

CORBETT SCHOOL DISTRICT NO. 39
MULTNOMAH COUNTY, OREGON

MANAGEMENT LETTER
(SAS 115 LETTER)

FOR THE YEAR ENDED JUNE 30, 2011



12700 SW 72nd Ave.
Tigard, OR 97223

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PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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December 29, 2011

Corbett School District
Corbett, Oregon

In planning and performing our audit of the basic financial statements of Corbett School District as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the internal control over financial reporting (internal control) 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 internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Auditing Standards Board issued SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, effective for audits of financial statements for periods ending on or after December 15, 2009. This statement requires auditors to evaluate identified control deficiencies and determine whether those deficiencies, individually or in combination, are significant deficiencies or material weaknesses, and if so communicate them in writing to those charged with governance.

The following significant deficiencies were noted during 2010-11:

1. During our testing of bank reconciliations we noted several instances where there was no documentation of when bank reconciliations were prepared or independently reviewed. Proper controls should be in place and monitored to ensure monthly reconciliations are accurate, completed, and reviewed in a timely manner. Without these controls in place, the possibility exists for intentional or unintentional errors or irregularities to exist and go undetected for an unreasonable amount of time and therefore increases the likelihood of a material misstatement. We recommend that a process be put in place to ensure consistent documentation and timeliness of the preparation and independent review of bank reconciliations.

2. During our testing of the bills, we noted instances of no approval evidenced on supporting documentation. We recommend that all disbursements obtain approval on supporting documentation before a disbursement is made.
3. During our testing of Student Activity Fund bills and receipts we noted that deposits did not detail which receipts are in the deposit. Proper controls should be in place and monitored to ensure that all cash received is properly recorded. Without proper controls or procedures in place to properly record cash receipts, there is a likelihood of an intentional error or irregularity existing and not being detected over time could result in a material misstatement in the financial statements. We recommend that a listing of receipts that matches the total of the deposit be retained to support each deposit.
4. We noted that there is no evidence of approval for various adjusting journal entries. Without evidence of approval, the possibility exists for intentional or unintentional errors or irregularities to exist and go undetected for an unreasonable amount of time and therefore increases the likelihood of a material misstatement. We recommend that all adjusting journal entries be reviewed by someone independent of the process.
5. During our testing of bills the District was unable to provide one document requested from our sample. Without supporting documentation, the possibility exists for intentional or unintentional errors or irregularities to exist and go undetected for an unreasonable amount of time and therefore increases the likelihood of a material misstatement. We recommend that all documentation be retained and provided in future instances.
6. During our review of payroll procedures, we noted that there is no documented independent review of the direct deposit reports. We recommend that all payroll be reviewed by someone independent of the process and that there be documentation of that review.
7. Upon arriving for final fieldwork we discovered that payroll liabilities and capital assets were not reconciled. As agreed to in our engagement letter, the District is responsible for the audit preparation in accordance with the prep-lists. It is unclear what responsibilities the Board has assigned to the Superintendent, ESD or the Business Manager to monitor that timely and accurate financial information is available to the Board. We recommend the District adopt procedures for preparation of documentation for the audit and communication with the auditors' that will facilitate timely completion of reports.
8. We noted that the District does not have a written internal control policies and procedures document. We believe the District should adopt formal policies and procedures for all accounting areas, especially as it pertains to internal controls and the identification of key controls.
9. During our testing of payroll, we noted instances where employees did not have I-9's on file. We recommend that the District ensure that all employees have all required employment documentation in accordance with federal and state laws.

Other Matters – Not Significant Deficiencies

1. In reviewing fidelity insurance coverage we noticed that the District carries cash and investment balances in excess of the insurance coverage amount. We recommend that the Board examine this exposure risk and make a determination as to the amount of coverage they feel is prudent in regard to their oversight.
2. The District has contracted with an Education Service District (ESD) as a service organization for student accounting and information technology services. The ESD does not have a SAS 70 (service provider) report or internal control report covering their operations, accounting processing and information technology controls. The possibility exists that errors or irregularities, including the improper use of student or staff personal information, could exist and not be detected. While nothing came to our attention during our testing, we recommend the Board review the risks regarding this matter and consider

getting assurance from the ESD that will reduce the District's risks, including being named as an additional insured on their policies.

3. The Internal Revenue Service (IRS) has published 403(b) regulations providing updated guidance on several administrative compliance requirements. The District has contracted with a third party to outsource compliance with these requirements. Noncompliance subjects the District to potential penalties and fines. Since the third party provider does not provide the District with a SAS 70 service provider report or internal control report covering their operations, we recommend that the District monitor current practices to determine compliance with accountability requirements for Section 403(b) and Section 457 plans and consider the sufficiency of documentation received from the third party vendor to reduce the District's risks in this area. The District should also consider being named as an additional insured on the vendors insurance policies.
4. Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. We recommend that the Board continually monitor the financial activities to mitigate this risk.
5. We noted that the District has more than the legally required number of funds. According to NCGA Statement 1, Paragraph 4, "Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration." We recommend that the District consider closing funds that are not required to be in a separate fund. Both GFOA (Government Finance Officers Association) and GASB (Governmental Accounting Standards Board) encourage governments to use the minimum number of funds.

This communication is intended solely for the information and use of management and the Board, and is not intended to be and should not be used by anyone other than these specified parties.



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