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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Board of Trustees
Florence-Carlton Public School
District No. 15-6, Ravalli County
Florence, Montana

I have audited the financial statements of the government activities, each major fund, and the aggregate remaining fund information of the Florence-Carlton Public School, Ravalli County, Florence, Montana, as of and for the year ended June 30, 2007, and have issued my report thereon dated January 20, 2009. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the School's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of School's internal control over financial reporting.

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 entity'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 School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the local governments' internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses.

I consider item 07-01 listed below to be significant deficiency and item 07-2 listed below to be a material weakness in internal control over financial reporting.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the School's compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance 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 my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain other matters, listed below:

FINDING - SIGNIFICANT DEFICIENCY:

07-01 Cash Reconciliations

Federal regulations require that federal payroll taxes be paid to the U. S. Treasury via electronic transfer. Consequently, the District writes a check on the County Treasury for deposit in a bank for the electronic transfer. In 2007, the checks for federal payroll taxes were deposited in the bank but the authorization for the electronic transfer to the U. S. Treasury was not done. This was discovered by the District in October 2007 when the District was notified by the IRS. As a result of the late electronic transfer, the District was assessed a significant fine by the Internal Revenue Service.

In addition, cash reconciliations with the County Treasurer were not completed for the clearing account funds in 2007. Good internal control and state law require that monthly reconciliations must be done in a complete and accurate manner within a reasonable time period. In addition, having a second person review the reconciliation provides stronger control.

Further, the District has approximately $8,500 of warrants over one year old that should be cancelled and the funds returned to the fund from which the money was originally expended.

Accordingly, I recommend the Clerk develop procedures to reconcile cash for all funds with the County Treasurer monthly including the payroll tax transfer account and any other such accounts. The School should designate another employee to review the monthly cash reconciliations. The Clerk should also request the Board to authorize the cancellation of outstanding warrants and checks over one year old.

FINDING - MATERIAL WEAKNESS:

07-02 Financial Reporting

Auditing standards that became effective December 15, 2006, require the auditor to determine whether the School's internal control system allows for the reliable reporting of financial data in accordance with generally accepted accounting principles (GAAP). The School does not have the expertise to prepare or to evaluate the auditor prepared financial statements to ensure proper preparation in accordance with GAAP.

It may not be cost effective for the School to retain and train personnel to evaluate or prepare GAAP financial statements. However, I recommend the School consider correcting this material weakness in their internal controls over financial statement preparation by hiring a qualified consultant to evaluate the auditor prepared financial statements. Management should be aware of and continue to evaluate the impact of this deficiency.

OTHER MATTERS:

Interest Allocations - During our review of interest income, I noted that it appeared that interest was not being allocated correctly. State law requires interest be allocated equitably based on the amount of money in each fund. Improper allocation can result in improper property tax levies.

The School should develop procedures to properly allocate interest earning based on the systematic method based on ending monthly cash balances.

Obligations - The District obligated approximately $4,600 of expenditures out of the miscellaneous projects fund for summer transportation services. State law (MCA 20-9-209) restricts the use of obligations to uncompleted construction costs and purchases of personal property.

The District should review obligations at year end to ensure that all obligations recorded are allowable under state law.

Capital Assets - The District did not record accumulated deprecation on the Trustee's Financial Summary at June 30, 2007 nor the depreciation expense for the year ending June 30, 2007. In addition, the amounts for capital outlay expenditures was incorrect. State law (MCA 20-9-213 (1)) requires the School to record the financial activity in accordance with generally accepted accounting principles.

Accordingly, I recommend the School develop procedures to properly record and classify capital assets and outlays properly. I would recommend the Business Manager be allowed to attend the educational conferences offered each year by OPI and the School Business Officials Association.

Student Activity Funds - The ending balances at June 30, 2007 in six activity accounts show a negative balance. The School has adopted the Student Activity Fund Accounting Manual which state's that Fund accounts should not be permitted to become overdrawn, in that the overdraft becomes a liability to other funds and to future classes. Whenever a fund account becomes nearly depleted, remedial action should be ordered immediately by the Board or its designate.

Consequently, I recommend that the School develop procedures to periodically review and remedy any negative balances.

Other Accounting Adjustments - Several adjustments were made to the School's Trustee's Financial Summary (TFS) as a result of the audit; A) the TFS did not include the taxes receivable balances for Missoula County; B) the TFS's long term debt portion included a significant item that had to be eliminated, C) the unspent portion of local donations were recorded as deferred revenue rather than current year activity, and D) cash balances held at the local bank were not deposited at the County at year and were recorded as other assets rather than cash.

I recommend that the School provide training to its staff to ensure that the Trustee's Financial Summary is accurately prepared in accordance with generally accepted accounting principles.

PRIOR YEAR AUDIT FINDINGS

06-1 **Monitoring Revenue** - No exceptions were noted in 2007

06-2 **Extracurricular/Student Activity Funds** - Implemented

In accordance with State law (MCA 2-7-515), within 30 days upon the receipt of the final audit report, the District's Board of Trustees is required to respond to the Department of Administration and the Office of Public Instruction concerning audit findings. This response should be in writing and include what action they plan to take on any deficiencies or recommendations contained in the audit report.

This report is intended solely for the information and use of the School, Ravalli and Missoula Counties, and the State of Montana's Office of Public Instruction and Department of Administration and is not intended to be and should not be used by anyone other than these specified parties.

Donald Paul Dratz

January 20, 2009