

THE BOARD OF EDUCATION OF
SOMERSET COUNTY

AUDIT COMMUNICATIONS

JUNE 30, 2014

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I. COMMUNICATIONS WITH THOSE CHARGED WITH
GOVERNANCE UNDER SAS NO. 114

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did identify significant adjustments that were needed as a result of our testing of bank reconciliations, liabilities and other accounts. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 14, 2014.

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 Board's financial statements or a determination of the type of auditor's opinion that may be expressed on those 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.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as The Board of Education of Somerset County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to Management's Discussion and Analysis and Required Supplementary Information, as listed in the table of contents, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

II. COMMENTS AND RECOMMENDATIONS

CURRENT YEAR COMMENTS

PERFORM A RISK ASSESSMENT

We noted that the Board had not yet completed a risk assessment of the organization. To address the risk of misappropriation of assets, we again recommend that the Board perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Board's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Board. Once areas vulnerable to fraud or other risks have been identified, a review of the systems, procedures, and existing controls relating to the identified areas should be conducted. The Board should consider what additional controls need to be implemented to reduce the risk of fraud. When assessing internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered.

REVIEW OF SCHOOL ACTIVITY FUNDS

During our audits, we noted the following regarding school activity accounts:

CASH RECEIPTS AND TIMELY DEPOSITS

1. For several schools, the cash collected by the bookkeeper was not deposited timely. We also noted a gate receipts at one school was not deposited timely. Due to increased fraud risks related to cash, deposits should be made daily, weekly at a minimum.
2. For three schools, there were several deposits selected in our testing that did not have adequate support provided. Cash receipts logs should be dated, signed and account should be noted. All support should be complete and accurate.

SUPPORTING DOCUMENTATION AND SALES TAXES

1. For several schools, sales tax was not calculated properly. Total sales were not properly calculated, resulting in a sales tax underpayment.
2. For two schools, sales tax was paid by the school. Sales tax should not be paid by the school and the tax exempt number should be provided during the time of purchase.
3. For three schools, there were several invoices selected in our testing that did not have the proper supporting documentation. All invoices should have complete and accurate supporting documentation.

GENERAL COMMENTS

1. For many of the schools, the opening balances in the fund balance spreadsheet were not updated to reflect the correct balance in the prior year financial statements. Various amounts entered as transfers, revenues, and expenditures in the fund balance spreadsheet also did not agree to Quicken. The fund balance report and the Quicken reports should agree with the year end audited balances.
2. We also encourage finance personnel to continue to monitor schools on a frequent basis. Due to limited segregation of duties at the schools, internal controls should continue to be supplemented by having an independent person review bank statements and fund reports on a monthly basis.

**III. COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES
IDENTIFIED IN AN AUDIT UNDER SAS NO. 115**