

JEFFERSON CITY PUBLIC SCHOOLS

AUDIT COMMUNICATIONS LETTER

JUNE 30, 2014

GK&C
GERDING, KORTE & CHITWOOD

Professional Corporation
Certified Public Accountants



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Certified Public Accountants

December 3, 2014

To the Board of Education
Jefferson City Public Schools
Jefferson City, Missouri

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In planning and performing our audit of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Jefferson City Public Schools (the "District") as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Jefferson City Public Schools' 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Jefferson City Public Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Jefferson City Public Schools' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

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

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This communication is intended solely for the information and use of management, 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. Brian Mitchell, Jason Hoffman, Denise Pierce and other staff for the cooperation and assistance received during the audit engagement and for the opportunity to serve Jefferson City Public Schools.

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. OTHER MATTERS

A. Miscellaneous Purchasing and Accounting Issues

During our testing of general disbursement and capital asset transactions we noted areas in which compliance and internal control with respect to the District's policies for purchasing and overall accounting could be improved:

- a. *Purchase Orders* – The District's policies and procedures require that approved purchase orders be obtained prior to obligating the District for a purchase. During our audit testing, we noted numerous instances where purchases orders were not obtained.
- b. *Competitive Purchasing* – We noted that the documentation retained by the Business Office supporting purchases does not include information regarding compliance with the District's policy on competitive purchasing (bidding requirements). We requested such documentation related to several purchases meeting the criteria specified in the District's policy. In many instances such documentation existed, but not in all cases.
- c. *Purchasing Cards* – We reviewed the purchasing card limits for District personnel in place at the time of the audit with Business Office personnel. We noted that there was general agreement that many of the limits should be lowered to achieve better internal control. We also noted that a terminated employee's purchasing card remained active for several months following the employee's termination date.

Compliance with Board of Education policy in purchasing is essential. Additionally, the policies and procedures employed by the District should be workable and applicable to all departments and activities of the District. To improve compliance and internal control we recommend the following:

- a. We recommend Board Policy DJF and the related Board Procedure DJF be re-considered to include certain exceptions to purchase order requirements for certain recurring purchases, such as utilities.
- b. The use of purchase orders for student activity related purchases would improve internal control over those purchases.
- c. The Business Office should require that competitive purchasing documentation accompany purchase order requests, where applicable. Such documentation should be included with the materials currently retained to document purchases.
- d. Purchasing card limits should be routinely evaluated by the Chief Financial Officer and increased or lowered as circumstances dictate.

B. Capital Assets – Equipment Purchases

The District's accounting system and the inventory data base and depreciation systems are well integrated and performing as intended for land, buildings and improvements. A similar system should be developed for equipment purchases. Other than equipment purchased for the Maintenance department, few additions were made to the inventory and depreciation system. We identified approximately \$300,000 of purchases that meet the criteria for inclusion into the inventory and depreciation data base, but were not included.

To account for equipment purchases, it would be an improvement to identify purchases to be inventoried and depreciated as they are being made. This could be accomplished by expanding the information on the purchase order to include appropriate capital asset information. The approved purchase order would serve as the input data for the inventory data base. Adjustments could be made to actual purchase cost as necessary. The equipment purchases are already segregated to the capital projects fund and should reconcile to the additions to the inventory data base each year.

C. Student Activity Accounts

Internal control over student activity accounts is an issue facing every school district. Typically, the faculty and staff involved in student activity accounts may have financial management skills ranging from excellent to poor. Accordingly, the adherence to District policy and procedure and the related documentation also ranges from excellent to poor. Our testing of student activity account transactions at Jefferson City Public Schools revealed a typical pattern of excellent documentation, in some cases, to poor documentation in others.

At most school districts, the cost/benefit of training staff, documenting transactions and administrative monitoring student activity transactions usually falls on the side of less, rather than more. This is because in comparison to other financial activities of any school district, student activity transactions are insignificant, especially when considered at the level of any single activity. This creates a situation where the risks of financial irregularities are increased with respect to student activity transactions.

The District may want to increase internal control over student activity account transactions by implementing some of the following:

- Increasing the procedure related training for student activity sponsors and coaches.
- Requiring standardized deposit documentation.
- Requiring adherence to District purchasing policies.
- Requiring specific budgets for certain large activity accounts, with administrative monitoring of actual financial results compared to the budget.
- Requiring preapproval of fundraising activities and administrative monitoring of fundraising activities.

D. Audit Committee

The Board of Education may want to consider establishing an audit committee to improve communication and transparency in the audit process. The primary reason to have the committee is to provide a mechanism for communicating audit expectations from the Board of Education to the auditor and providing a more efficient way to communicate audit results to the Board of Education. Most of the policy services in the State have example audit committee policies. Such a boiler-plate policy could be adapted to meet the needs of the District.

III. STATUS OF PRIOR YEAR COMMENTS

Purchasing Policies

In the prior year we reported on several compliance and internal control issues related to the District's purchasing policies. There continue to be issues, which are addressed in Section II., Item A.

IV. PROFESSIONAL STANDARDS COMMUNICATION

A. Nature of Engagement

We were engaged to perform an opinion audit of Jefferson City Public Schools' financial statements as of and for the year ended June 30, 2014.

B. Our Responsibility under Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated June 4, 2014, 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 Jefferson City Public Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

C. Qualitative Aspects of Accounting Practices

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 Jefferson City Public Schools 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, 2014. 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.

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 financial statement disclosures are neutral, consistent and clear.

D. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all 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. 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, to the financial statements taken as a whole.

E. 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.

F. Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 3, 2014.

G. 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 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.

H. 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 Jefferson City Public Schools’ auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

I. Difficulties Encountered in Performing the Audit

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

J. Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, 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.