



Watkins Uiberall, PLLC
Certified Public Accountants & Financial Advisors
Independent Member of BKR International



Communication of Significant Deficiencies

December 9, 2015

To the Chairman and Members of the
Shelby County Board of Education

In planning and performing our audit of the financial statements of the governmental activities, each major fund, the aggregate remaining fund information, and the budgetary comparison for the general fund and special revenue – categorically aided fund of the Shelby County Board of Education (the Board) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Board's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiency in internal control to be a significant deficiency:

Disposal Of Capital Assets Not Recorded

During our auditing procedures related to capital assets, we identified a capital asset gain account with a significant balance in the general fund which had not been reconciled. After inquiry, it was determined that 283 buses with a net book value of approximately four million dollars were sold, and the disposal and related gain were not recorded in the capital asset accounting system. Capital assets should be disposed within the accounting system timely to ensure accurate financial reporting and proper monitoring of assets. We recommend that steps be taken by management to ensure that all appropriate capital assets are recorded and reflected in the accounting records at the time of disposal.

Management's Response

Response from Finance

Proceeds from the sale of capital assets are usually accounted for in the capital projects fund. Therefore, our normal process involved calculating the gain on the sale of assets coded to the capital projects fund only. However, the district understands the importance of timely disposals and capital gain recognition for all funds. Under the direction of the new Chief Financial Officer, the district has established procedures that are comprehensive of all actions related to the sale of assets. At the point of Board approval, the sale of assets are added to a tracking log. This log tracks the approval, proceeds, and disposal of all assets regardless of the source purchase fund. In collaboration with Asset Management, this process will ensure disposals are completed in a timely manner and the gain on capital assets is properly reflected in the financial statements.

Response from Asset Management

The Office of Asset Management (OAM) will train all Business Operations and Finance management personnel responsible for vehicles and capital asset accounting on the asset disposition protocol for the disposal of vehicles. Training will be provided and documented no later than January 15, 2016. Additionally, to ensure an accurate accounting of all vehicles, a physical annual inventory count will be completed by May 31, 2016. Any discrepancies identified will be reconciled within 30 business days.

During our audit, we also became aware of the following deficiencies in internal control, other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency:

Purchase Order Approval

During our audit, we were made aware of an instance during the fiscal year in which a board policy had been circumvented when an employee was directed by management to amend a purchase order in the system for a dollar amount of approximately two million dollars more than the board of directors approved. The controls in place did not prevent this from occurring due to pressure from management. We recommend that

management remind employees of the board policy and to report any request by a superior to circumvent any policies. We did note that management had discovered the issue internally and has changed board approval policy in order to strengthen internal controls.

Management's Response

The Department of Procurement Services management issued a communication to the Procurement Services staff on December 9, 2015, as a reminder that Procurement Policy 2006 and all SCBE Policy and Procedures must be followed at all times. Staff was informed that any directive by department management to violate SCBE Policy should be reported to SCBE Internal Audit. The Interim Chief of Business Operations will issue the same communication no later than December 15, 2015, to all Business Operations staff responsible for submitting and/or approving requisitions.

Cash Accounts

During our auditing procedures related to cash, we became aware of multiple cash accounts that different departments had opened with financial institutions throughout the years without the knowledge of the finance department. It was determined that the activity (revenues and expenditures) and the cash balance were not being recorded in the accounting systems of either the Board or Student Activity Accounts. We recommend that management implement formal board policies on the operation, approval, record keeping and monitoring of all cash accounts within the school system to ensure that they are being properly accounted for in the reporting process.

Management's Response

Management will work with the Office of Policy and Legislation to draft a policy and administrative rules to provide governance for authorizing, recordkeeping, controlling, and monitoring all non-school bank accounts. Additionally, Internal Audit will use the annual risk assessment process to help identify and bring into compliance any unauthorized bank account or off book financial activity. The draft policy and risk assessment process will be completed within the next 90 days.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various governmental unit personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The Board's written response to the comments identified has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Sincerely,

Watkins Mikusall, PLLC Banks, Jolley, White & Co.