

**AUDIT COMMUNICATIONS LETTER FOR
COLUMBIA PUBLIC SCHOOL DISTRICT
COLUMBIA, MISSOURI**

JUNE 30, 2005

GK&C
GERDING, KORTE & CHITWOOD

Professional Corporation
Certified Public Accountants

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September 9, 2005

Professional Corporation
Certified Public Accountants

To the Audit Committee and Board of Education
Columbia Public School District
Columbia, Missouri

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We have audited the financial statements of Columbia Public School District (the "District") for the year ended June 30, 2005, and have issued our report thereon dated September 9, 2005. Our professional standards require that we provide you with the following information related to our audit.

This report is intended solely for the information and use of the Audit Committee, Board of Education, management, and others within the District and is not intended to be and should not be used by anyone other than these specified parties.

PARTNERS

Robert A. Gerding
Fred W. Korte, Jr.
Joseph E. Chitwood
James R. McGinnis
Travis W. Hundley

Sincerely,


Gerding, Korte & Chitwood
Certified Public Accountants

SECTION ONE

Professional Standards Communication

Our Responsibility Under U. S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated May 23, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U. S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit we considered Columbia Public School District's internal control financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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 opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Columbia Public School District'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 OMB Circular A-133, we examined, on a test basis, evidence about Columbia Public School District's compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Columbia Public School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Columbia Public School District's compliance with those requirements.

Significant Audit Adjustments

For the purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us, but not recorded by the District that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed several audit adjustments. Those adjustments were accepted by the District's management and posted to the financial records of the District.

Significant Accounting Policies

Management has the responsibility 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 the Columbia Public School District are described in Note 1 to the financial statements. Governmental Accounting Standard No. 39 was adopted during 2005 resulting in the inclusion of The Columbia Public School District Foundation in the basic financial statements of the District. The application of existing policies was not changed during the fiscal year ended June 30, 2005. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Disagreements with Management

For the purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing issue 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.

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 District's financial statements or a determination of the type of auditors' opinion that may be expressed on those financial 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.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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

SECTION TWO

Financial Reporting Issues

Independent Auditors' Report

Our opinion on the financial statements is an unqualified opinion on the District's general purpose financial statements.

Internal Control

We are not reporting any material weaknesses in the internal controls of the District.

Compliance

With respect to compliance we have issued three separate reports. In the three reports we are not reporting any instances of material noncompliance with laws, regulations or contracts that have a direct, material impact on the financial transactions of the District.

Audit Standard No. 99 - Fraud Risk Assessment

In accordance with current professional standards, we assessed the risk of fraud in planning and performing our audit. The following are the areas of fraud risk we identified in the analysis of the District's financial statements:

- Basis of Accounting - The District uses the accrual basis of accounting. This basis of accounting is the most comprehensive basis of accounting. However, misapplication of accounting principles, either intentional or inadvertent, can cause financial data to be misstated.
- Cash Collections/Deposits - Collections of cash through student activity events and fundraisers and the District's lunch/breakfast program increase the risk of misappropriation by employees. The risk in the student activities area can be mitigated by requiring count sheets, receipts, rosters or other documentation with each deposit. The lunch/breakfast program risk can be mitigated through the proper use of the software used by the District to track student account balances, sales and daily collections. In either case, management's review and monitoring of amounts deposited is essential to the internal control process.
- Management Override - In any system of internal control, management may have the ability to execute and record transactions outside the scope of the normal accounting system. Management may also have the ability to approve transactions that are self-serving and conceal the nature of those transactions. Board oversight in the approval of transactions and budgets is essential in the effort to minimize the risk of management override.

SECTION THREE

Observations and Recommendations

During our audit, we became aware of matters that are opportunities for strengthening internal controls. The following paragraphs summarize our comments and suggestions regarding those matters.

Payroll Time Sheet Controls

During our testing of payroll related internal controls, we noted an area where internal control could be improved. At least one individual at each building has access to the portion of the automated time sheet system that allows for corrections to employees' time. These corrections are referred to as "edits" and allow for adjustments to employee time for compensated absences and other changes to time as might be necessary. However, we noted instances where normal time was regularly entered into the payroll time sheet system as edits for the person with the overall edit responsibility.

All employees should use the software as designed to log-in and log-out each day so that time is tracked by the system. Edits override the normal payroll control procedure and should only be used to enter corrections to time or to enter time for compensated absences.

Accounting for Adult Tuition

During the audit we noted that tuition related to the adult education fund is accounted for using the cash basis of accounting. Under the cash basis of accounting, revenue is recognized as it is received, as opposed to when it is earned. Additionally, we noted the use of manual systems for monitoring and billing students for unpaid tuition bills. The current systems do not provide for analysis of the gross fees related to a program or class, amounts currently due from students or amounts written-off as uncollectible.

We recommend the District use an accrual basis accounting system to account for the tuition revenue of the adult education fund. By using such a system the District would be able to determine the gross amount billed for tuition. Additionally, the monitoring of amounts due from students could be more easily determined and collection efforts could be more easily reviewed.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District 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.



MEMORANDUM

TO: Board of Education Members
FROM: Phyllis A. Chase *PAC*
SUBJECT: Auditors' Communication Letter
DATE: December 13, 2005

At the conclusion of the annual audit it is customary for the auditors to provide the administration, the Audit Committee, and the Board of Education with a communications letter. The purpose of the communications letter is to provide the district with comments and suggestions which the auditors believe will improve internal controls and operating efficiency. Below I have provided our response to the auditors' communications letter.

Payroll Controls

The district's auditors noted an instance where the individual with access to the automated time clock system for editing purposes at the building level would enter as an edit "normal time" (clock-in, clock-out), rather than using the payroll software as designed. The recommendation is that all employees use the software as designed, and edits should only be made for corrections or to enter compensated absences.

The Business Office will review payroll procedures with all reporting locations and responsible individuals regarding the appropriate use of editing procedures. In addition, the Business Office will utilize security options available to limit the editing feature and an audit log of edits made will be reviewed for exceptions to the established procedure(s).

Accounting for Adult Tuition

The auditors noted that tuition related to the Adult Education Fund is accounted for using the cash basis of accounting and the billing system is a manual system. This system does not easily provide for an analysis of the gross fees related to a program or class, or amounts currently due from students.

The Business Office staff will work with the Adult Education staff to acquire the needed software for billing and accounts receivable and to make the change to an accrual basis of accounting.

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