

**BOARD OF EDUCATION OF
KENT COUNTY, MARYLAND**

AUDIT COMMUNICATIONS

JUNE 30, 2023

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

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COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

September 29, 2023

Board of Education of Kent County, Maryland
Rock Hall, Maryland

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Kent County, Maryland for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, 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 May 4, 2023. 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 Board of Education of Kent County, Maryland are described in Note 2 to the financial statements. Effective July 1, 2022, the Board adopted new accounting guidance from the Government Accounting Standard Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. The Board identified no subscription-based information technology arrangements that required recognition as a right-to-use subscription-based asset at June 30, 2023. We noted no transactions entered into by the Board 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 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 Board's financial statements were:

Management's estimate of depreciation expense is based upon the estimated useful life of the assets. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statement taken as a whole.

Management's estimate of the net OPEB (other postemployment benefits) liability and related deferred outflows of resources, deferred inflows of resources, and OPEB expense which is recorded on the government-wide statements is based on an actuarial study performed by a third party. We evaluated the key factors and assumptions used to develop the accrual/expense in determining that it is reasonable in relationship to the financial statements taken as a whole.

Management's estimate of the net pension liability and related deferred outflows of resources, deferred inflows of resources, and pension expense which is recorded on the government-wide statements is based on an actuarial study performed by a third party. We evaluated the key factors and assumptions used to develop the accrual, deferred outflows/inflows, and expense in determining that it is reasonable in relationship to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of pensions in Note 7 to the financial statements describes the Board's pension plans, pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources related to pensions as well as the significant assumptions used in the actuarial valuation.

The disclosure of other post-employment benefits ("OPEB") in Note 9 to the financial statements describes the Board's defined benefit healthcare plan, net OPEB liability, OPEB expense, deferred outflows or resources, and deferred inflows of resources related to other post-employment benefits as well as the significant assumptions used in the actuarial valuation.

The financial statement disclosures are neutral, consistent and clear.

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 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 determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The following material misstatements detected as a result of audit procedures were corrected by management:

1. Total accounts payable and cash were understated by \$437,162 as a result of posting vendor payments made during July 2023 as occurring in June 2023.
2. In the general fund, fund balance was overstated and the prior year encumbrance liability account was understated by \$244,551 as a result of the accounting treatment for open purchase orders as of June 30, 2022.

3. In the food service fund, accounts receivable and revenue were understated by \$26,477 as a result of June 2023 meal reimbursements not being recorded at June 30, 2023.
4. In the food service fund revenue and expenditures were understated by \$33,973 as a result of revenue being posted to an expenditure account.
5. In the capital projects fund, accounts receivable and revenue were understated by \$210,027 for projects that had been expensed with no State billing being processed.

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 auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representation

We have requested certain representations from management that are included in the management representation letter dated September 29, 2023.

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 Board'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.

Other Auditing 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 Board'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 Matters

We applied certain limited procedures to the management's discussion and analysis, schedule of revenues, expenditures and encumbrances budget and actual – general fund, schedule of changes in the Board's net OPEB liability and related ratios, schedule of investment returns, schedule of the Board's proportionate share of the net pension liability, and the schedule of contributions - pension; which are required supplementary information (RSI) 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 RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the additional supplementary information, which accompanies the financial statements but are not RSI. With respect to this supplementary information, 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.

Restriction on Use

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

Very truly yours,

A handwritten signature in dark ink that reads "UHY LLP". The letters are stylized and cursive, with the "U" and "H" being particularly prominent.

UHY LLP

COMMENTS AND RECOMMENDATIONS

September 29, 2023

Board of Education of Kent County, Maryland
Rock Hall, Maryland

In planning and performing our audit of the financial statements of the Board of Education of Kent County, Maryland as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the Board'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 Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously communicated to you about the Board's internal control in our letter dated September 29, 2023. This letter does not affect our report dated September 29, 2023 on the financial statements of the Board of Education of Kent County, Maryland.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Board personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

We wish to thank the employees of the Board of Education of Kent County, Maryland for the assistance and cooperation provided us during our engagement.

Sincerely,



Salisbury, Maryland

Comments and Recommendations

During our standard audit procedures for the testing of fund balance, cash, accounts payable and encumbrances, it came to our attention that the client had made two process changes during the fiscal year that resulted in generally accepted accounting principles not being followed. We recommend that going forward a full understanding of the impact of process changes be understood prior to implementation. We would be happy to discuss potential process changes before the implementation to ensure generally accepted accounting principles are followed.

During our standard audit procedures for the testing of accounts receivable and revenue, we noted that the client was not appropriately identifying all accounts receivable and related revenue due at the end of the fiscal year within the food service and capital projects fund. We recommend that a process be put in place to ensure when payments are received subsequent to year end that accounts receivable and revenue are appropriately identified and recorded.