



January 22, 2015

RE: Management Responses to Required Communications Letter for the Year Ended June 30, 2014

Financial Reporting:

1. **Revenue / receivable cut-off.** The District's controls designed to ensure appropriate receivable and revenue cut-off did not function as intended, due to ineffective monitoring for compliance therewith. As a result, the District's receivables and revenues were understated by \$87,943 as of and for the year ended June 30, 2014. In addition, approximately \$453,000 of grant revenue that was not received by the District within 60 days after year end was improperly recognized as revenue at the fund level.

Management Response: The reporting processes for month-end and year-end shall be modified to require analysis of payments received subsequent to the end of an accounting period so that revenues for services rendered are recorded in the proper period.

Staff responsible: Accounting Supervisor – review past due receivable balances monthly beginning March 2015

2. **Expenditures / payable cut-off.** The District's controls designed to ensure appropriate payable and expenditure/ expense cut-off did not function as intended, due to ineffective monitoring to evaluate the degree of compliance therewith. Specifically, the review of invoices received and paid subsequent to the end of the fiscal year did not result in the accrual of invoices for approximately \$133,000 of goods and services by the District during fiscal 2014.

Management Response: The financial reporting process for month-end and year-end shall be modified to require an analysis of invoices received subsequent to the end of an accounting period so that expenditures for goods and services are recorded in the proper period.

Staff responsible: Accounting Technicians (A/P) – review payables beginning July 2015 for date received

3. **Internally developed software.** The District's internal controls over financial reporting do not include policies and procedures regarding the proper accounting for internally-developed intangible assets, as required by GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets (GASB 51). As a result, expenditures incurred during fiscal 2014 for the development of a new timekeeping software system were not tracked and evaluated for capitalization in accordance with the guidance included in GASB 51, and were therefore expensed as incurred.

Management Response: Internal controls over financial reporting shall be updated to include policies and procedures regarding the proper accounting for internally-developed intangible assets. Costs for internally-developed intangible assets shall be tracked and evaluated to determine whether they are required to be capitalized in accordance with the guidance included in GASB 51.

Staff responsible: Financial Services Manager – maintain communication with management and leadership on processes being implemented

4. **Timeliness of remediation of internal control deficiencies.** The District has not addressed internal control deficiencies related to grant compliance in a timely manner. Certain findings regarding time and effort reporting and subrecipient monitoring were first reported as part of the fiscal 2012 audit. However, formal policies and procedures related to time and effort reporting were not fully implemented until March 2014, and formal policies and procedures related to subrecipient monitoring were not fully implemented until August 2014 (i.e., fiscal 2015).

Management Response: Formal training has been provided to effectively communicate the requirements of the District's policies on time and effort reporting. All of the divisions within the District shall be required to attend in order to ensure that time and effort reporting is accurate and consistently documented District-wide.

Training will be provided to effectively communicate the requirements of sub-recipient monitoring to guarantee the examination of sufficient supporting documentation. Also, update the sub-award agreements for compliance with the program objectives.

Staff responsible: Accounting Supervisor – maintain communication with management and leadership on processes being implemented; Accounting Technicians (A/P) – review invoices submitted from departments at beginning of next fiscal year; Materials Management Supervisor – review all sub-recipient contracts for inclusion of terminology for supporting documentation.