

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South, P.O. Box 1957, Kalispell, MT 59903-1957

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

Board of Trustees
Florence-Carlton Public School
Ravalli County
Florence, Montana

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Florence-Carlton Public School, Ravalli County, Montana, as of and for the year ended June 30, 2008, which collectively comprise the Florence-Carlton Public School's basic financial statements and have issued our report thereon dated June 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 our audit, we considered the Florence-Carlton Public School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Florence-Carlton Public School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Florence-Carlton Public School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 Florence-Carlton Public School'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in the internal control over financial reporting.

08-1 Claims Coding

Condition:

1. During our audit we identified an operating lease which was incorrectly booked as a capital lease.
2. We also noted certain items were coded as capital outlay that should not have been coded as such. The items did not meet the District's capitalization policy.
3. The District did not record accumulated depreciation on the Trustee's Financial Summary at June 30, 2008 nor the depreciation expense for the year ending June 30, 2008.

Criteria:

1. The School Accounting Manual states that:
"Capital Lease" transfers substantially all the benefits and risks inherent in ownership of the property to the lessee, who accounts for the lease as an acquisition of property and incurrence of a liability.

If, at the inception of the lease, a lease meets one or more of the following criteria, the lease should be classified as a capital lease:

- a. By the end of the lease term, ownership of the leased property is transferred to the lessee;
- b. Lease has a bargain purchase option, meaning the lessee may purchase the property during the term of the lease at an amount substantially less than the estimated fair value of the property;
- c. The lease term is 75% or more of the property's estimated useful life (unless the lease begins in the final 25% of the asset's life);
- d. The present value of minimum lease payments is 90% or more of the fair value of the leased property (unless the lease begins in the final 25% of the asset's life).

"Operating Lease" is any lease which does not meet at least one of the criteria above for capital leases. Operating leases are accounted for in the same manner as rent payments.

2. Only purchases that meet the District's capitalization policy should be coded to the capital outlay.
3. Recorded depreciation expense and the related accumulated depreciation need to be reported on the Trustee's Financial Summary.

Effect:

Internal control weakness.

Recommendation:

The District should correct coding for operating leases and capital outlay in the future. In addition, the Trustees' Financial Summary schedule of changes in capital assets should be properly updated and completed each fiscal year.

08-2 Reporting Errors

Condition:

The District did not report the payroll and claims funds cash and outstanding warrants and had not been reconciling these funds to the county treasurer. Plus the district overstated cash and other current liabilities in the student activity fund on the Trustees' Financial Summary for the fiscal year ended June 30, 2008. Additionally, the Schedule of Changes in Long-Term Liabilities in the Trustees' Financial Summary did not agree to the subsidiary records. Finally, the District reported \$67,150 as deferred revenue in the miscellaneous programs fund which did not meet the definition of deferred revenue.

Criteria:

Internal control procedures regarding completeness, presentation and disclosure were not adequate.

Effect:

Cash and warrants payable were understated by \$35,056 in Payroll fund and by \$37,537 in Claims fund for a total of \$72,593. Cash and other Current Liabilities were overstated in the Student Activities Fund \$49,206 and \$57,365, respectively. The schedule of changes in long-term liabilities was not reconciled to the subsidiary records to ensure proper reporting. The long-term debt has been properly reported in the audit report. The miscellaneous programs fund deferred revenue was overstated \$67,150, revenue was understated 36,170 and restatement understate 30,980.

Recommendation:

The District should report all fund activity including the payroll and claims clearing funds and reconcile these funds monthly to the county treasurer and outstanding warrants. Plus the District should ensure the student activity reported agrees to the subsidiary records prior to reporting on the Trustees' Financial Summary. The District should ensure the amounts reported on the Schedule of Changes in Long-Term Liabilities agrees to subsidiary records. Finally, the District should only report those revenues meeting the revenue recognition criteria as deferred revenue.

08-3 Student Activity Internal Control

Condition:

Per review of the internal controls related to student activity accounting we noted the following weaknesses:

1. The cash box and ticket verification form did not always include verification of the amount of the box on pickup.
2. The cash box and ticket verification form did not always include the ticket numbers or other support for the gate.
3. The person preparing the cash box form did not always sign the form indicating amount of cash originally in the box.
4. The person verifying the cash returned did not sign the form.
5. The receipts for fund raisers and concessions did not include the supporting documentation of sales for the person receipting the monies to verify all monies received were turned in for deposit.
6. We were not able to agree the cash and checks per the bank deposit and deposit summary to subsidiary records of cash and checks collected.

7. Support for some types of receipts which were turned in to the High School Secretary was given back to the sponsor with a one-write receipt and not maintained as supporting documentation for the monies received.
8. Lunch receipts were not preprinted with the District name and at the High School level not issued consecutively from book to book.
9. Several student activity accounts had negative balances as of June 30, 2008.

Criteria:

Internal control procedures should be in place to with regards to cash receipting to safeguard assets and ensure proper presentation and disclosure.

Effect:

The internal control procedures were weak with regards to student activity fund/ account receipting and reporting.

Recommendation:

The District should implement procedures to ensure procedures in place are consistently followed, supporting documentation is maintain for all receipts, supporting documentation is obtained for fund raisers and concessions to verify all monies collected are turned in for deposit, preprinted receipts should be used for all receipting processes and the cash and checks documentation should be recorded on the one write system for all receipts. Finally, controls should be in place to ensure the individual accounts within the student activity fund do not have negative balances.

08-4 Recording of Claims

Condition:

During our audit we noted that one claim was incorrectly recorded in fiscal year 2008 when in fact it should have been a prior year expenditure.

Criteria:

Expenditures should be recorded in the period in which the goods and/or services are received.

Effect:

Expenditures for current year were overstated and expenditures for prior year were understated.

Recommendation:

The District should ensure that invoices received close to the year end or just after the year-end are properly recorded in the proper fiscal year.

08-5 Managerial Review of Journal Vouchers

Condition:

Monthly accrual/journal entries were not reviewed by a manager/supervisor.

Criteria:

A proper system of internal control requires all journal entries including accruals to be reviewed by a supervisor or manager.

Effect:

Control procedures were weak regarding adjusting journal entries.

Recommendation:

The superintendent and/or board should review and approve all of the District adjusting journal entries.

A material weakness is a significant deficiency, or 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 entity's internal control.

Our 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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that item 08-2 of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Florence-Carlton Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

Florence-Carlton Public School's response to the findings identified in our audit is described in the Auditee's Response to Findings included in this report. We did not audit Florence-Carlton Public School's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, the Montana Department of Administration, the Montana Office of Public Instruction, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Denning, Downey and Associates, CPAs, P.C.

June 18, 2009

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON OTHER COMPLIANCE, FINANCIAL, AND INTERNAL ACCOUNTING
CONTROL MATTERS**

Board of Trustees
Florence-Carlton Public School
Ravalli County
Florence, Montana

There were no other compliance, financial, or internal accounting matters.

Denning, Downey and Associates, CPA's, P.C.

June 18, 2009

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REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of Trustees
Florence-Carlton Public School
Ravalli County
Florence, Montana

The prior audit report contained nine recommendations. The action taken on each recommendation is as follows:

<u>Recommendation</u>	<u>Action Taken</u>
Significant Deficiency in Cash Reconciliations	Repeated
Material Weakness in Financial Reporting	Implemented
Interest Allocations	Implemented
Obligations	Implemented
Capital Assets	Repeated
Student Activity Funds	Repeated
Other Accounting Adjustments – Taxes Receivable	Implemented
Other Accounting Adjustments – Long-term Debt	Repeated
Other Accounting Adjustments - Donations	Repeated

Denning, Downey and Associates, CPAs, P.C.

June 18, 2009

June 25, 2009

Montana Department of Administration
Local Government Services Bureau-Systems Program
301 South Park Avenue Room 340
P. O. Box 200547
Helena, MT 59620-0547

RE: Audit for Fiscal Year 2008

The following is our district's response to the "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" that Denning, Downey & Associates, P.C. listed in their report and the corrective actions that we plan to implement or that are already in place.

Reporting Errors:

Denning, Downey & Associates, P.C. noted that the cash reconciliation with the County Treasurer were not completed for the clearing account funds in 2008, the district overstated cash & other current liabilities on the TFS, the schedule of Changes in Long-term Liabilities was not correct on the TFS, and deferred revenue was recorded incorrectly.

Please note that as these findings were also presented in January 2009 audit of the 2007 school year, these corrections will be made during the 2009 year & were not noted in time to correct on the 2008 school year information.

The District did reconcile the clearing account funds in the way that the Business Manager/Clerk thought was correct, but through this audit has learned that it was not the correct way. The District will seek the advice of the auditor and/or another Business Manager/Clerk to learn the correct way to handle/reconcile the clearing accounts correctly and as with all other funds that are reconciled each month the District will review the reconciliations with the Superintendent. The District will ensure that the student activity reported agrees to the subsidiary records prior to reporting on the TFS. As the current Business Manager has not worked with the Schedule of Changes in Long-Term Liabilities in the past, the District will, from this point on, ensure the amounts reported on this schedule agrees to subsidiary records. The District will also only report those revenues meeting the revenue recognition criteria as deferred revenue, and not continue the past practice of reporting the deferred revenue.

Claims Coding:

Denning, Downey & Associates, P.C. noted that an operating lease was incorrectly booked as a capital lease and that certain items were also coded as capital outlay that should not have been. The District did not record accumulated depreciation on the TFS, this was also presented in January 2009 audit of the 2007 school year, these corrections will be made during the 2009 year & were not noted in time to correct on the 2008 school year information.

The District will make sure there is correct coding for items that qualify for capital outlay as well as all other areas. The District and Business Manager/Clerk have been made aware that the accumulated depreciation and the depreciation expense need to be recorded on the Trustees Financial Summary. The depreciation schedule has been done in the past each year alongside the auditor, but not recorded on the Trustees Financial Summary. The District will continue to record the accumulated depreciation and depreciation expenses and make sure that information is included in the Trustees Financial Summary.

Student Activity Internal Control:

Per review of the internal controls related to student activity accounting there were areas that Denning, Downey & Associates, P.C. thought could be improved on.

The District will implement procedures to ensure procedures in place are consistently followed, supporting documentation is maintained for all receipts, supporting documentation is obtained for fund raisers and concessions to verify all monies collected are turned in for deposit, preprinted receipts will be used for all receipting processes and the cash and checks documentation will be recorded on the one write system for all receipts. The District had accounts in the negative balance at the end of the 2008 school year and these accounts will no longer be allowed to do so. The District will review and make sure that none of the activity accounts are in the negative and remedy any that are becoming nearly depleted. The District would like to note that in the Booster Club Concessions account, the balance is usually at zero as this is used just for the Booster Club to pay for their Coca-Cola purchases for the concession stand in the school. In this instance they had not deposited their funds yet to zero out their account, showing a negative balance on June 30, 2008. Also please note that at the end of the 2009 school year, the Booster Club account will be closed and no longer use to pay their Coca-Cola bills. Again, please note that this last finding regarding the negative balances was also presented in January 2009 audit of the 2007 school year, these corrections will be made during the 2009 year & were not noted in time to correct on the 2008 school year information.

Recording of Claims:

Denning, Downey & Associates, P.C. noted that one claim ("215" expenditure coming out of the State OTO Weatherization & Deferred Maintenance fund) was incorrectly recorded in FY 2007-2008 when it should have been a prior year expenditure.

The District will make sure that invoices received close to the year end or just after the year end are properly recorded.

Managerial Review of Journal Vouchers

Denning, Downey & Associates, P.C. noted that monthly accrual/journal entries were not reviewed by a manager/supervisor.

The District will ensure that the superintendent and/or board review and approve all of the District adjusting journal entries.

Sincerely,

Mr. John McGee
Superintendent,
Florence-Carlton School

Ms. Julie Mason
Business Manager,
Florence-Carlton School

JM/jm