

SCHOOL DISTRICT OF UNIVERSITY CITY

**REPORT ON INTERNAL CONTROL RELATED
MATTERS AND ADVISORY COMMENTS**

June 30, 2009



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September 11, 2009

To the Members of the Board of Education
School District of University City

Dear Members of the Board:

In planning and performing our audit of the financial statements of the School District of University City (the "District") for the year ended June 30, 2009, in accordance with U.S. generally accepted auditing standards, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, as applicable to the modified cash basis of accounting, 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.

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.

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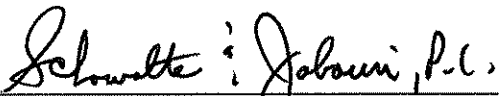
Our comments concerning internal control and other significant matters are presented as follows:

- I. Deficiencies Considered to be Significant
- II. Other Current Year Matters
- III. Status of Prior Year Deficiencies Considered to be Significant
- IV. Status of Other Prior Year Matters

District's management has provided written responses to the significant deficiencies identified in our audit. These responses have not been subjected to the auditing 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 Board of Education, and others within the District and is not intended to be and should not be used by anyone other than these specified parties.

We want to take this opportunity to express our appreciation to the District for the assistance and cooperation we received and the many courtesies extended to us during the course of the audit.


SCHOWALTER & JABOURI, P.C.

St. Louis, Missouri
September 11, 2009

I. DEFICIENCIES CONSIDERED TO BE SIGNIFICANT

A. Internal Control over Financial Reporting

During the current year, auditors of the District assisted with the preparation of the financial statements and the notes to financial statements. Auditors may continue to assist clients with the preparation of the financial statements now and in the future; however, under Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters in an Audit*, which is effective for periods ending on or after December 15, 2006, the auditor is required to communicate such matters to the entity's management and governing body. The failure to do so would be a lack of compliance with generally accepted auditing standards in the United States.

Due to the changing standards, the District may wish to consider alternatives available that would eliminate this situation.

Managements Response: Due to limited resources, management feels it's appropriate for the auditors to prepare the financial statements.

B. Computer Controls

One of the basic elements of internal control is separation of duties so that no one person controls all phases of an operation. Within a computer environment this can be translated to not permitting the same individual to have full access to the computer application (SISFIN) and perform daily accounting/finance activities.

We recommend that Information Technology personnel be responsible for assigning user access to the SISFIN application. Information technology personnel should be prohibited from initiating and/or authorizing "live" transactions required for daily accounting/finance activities. Requests for changes to existing programs (SISFIN), such as user access, should come from authorized users in writing and should be approved by a supervisor to ensure the access is commensurable with the individual's job responsibilities.

In addition, we recommend that at least annually, the supervisor of each department receive a SISFIN user access report with all the employees in their department and the access that these employees have. The supervisor should complete an annual review and re-authorization of each user's access privileges.

Managements Response: Management understands this risk, but due to the limitations of our financial system, we can not prohibit IT personnel from initiating and authorizing live transactions if they are given system management access.

II. OTHER CURRENT YEAR MATTERS

A. Social Security/Payroll Issue

In 2008, a Federal Task Force began a fact-finding project in Missouri regarding school districts and the coverage of employees under Social Security. This fact-finding project revealed that there were discrepancies between Missouri districts as to the determination of which employees were required to contribute into Social Security. Because of this project, the Missouri Social Security Administration and the Internal Revenue Service (IRS) Federal, State and Local Government Division have worked together to clarify which employee groups should be part of Social Security. Beginning July 1, 2010, each school district in Missouri is required to make any necessary corrections to employee status to be in compliance.

Therefore, we recommend that the District immediately begin to review and categorize its employees to ensure that necessary changes have been made. This process is expected to require a significant time commitment and therefore should be started immediately. The IRS plans to begin auditing this issue subsequent to July 1, 2010 and will be assessing penalties for non-compliance.

Additional information may be obtained from the Missouri Social Security Administration website at <http://oa.mo.gov> or from the Internal Revenue Service Federal, State, and Local Government Division at <http://www.irs.gov/govt/fslg/index.html>.

III. STATUS OF PRIOR YEAR DEFICIENCIES CONSIDERED TO BE SIGNIFICANT

A. Internal Control over Financial Reporting

Auditors of the District assisted with the preparation of the financial statements and the notes to financial statements. Under Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters in an Audit*, which is effective for periods ending on or after December 15, 2006, the auditor is required to communicate such matters to the entity's management and governing body. The failure to do so would be a lack of compliance with generally accepted auditing standards in the United States.

We recommended the District consider alternatives available that would eliminate this situation.

Status: Not implemented. See current year comment IA.

III. STATUS OF PRIOR YEAR DEFICIENCIES CONSIDERED TO BE SIGNIFICANT
(continued)

B. Title I

From the pool of eligible children, a targeted assistance school selects those children who have the greatest need for special assistance to receive services. We noted mathematical errors in the composite scores on the student multiple criteria profile that was carried forward to the master list of eligible students which was used to rank eligible Title I students by greatest need. In addition, we noted instances where the composite scores noted on the student criteria profile did not agree to the composite scores noted on the master list of eligible Title I students. As a result, students demonstrating the greatest need for services may not have received them.

We recommended developing monitoring controls to ensure composite scores are calculated correctly and properly carried forward to the master list of eligible students to ensure students with the greatest need are being served first.

This finding was considered to be a significant deficiency with regard to the internal control over the ESEA Title I Program as noted in the Schedule of Findings and Questioned Costs.

Status: We are pleased to report this recommendation has been implemented.

C. Computer Controls

One of the basic elements of internal control is separation of duties so that no one person controls all phases of an operation. Within a computer environment this can be translated to not permitting the same individual to have full access to the computer application (SISFIN) and perform daily accounting/finance activities.

We recommended that Information Technology personnel be responsible for assigning user access to the SISFIN application. Information technology personnel should be prohibited from initiating and/or authorizing "live" transactions required for daily accounting/finance activities. Requests for changes to existing programs (SISFIN), such as user access, should come from authorized users in writing and should be approved by a supervisor to ensure the access is commensurable with the individual's job responsibilities.

In addition, we recommended that at least annually, the supervisor of each department receive a SISFIN user access report with all the employees in their department and the access that these employees have. The supervisor should complete an annual review and re-authorization of each user's access privileges.

Status: Not implemented. See current year comment IB.

IV. STATUS OF OTHER PRIOR YEAR MATTERS

A. Child Nutrition Cluster

Although improved from the prior year, we noted three instances in which the family had not responded to the verification, but benefits were not taken away. We continued to recommend adequate review procedures be put in place around the verification process to ensure that appropriate follow-up steps are taken based on the results of the applicants verified.

Status: During the current year, we noted review procedures were put in place over the application determination process and significant improvement has been made; however, this review excluded those applications that were verified. We continue to recommend review procedures be put in place around the verification process to ensure that appropriate follow-up steps are taken based on the results of the applications verified.