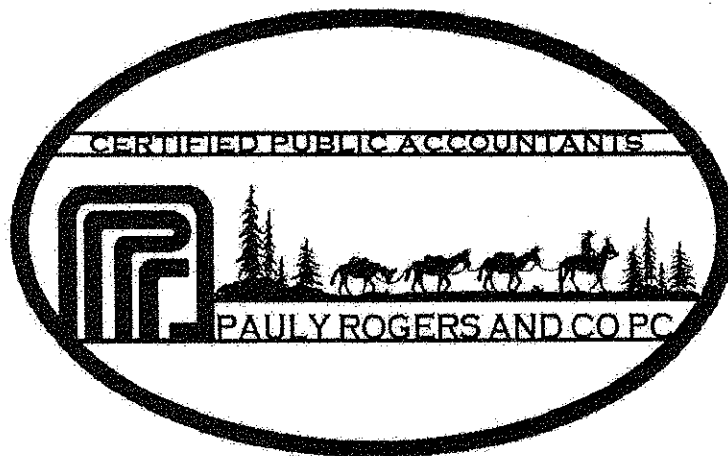


KNOVA LEARNING
MULTNOMAH COUNTY, OREGON

COMMUNICATION TO THE GOVERNING BODY

FOR THE YEAR ENDED JUNE 30, 2018



12700 SW 72nd Ave.
Tigard, OR 97223



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September 17, 2018

To the Board of Directors
KNOVA Learning
Multnomah, Oregon

We have audited the basic financial statements of the governmental activities and the major fund of KNOVA Learning (School) for the year ended June 30, 2018. 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. Professional standards also require that we communicate to you the following information related to our audit.

Purpose of the Audit

Our audit was conducted using sampling, inquiries and analytical work to opine on the fair presentation of the basic financial statements and compliance with:

- generally accepted accounting principles and auditing standards
- the Oregon Municipal Audit Law and the related administrative rules

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the basic financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the basic financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas to be tested.

Our audit included obtaining an understanding of the School and its environment, including internal control, sufficient to assess the risks of material misstatement of the basic financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the School or to acts by management or employees acting on behalf of the School. We also communicated any internal control related matters that are required to be communicated under professional standards.

Results of Audit

1. Audit opinion letter - an unmodified opinion on the basic financial statements has been issued. This means we have given a "clean" opinion with no reservations.
2. State minimum standards -- We found no exceptions or issues requiring comment.
3. Management letter -- No separate Management Letter was issued.

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 are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2018, except for the implementation of GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the basic financial statements in the proper period.

Accounting estimates are an integral part of the basic 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 basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the basic financial statements were management's estimates of receivables, and net pension liability and deferrals for PERS, which are based on estimated collectability of receivables, and actuarial assumptions. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures in the basic financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely 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 or determined that their effects are immaterial. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, taken as a whole. There were immaterial uncorrected misstatements noted during the audit which were discussed with management.

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 basic financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Pauly, Rogers and Co., P.C.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

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 basic 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 our retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Required Supplementary Information

We applied certain limited procedures to the required supplementary information that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the required supplementary information and do not express an opinion or provide any assurance on it.

Other Information

With respect to the other information accompanying the basic financial statements, we read the information to identify if any material inconsistencies or misstatement of facts existed with the audited basic financial statements. Our results noted no material inconsistencies or misstatement of facts.

Best Practices – Not Significant Deficiencies

1. Governing Body Monitoring

An integral part of internal controls is the monitoring of financial activities by those charged with the governance (the Board). This can be accomplished by asking specifically designed questions to senior staff, by reviewing basic financial statements and projections and by comparing financial results to pre-established benchmarks. While Board members participate in the budget adoption process and receive staff prepared basic financial statements, these only partially fulfill the monitoring function.

We recommend that the Board articulate their monitoring practices and record in the minutes when those activities occur.

2. QuickBooks Accounting Software

QuickBooks accounting software is used. QuickBooks may allow users to delete transactions without any audit trail remaining. We recommend that you evaluate the risk of using this program and consider reviewing the audit tracker on a periodic basis for unusual transactions to ensure it had not been shut off. This review should be documented.

3. Fidelity Insurance Coverage

In reviewing fidelity (employee honesty) insurance coverage, we noticed that the School often carries cash and investment balances in excess of the insurance coverage amount. We recommend that the Board examine this exposure risk and make a determination as to the amount of insurance coverage they feel is prudent in regard to their oversight.

4. Form I-9 Compliance

The U.S. Citizenship and Immigration Services (USCIS) agency requires all employers to complete section two of the form I-9. In this section of the form, employers document their examination of employee-provided identification papers. In our testing of salaries, we noted that the School is not always in compliance with this federal requirement. We recommend that the School ensure that section two of form I-9 is complete for all employees.

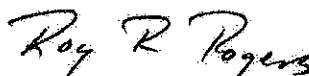
5. IT Controls

During our review of IT Control Policies we noted that the School does not have a policy regarding use of special characters or numbers in passwords, or in length of passwords. Additionally, the School did not have a policy about changing passwords frequently. We suggest that the School consider a policy to strengthen passwords used for the accounting systems and to require password changes at least bi-annually.

6. Third Party Accountant Oversight

According to a review of management hierarchy, there appear to be times when decision-making authority is unclear as to which individual from management is responsible for reviewing and approving various financial decisions involving the work of the third party accountant. We recommend management consider adopting a policy or crafting a position paper to clarify and document the individual who is responsible for making financial decisions involving the third party accountant.

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



Roy R. Rogers, CPA
PAULY, ROGERS AND CO., P.C.