

**AUDIT COMMUNICATIONS LETTER FOR  
COLUMBIA PUBLIC SCHOOL DISTRICT  
COLUMBIA, MISSOURI  
JUNE 30, 2004**

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**GK&C**

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October 8, 2004

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

We have audited the financial statements of Columbia Public School District (the "District") for the year ended June 30, 2004, and have issued our report thereon dated October 8, 2004. 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.

Sincerely,



Gerding, Korte & Chitwood  
Certified Public Accountants

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**ROBERT A. GERDING    FRED W. KORTE, JR.    JOSEPH E. CHITWOOD    JAMES R. MCGINNIS**

MEMBERS OF AMERICAN INSTITUTE OF 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 17, 2004, 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 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. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2004. 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.

### 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 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.

### 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

This year we implemented a new audit standard "consideration of fraud in a financial statement audit". The requirements of the audit standard represent a different direction in audit focus related to the District's financial statements. As a result of this year's audit procedures, we present 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 sheet, 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.

### Governmental Accounting Standard no. 39 - Component Units

Governmental Accounting Standard number 39 was effective for the year ended June 30, 2004. This new standard requires governmental entities to include "material" component units in their comprehensive financial statements. A component unit is basically defined as an organization that exists to provide benefits exclusively to a governmental entity, either directly or to the governmental unit's constituents. Materiality is a concept relating the financial size of a component unit to the financial size of the governmental unit.

The Columbia Public School Foundation meets the definition of a component unit but currently is not considered to be material to Columbia Public School District, taken as a whole. In the future this may not be the case. If the Foundation is deemed to be material to the District, the independent auditor's report on the District's financial statements will need to be qualified if the Foundation is not included as a component unit.

## 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.

#### ECA Transaction Controls

We noted the following in our testing of ECA transactions:

- In our tests related to fundraising, we noted an instance where there was no deposit corresponding to fundraising expenses. In investigating this situation, undeposited fundraising receipts from February through April, 2003 were discovered in a file drawer. The funds were deposited subsequent to the discovery. Unfortunately, several of the checks were rejected for payment by the banks.
- During our interview of ECA support staff at one of the schools, we noted that count sheets and reconciliation worksheets used to document collections from events are not retained. Instead, this documentation is thrown away, resulting in no internal control documentation for these deposits.
- We noted an instance where bus costs were reimbursed to a sponsor for an ECA trip. The sponsor indicated that students were responsible for paying for their portion of the cost of the trip. We were unable to determine the amount reimbursed to the District because of inadequate documentation related to ECA deposits.
- We noted several instances where the District's normal purchasing procedures were not followed. For example, we noted an ECA item purchased that was delivered and billed to a sponsor's home rather than the District. We also noted instances where District employees and non-employees were reimbursed for purchases that would normally be paid directly to vendors. In the bus trip example noted above, there is no indication that the vendor used was considered appropriate by District standards. These transactions create an environment whereby disbursement controls could be circumvented for inappropriate purposes. In questioning staff regarding these transaction, we were told that these disbursement items were not isolated incidents.

ECA transactions present a higher risk of fiscal mismanagement due to the number of individuals responsible for the various activities at the District and the nature of the ECA receipts and disbursements. Transaction approval and documentation, along with management oversight are critical in minimizing this risk. With respect to deposits and fundraising, we noted that the Business Office has developed an accounting procedures manual and recently completed a study of the various collection and documentation systems in use throughout the District. Based on our audit procedures, we agree with the Business Office's conclusion that the procedures currently in use are inconsistently applied from school to school, throughout the District.



### ECA Transaction Controls (continued)

The Administration should develop standardized procedures for what documentation is expected with ECA deposits. We recommend documentation of ECA receipts be retained and submitted to the business office. ECA sponsors and administrators should be aware of all fund-raisers and track the deposit of fundraising amounts using the District's accounting system.

Program sponsors should not be allowed to have items delivered to their homes. Invoices and delivery should always be handled through the District's usual purchasing procedures. Sponsors should make volunteers aware of the District's purchasing requirements.

### Bad Debts/Accounts Receivable

In our testing of adult education tuition, we noted that a manual receivable and billing system is maintained by the staff at the Career Center. This system appears to be adequate in providing billing to current students and collection from students throughout the term of a course. However, we noted that the receivable system is not integrated into the District's general accounting system. This results in an incomplete accounting of billings and write-offs.

We also noted that there may be lost revenue related to the collection of delinquent receivables from students who leave a program, prior to completion of a course. Management's estimate of the amount that was billed but not collected during the past year was a significant, but undocumented, amount.

We recommend that the Career Center's accounts receivable be integrated into the District's general ledger so that amounts billed, collected and written-off can be recorded and monitored. Additionally, we recommend the District consider its policy on collection efforts related to bad debts. We believe business office staff should be involved in collection efforts.

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.



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# MEMORANDUM

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**TO:** Board of Education Members  
**FROM:** Phyllis A. Chase *PA*  
**SUBJECT:** Auditors' Communications Letter  
**DATE:** December 14, 2004

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.

### **ECA Transaction Controls**

The district's auditors noted several instances in their testing of extracurricular activities (ECA) transactions where current procedures were not followed. As the auditors stated in their communications letter, "ECA transactions present a higher risk of fiscal management due to the number of individuals responsible for the various activities...and the nature of ECA receipts and disbursements" and "transaction approval and documentation, along with management oversight, are critical in minimizing this risk."

To address this particular recommendation, the district's administration will emphasize the importance of consistently applying and following district established procedures for these transactions to each building administrator. Individuals from the district's business office will meet with the ECA treasurers as a group to discuss the established procedures and follow up with individual treasurers for awareness and compliance regarding these procedures. In addition, business office personnel will meet with all building secretaries to discuss general cash handling procedures.

### **Bad Debts/Receivables**

The auditors recommend that the adult education program's accounts receivable be integrated into the district's general ledger for monitoring amounts billed, collected, and written off. Additionally, the auditors recommend the district formalize its policy on collection efforts related to bad debts for the adult education program.

The administration agrees with this recommendation and currently is working on developing a Request for Proposal for collection services for a third-party agency to collect bad debts for the district.

jlr