

**AUDIT COMMUNICATIONS LETTER FOR  
COLUMBIA PUBLIC SCHOOL DISTRICT  
COLUMBIA, MISSOURI  
JUNE 30, 2007**

**GK&C**  
GERDING, KORTE & CHITWOOD

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Certified Public Accountants



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October 25, 2007

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

In planning and performing our audit of the financial statements of Columbia Public School District (the "District") for the year ended June 30, 2007, in accordance with U. S. generally accepted auditing standards, we considered Columbia Public School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Columbia Public School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Columbia Public School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. A control deficiency 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 misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

Our comments concerning internal control and other significant matters are presented as follows:

- I. Deficiencies Considered to be Material Weaknesses
- II. Significant Deficiencies
- III. Other Current Year Matters
- IV. Status of Prior Year Comments
- V. Professional Standards Communication

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

We want to express our sincere appreciation to Dr. Phyllis Chase, Linda Quinley and other staff for the cooperation and assistance received during the audit engagement and for the opportunity to serve Columbia Public School District.

Sincerely,

  
Gerding, Korte & Chitwood  
Certified Public Accountants

## **I. DEFICIENCIES CONSIDERED TO BE MATERIAL WEAKNESSES**

We noted no deficiencies that are considered to be material weaknesses.

## **II. DEFICIENCIES CONSIDERED TO BE SIGNIFICANT DEFICIENCIES**

### **A. Payroll Control**

Payroll and the related benefits at Columbia Public School District represent the single largest expense category, comprising 79.2% of the operating costs of the general and teachers funds. Payroll costs are primarily authorized based upon certificated employment contracts and other employment agreements. Additionally, special pay and overtime pay are authorized by "special payroll request forms" or electronic time cards approved by various employee supervisors. The District's budget for payroll costs generally reflects the prior year's actual payroll costs updated for planned economic assumptions and operation of the District's salary schedule. The District's budget was amended several times throughout the 2007 fiscal year to account for changes in salary projections and other issues. Actual payroll costs were below budget by less than 1% June 30, 2007.

During this year's audit procedures related to payroll transactions we noted the following:

- The process used by the District for coding and classification of salary costs to the Title IIA grant within the general ledger was ineffective. However, this salary information was transmitted to the State through "Core Data" correctly.
- Significant reclassifications of payroll costs were required to properly record eligible grant costs for the Title I and Special Education (IDEA) grants. However, this salary information was transmitted to the State through "Core Data" correctly.
- The approval process for extra duty pay does not consider the budget process for approval.
- The approval process of overtime pay does not consider the budget process for approval.

In our tests of federal grants we noted instances where payroll coding within the general ledger did not match actual work assignments. The District's core data transmission to the State included correct information. However, information given to the business office to record payroll assignments was inaccurate, or received too late in the year to be effective in recording payroll costs correctly. The District needs to improve lines of communication regarding payroll coding and classification. The District's general ledger should be recognized as the official record of coding and classification for payroll costs. A concerted effort among all departments should be made to ensure that the costs are accurately recorded, reported and corrected.

#### **A. Payroll Control (continued)**

As implied in the first paragraph of this section, the District's budgetary control over payroll, from an overall perspective, seems to be functioning well and producing reasonable internal control. However, we noted numerous instances in the budget detail where amounts were recorded in functions where no cost was allocated for the year. This observation coupled with the coding problem, discussed above, occurs because the amounts budgeted to each function within the District's general ledger are not updated to reflect actual work assignments.

Additionally, neither the general ledger or the budget include separate consideration of extra duty pay or overtime. These extra pay items are recorded as if they were the same as all other pay types. As a consequence of the budget preparation methodology discussed above, it appears that these extra pay items are re-budgeted each year because these costs are recorded as if they were related to regular compensation. Instead approval of extra duty pay should be based on separate planning and budgeting. Preapproval of all extra duty pay and overtime should be the goal of the District and this should start with the budget process.

Payroll control would be improved if the budget were amended to reflect actual anticipated payroll costs of each function, location and program of the District. Because of the nature of most of the District's payroll contracts the amended budget should be highly accurate by November of each year. Overtime and extra duty pay should be authorized and controlled by using the budget. Extra duty and overtime costs should be anticipated, justified and included in the budget, as separate items.

### **III. OTHER CURRENT YEAR MATTERS**

#### **A. Payroll Documentation**

During our tests of payroll transactions we noted inconsistencies with payroll documentation and the data usually available to support the amounts paid to an employee. The items we noted are as follows:

- Extra duty pay stated in employee contracts includes references to additional days of work responsibility. However, there is no documentation regarding the actual number of days of additional service performed.
- In some instances extra duty pay was paid to employees based upon hourly rates. However, the rates paid were below minimum wage guidelines and there was no documentation supporting the number of hours actually worked.

We recommend the District reconsider the contract wording to include payment as stipends for extra duty pay. In the alternative those receiving extra duty pay should be required to provide documentation for the actual amount of work performed and the pay should be adjusted to match. Finally, we recommend that wages stated at an hourly rate comply with Federal wage and hour guidelines.

## **B. Internal Audits**

Over the last few years the activities of the Business Office have expanded to include activities that should be classified as “internal audit functions.” We believe these activities are appropriate in an organization with the size and complexity of Columbia Public School District. Currently the internal audit reports are directed to individuals in the Business Office and other members of the District’s administration. This level of reporting may be considered to be inappropriate for these reports because of the possibility of conflict with the individuals receiving the reports. The internal audit function’s effectiveness as an internal control would be improved through formal reports that are presented to the District’s Audit Committee.

We recommend the District formalize the internal audit function through policy and present all reports and concerns to the audit committee on a regular basis. Internal audit reports are specific exempt documents within the State’s sunshine law, until finalized, and therefore may be used as tools to conduct and report internal investigations.

## **C. Extra-Curricular Activities (ECA) Disbursements**

During our test of ECA disbursements, we noted ECA funds were used to reimburse expenses associated with travel to a seminar. We also noted ECA funds were used to purchase a computer. The seminar and the use of the computer have no apparent relevance to the ECA account the expenses were charged to.

District policy states ECA funds are to only be used for extra-curricular activities benefitting student groups. We recommend the District carefully review all requests for payments related to ECA activities to be sure the expenditure is related to the ECA activity.

## **D. Attendance Software**

During our testing of attendance data for compliance with State regulations, we noted inconsistencies related to attendance totals compared to prior years. The inconsistencies noted turned out to be actual errors in the attendance data. These errors resulted in the under reporting of attendance data. The attendance data was corrected and resubmitted to the State.

The District’s attendance software requires modification to be in compliance with State regulations for tracking student attendance by hour rather than by period, which is the method used by the computer program. The District converted to new software during this fiscal year. While some errors in the program might be expected and even considered tolerable, the conversion of periods to hours is an essential element of compliance with State regulations.

We recommend the attendance software’s data and output be continually monitored during this fiscal year to be sure the results are reasonable and in compliance with State regulations.

## **E. Grant Authorization, Accounting and Reporting**

The District administers numerous grants from federal, state, and local sources. Each of these grants contain different requirements for eligible costs, indirect costs, compliance, requests for reimbursement and reporting. The complexity of these requirements may vary significantly from grant to grant. The District's financial procedures manual requires business office involvement in the grant budgeting process, the accounting process and the final reporting process. During the audit we noted numerous instances where the business office was not notified of the existence of grants, grant employees were not properly assigned to grant activities within the District's general ledger and final expenditure reports were prepared and submitted based upon subsidiary record keeping systems, rather than the District's general ledger.

Without business office involvement in all phases of the grant process the risk of noncompliance with grant requirements, incorrect reporting of eligible costs and under reporting of eligible costs are increased. We recommend the District's existing procedures related to grant accounting be enforced without exception.

## **IV. STATUS OF PRIOR YEAR COMMENTS**

### **A. Transportation Compliance**

We are required by the Missouri Department of Elementary and Secondary Education to report to the Board of Education regarding compliance with regulations affecting transportation aid. With respect to pupil transportation count data we are required to report if the system used by the District produces ridership records that are "accurate and verifiable." Last year our opinion related to compliance with this requirement was adverse.

During the current audit, we did note significant efforts by the District in monitoring compliance with the State's transportation regulations regarding ridership and mileage. Accordingly our report on compliance with State regulations is unmodified.

## **V. PROFESSIONAL STANDARDS COMMUNICATION**

### **A. Nature of Engagement**

We were engaged to perform an opinion audit of Columbia Public School District's financial statements as of and for the year ended June 30, 2007.

### **B. Our Responsibility Under Generally Accepted Auditing Standards and *Government Auditing Standards***

As stated in our engagement letter dated June 1, 2007, 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.

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, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Columbia Public School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **C. 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 Columbia Public School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2007. 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, of transactions for which there is a lack of authoritative guidance or consensus.

### **D. 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.

### **E. 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 judgment, 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 adjustments that were all accepted by management and the effects of which are included in the June 30, 2007, financial statements.

### **F. Material Corrected Misstatements**

We proposed no adjustments of a material nature relative to the net assets of the District taken as a whole.



### **G. Significant Corrected Misstatements**

During the course of the audit we proposed several adjustments which are classified as significant relative to the net assets of the fund(s) affected. The nature of those corrections is as follows:

	<u>Effect on Net Assets</u>
General Fund Grants Receivable	\$ 91,828
General Fund Accounts Payable	(284,277)
Capital Project Fund Accounts Payable	(21,476)
Grants Fund Accounts Receivable	296,349
Grants Fund Accounts Payable	(296,349)
Medical Insurance Fund Accounts Payable	(273,399)

### **H. 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 matter 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.

### **I. 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.

### **J. 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 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.

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

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