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, 2009, which collectively comprise the Florence-
Carlton Public School’s basic financial statements and have issued our report thereon dated June
3, 2010. 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.
Claims / Capital Assets

Condition:
We noted in different areas of the audit that:
1. 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.
2. The District did not record accumulated depreciation on the Trustee's Financial Summary at June 30, 2009 nor the depreciation expense for the year ending June 30, 2009.
3. The District did not record new assets on the Trustee's Financial Summary at June 30, 2009.

Criteria:
1. Only capital assets that meet the District's capitalization policy should be added to the capital asset listing.
2. Recorded depreciation expense and the related accumulated depreciation need to be reported on the Trustee's Financial Summary.
3. New assets should be recorded on the Trustee's Financial Summary.

Effect:
Internal control weaknesses were noted related to safeguarding of assets and presentation and disclosure.

Cause:
The District coded expenses incorrectly to capital outlay, and has not updated the Trustees' Financial Summary with the appropriate capital asset information.

Recommendation:
Review auditors' criteria above and record accordingly in the next fiscal year.

Auditee response:
The District will review the auditors' criteria and record accordingly in the next fiscal year. The depreciation schedule and new assets 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. These corrections will show in the 2009-2010 TFS.

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 upon pickup.
2. The cash box and ticket verification form did not always include the ticket numbers or other support for 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 the subsidiary records of cash and checks collected.

7. Support for some types of receipts which is 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. Deposits were not taken to the bank in a timely manner.

10. Of the 25 claims tested from student activities, two did not have adequate supporting documentation and two of the claims documentation could not be located.

11. Referees did not sign that they have worked and received their compensation.

Criteria:
Internal control procedures should be in place to with regards to cash receipting to safeguard assets and allow for accurate presentation and disclosure.

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

Cause:
The proper internal controls had not been established.

Recommendation:
The District should 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 should be used for all receipting processes and the cash and checks documentation should be recorded on the one-write system for all receipts. When deposits are received at the District office they should take them to the bank in a timely manner. Proper controls should be put into place so that all supporting documentation is maintained for claims paid. Finally, referees should sign that they have worked and they have received their compensation.

Auditee response:
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 would like to note that all of the above improvements have been implemented for the 2009-2010 school year, the 2008-2009 school year was over by the time these improvements were suggested. The District has also implemented the standard that any deposits received by the District Office must be deposited into the bank.
within forty-eight hours. The District from this point on will also require that referees sign that they have worked and they have received their compensation.

09-3 Managerial Review of Journal Vouchers

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

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

Effect:
Control procedures were weak regarding adjusting journal entries.

Cause:
Internal control procedures had not been established.

Recommendation:
The Superintendent and/or Board should review and approve all District adjusting journal entries.

Auditee response:
The District did review journal entries with the superintendent and reported them to the Board. I do any adjusting journal entries at the end of the fiscal year and report on them at the last board meeting of each fiscal year. The District will from this point on continue to review and report the journal entries and also have the Superintendent and/or Board sign off on them.

09-4 Reporting Errors

Condition:
The District did not report the Payroll and Claims Funds cash and outstanding warrants and had not reconciled 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 (TFS) for the fiscal year ended June 30, 2009. 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 $65,699 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 $295,400 in Payroll Fund, and by $86,675 in Claims Fund, for a total of $382,075. Cash and other current liabilities were overstated in the Student Activities Fund $53,400 and $57,219, respectively. The schedule of changes in long-term liabilities was not reconciled to the subsidiary records to ensure proper reporting. The Miscellaneous Programs Fund deferred revenue was
overstated by $65,699, revenue was understated by $5,171 and restatement understated by $60,528. The audit report has been corrected.

Cause:
The district has not been properly balancing the payroll and claims clearing funds, student activity fund, or long-term debt reported. The District is not reporting deferred revenue according to revenue recognition criteria.

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. Finally, the District should ensure that the amounts reported on the Schedule of Changes in Long-Term Liabilities agree to subsidiary records. The District should only report those revenues meeting the revenue recognition criteria as deferred revenue.

Auditee response:
The District tried to resolve the clearing account issues by asking a few different sources for opinions/help, but was not able to resolve the issue by the time the 2008-2009 TFS was due. Through this audit it was discovered that the clearing funds were not and had not been utilized with our previous software program (Foxie Lady) in the past. It was suggested that with the new software program (Black Mountain) the district reconcile the clearing funds and outstanding warrants and from that point on the clearing funds would be accurate. These funds will show that they are accurate in the 2009-2010 school year along with all of the other accounts that are reconciled each month. The District will seek the advice of the auditor when reporting this on the 2009-2010 TFS. The District will ensure that the student activity reported agrees to the subsidiary records prior to reporting on the TFS. During this audit the auditor did inform the District the correct way to report this fund. In the past the outstanding warrants were listed as liabilities and should not have been and the cash balance was pulled from the bank statement balance and should have been pulled from the reconciled statement. The District will also confirm this with the auditor when reporting on the 2009-2010 TFS. With the help of the auditor the District now has a clear understanding of the Schedule of Changes in Long-Term Liabilities and what exactly is to be reported, the District will correctly report the amounts on this schedule to agree with subsidiary records. The District will only report those revenues meeting the revenue recognition criteria as deferred revenue, and not continue the past practice of reporting the deferred revenue. This will show corrected in the 2009-2010 TFS. The District will seek the advice/guidance of the auditor to make sure that these areas are indeed being reported correctly on the 2009-2010 and all future TFS.

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.

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weaknesses. However, of the significant deficiencies described above, we consider item 09-4 to be 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 above. 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.

Dearing, Downey and Associates, CPA’s, P.C.

June 3, 2010
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 & Associates, P.C.

June 3, 2010