To the Members of the Board
Cobb County Board of Education
Marietta, Georgia

In planning and performing our audit of the basic financial statements of the Cobb County School District for the year ended June 30, 2008, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel and have included their response.

We believe that the implementation of these recommendations will provide the District with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

In addition to the current year recommendations, we have included the status of our prior year recommendations in the accompanying memo as well.

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

We appreciate the opportunity to be of service to you and especially appreciate the assistance provided by the personnel of the various departments.

Atlanta, Georgia
December 5, 2008
Prior Year Recommendations

Centralization of Accounting Systems

**Condition:**

The District utilizes several different accounting systems to carry out District accounting functions. The Local Schools Accounting System, Food and Nutrition Services Accounting System, Budget System, and the Payroll System are not fully integrated with the Financial Services Accounting System (AMS).

**Recommendation:**

We recommend that the District consider a plan to eventually centralize the various accounting systems in order to streamline the financial reporting process.

**Initial Management Response:**

We agree with the recommendation. The District is currently involved in the first phase of a two phase program to centralize the accounting systems and also to integrate the Human Resources system with the centralized accounting system. The first phase consists of upgrading the existing Financial Services Accounting System (AMS) to the most recent version available. The second phase will involve developing a Request for Proposal to purchase and implement modules for the other accounting systems and the Human Resource system. These modules will be required to interface seamlessly with the upgraded AMS system.

**Management Update FY07:**

The Board has now authorized the upgrade of the existing financial system and the District is in the early stages of the upgrade process. The upgraded system will be operational July 1, 2008 and the upgrade process will be complete June 30, 2009.

**Status:**

Management has not yet implemented this recommendation. Therefore, we again recommend that the District centralize the various accounting systems in order to streamline the financial reporting process.

**Management Update FY 08:**

The District is planning to centralize the various accounting systems over the next five years. Completion is planned for the end of FY 2014.
Accounting for Textbooks

Condition:

The textbook inventory system has been in use since 1992. It is a DOS system that is outdated and unable to track and segregate additions and disposals of textbooks, which produces inaccurate financial reporting data relating to total net book value. Textbooks should be properly valued and additions and disposals should be separately identified in order to obtain accurate net book value each year.

Regarding the physical inventory quantities of textbooks, under the current system, the textbook inventory count sheets provided to counters include the names and quantities of books that are reflected in the inventory system. Because these amounts are included on the textbook inventory count sheets, the physical count could be compromised and the quantities counted could be manipulated so that they agree with the inventory system.

Recommendation:

We recommend the implementation of a new textbook inventory system that is capable of identifying and segregating additions and disposals so that net book value is accurately reported in financial data each year. This system should be set-up as a fixed asset system where textbooks can be individually tracked and monitored.

Additionally, we recommend that all quantities be removed from count sheets used during the physical inventory of textbooks. Performing "blind" counts of inventory on hand should result in a more accurate count of textbooks and will reflect true variances between the inventory system and the physical count of textbooks.

Initial Management Response:

We agree with the recommendation that a new textbook inventory system should be implemented to improve accurate reporting of the District’s textbook inventory. We will continue documentation of our system needs in fiscal year 2007 and initial steps will be taken for procurement. We will evaluate expanding the media services system to include a textbook management component. Funding for a new system will be sought either through a supplemental appropriation in fiscal year 2007, through a budget request in fiscal year 2008, or through a funding request in SPLOST III.

We concur with the recommendation regarding removal of quantities from the count sheets used during the textbook physical inventory counts. We agree this would improve the accuracy of our counts. We will implement this process during fiscal year 2007.
Management Update FY07:

Management concurs with this recommendation and is currently in the process of evaluating textbook inventory software options. Textbook software requirements will include functions to separately identify additions and disposals.

Additionally, management will provide proper training for media specialists, who use the library media software system, so that media book additions and disposals are accurately recorded. Also, guidelines are being developed to improve accuracy of media inventory reporting by preventing textbooks and other non-library media materials from being cataloged in the library media software system.

Status:

Per management, the current textbook inventory system will be converted to an updated system (currently utilized for library books) in FY 2009. However, the updated system does not automatically segregate additions and disposals, which is needed to accurately compute depreciation and net book value each year. It is our understanding that customized reports can be created in the updated system to provide this information which we feel is needed to accurately identify and value textbook and library inventory. Therefore, we again recommend that a system be implemented for textbooks and library books that will separately identify additions and disposals.

Management implemented our recommendation regarding the removal of quantities from the count sheets used for textbook physical inventory counts during the fiscal year ended June 30, 2007, which results in a more accurate count of textbooks.

Management Update FY08:

Although it was anticipated that the textbook inventory system would be converted during fiscal year 2008, funds were not available to support the system for grades K-12. However, funds were approved in the amount of $250,000 to be spent to purchase and implement a new textbook inventory system in high schools, grades 9-12. When the project was re-bid, specific only to high schools, the new proposal exceeded $460,000, thereby preventing the inventory system from being purchased. Currently the project is being readjusted in hopes of finding a system that meets the needs of the recommendations of the committees while still falling under the constraints of the budget. The request for proposal will state that the segregation of additions and disposals is a requirement. Additionally, local school and district training on any purchased inventory system will be provided.

Additionally, efforts will be made to implement customized reports to separately identify library book additions and disposals.
Upgrade for Advantage Accounting System

Condition:

The District is currently operating their financial accounting software with an outdated version. Updated versions of this software are available that provide more reporting capabilities than the version currently used by the District. In addition, it is becoming increasingly difficult to get support for this outdated software version. The newer version allows for many more capabilities as it is web-based. In addition, the hardware currently utilized by the District is a mainframe and will need to be replaced eventually in order to run the newer software available.

Recommendation:

We recommend updating both the computer hardware and software to meet the growing technology reporting needs of the District. Ideally, the District could obtain a software system that would centralize all of the separate accounting systems currently used as noted in our prior year recommendation.

Initial Management Response:

We agree with the recommendation. The District is currently involved in the first phase of a two phase program to centralize the accounting systems and also to integrate the Human Resources system with the centralized accounting system. The first phase consists of upgrading the existing Financial Services Accounting System (CGI, formerly AMS) to the most recent version available. We anticipate that the purchase of the upgraded software will occur near the end of fiscal year 2007 and implementation will occur over the following two fiscal years. The second phase will involve developing a Request for Proposal to purchase and implement modules for the other accounting systems and the Human Resource system. These modules will be required to interface seamlessly with the upgraded AMS system. Funding for the second phase will be requested in SPLOST III.

Management Update FY07:

The Board has now authorized the upgrade of the existing financial system and the District is in the early stages of the upgrade process. The upgraded system will be operational July 1, 2008 and the upgrade process will be complete June 30, 2009.

Status:

Management continues to work on implementation of this recommendation and the new system is expected to be implemented in fiscal year 2009.

Management Update FY 08:

The financial system upgrade go-live date is planned for July 1, 2009.
Physical Inventory Adjustments

Condition:

We noted during our audit that certain furniture and textbook inventory balances were not adjusted for physical inventory counts at June 30. The furniture warehouse inventory was adjusted for activity during the year but was not adjusted to the actual counts as of year end. Additionally, we noted that one school did not adjust textbook physical inventory counts to actual amounts counted by us during the physical inventory observation.

Recommendation:

We recommend that inventories be adjusted to physical count balances at June 30 each year.

Initial Management Response:

We agree with the recommendation that the furniture inventories be adjusted to physical count balances at June 30 each year. This process is not automated in the current Advantage Accounting System. However, we anticipate that the new upgraded accounting system will have this capability. The upgraded system will be implemented in fiscal year 2009.

We agree that the textbook inventory should reflect the physical inventory count. Management will implement this recommendation in FY08 by stressing the importance of this process to all those with textbook inventory responsibilities at the local schools.

Status:

While it appears that this recommendation has been implemented for furniture warehouse inventory, we noted certain textbook count balances that were not adjusted for physical inventory counts. Therefore, we again recommend that textbook inventories be adjusted to physical account balances at June 30 each year.

Management Update FY08:

We agree that the textbook inventory should reflect the physical inventory count at each site. However, the current inventory system in place does not allow adjustment/edit rights to individual schools during the time of the audit. Such changes can only be made at the district level. Management will continue to stress the importance of: keeping accurate counts, making physical inventory changes during the allowed window for local schools, and furthermore, when notified by schools, making any necessary adjustments at the district level in a timely fashion by June 30. Management will look into the possibility of an audit trail to monitor when counts are adjusted at the district level during the course of the year.
Recordkeeping for Title 1 Employees and OMB Certifications

Condition:

While testing the Title 1 expenditures during the Single Audit, we noted that records supplied by the Title 1 office did not agree to Title 1 payroll reports or records maintained at the local schools regarding employees who should be paid from Title 1 funds. While we found that expenditures made from Title 1 funds were allowable expenditures for Title 1 schools, there were differences in recordkeeping between the local schools, general ledger payroll reports and the Title 1 office that could result in expenditures in excess of budget of Title 1 funds or an expenditure from Title 1 funds that is not allowable. Additionally, management communicated to us that these differences could be the result of a vacancy in the position responsible for overseeing that allowable payroll expenditures are charged to Title 1 and other grant programs.

Recommendation:

We recommend that the District reconcile local schools' records for allowable Title 1 payroll expenditures with records maintained at the Title 1 office to ensure that the expenditures are allowable costs under the Title 1 grant program. Consideration should be given to filling the vacancy or appointing an existing employee to oversee that records maintained by Title 1 office, local schools' records and general ledger payroll reports are in agreement. Additionally, this position should be charged with overseeing that OMB certifications are filed twice annually within the school year or other reasonable time limit, as per the compliance requirements for payroll expenditures charged to Title 1.

Management Response:

Management concurs with the recommendations. The Title I central office will have access to payroll reports that provide payroll information on all employees coded to Title I. Existing Title I central office personnel will review these reports at least monthly and compare them to the information received from the Title I schools to ensure accurate reporting of payroll expenditures. The same Title I central office personnel will also be responsible for ensuring that semi-annual OMB certifications are filed on all employees charged to Title I.

Status:

Management implemented this recommendation during the year ended June 30, 2008 and all Title I employees tested during single audit testing were found to be properly accounted for by the Title I office. We also noted that the Title I office appointed a Title I employee to be responsible for obtaining the semi-annual OMB certifications from federally funded personnel and ensuring that proper documentation is kept on file at the Title I office.
Maintenance Purchases under $10,000

Condition:

Currently, Procurement Services assists the Maintenance Department with purchases under $10,000 including identifying vendors, obtaining prices and issuing orders. Per Procurement Services, it is inconsistent with the checks and balances in place for financial processes for Procurement Services to enter purchase orders using maintenance charge codes and then approve the orders for release to vendors. A revision in 2004 gave the authority to schools and departments to obtain pricing on their own for all purchases up to $10,000 and currently, the maintenance department is the only department that regularly requests assistance with purchases under $10,000 from Procurement Services.

Recommendation:

We recommend that the Maintenance Department be responsible for handling purchases under $10,000 in accordance with the District's financial processes. This will allow the Procurement Services Department to focus on higher dollar solicitations. To assist Maintenance with processing requests under $10,000, Procurement Services should increase the number of Maintenance bids that include catalog discounts. In addition, consideration should be given to allocating appropriate staff to the Maintenance Department to handle, research and process these orders.

Management Response:

We agree with the recommendation that the Maintenance Department be responsible for handling purchases under $10,000 in accordance with the District's financial processes. As Maintenance Supply Item bids expire, Procurement is including a line for catalog discount percentage for additional items in the new solicitation.

In addition, a copy of the Procurement Technician I, Rank IV clerical job description has been provided to the Maintenance Department. This is equivalent to the level of staff originally assigned to complete these purchases. The Maintenance Department has submitted a Position Analysis Questionnaire (PAQ) for a clerical position and plans to request the position in their FY2009 Budget.

Status:

Management implemented this recommendation during the year ended June 30, 2008. According to management, effective July 1, 2008 the position has been filled and responsibility of the maintenance department purchases moved from procurement services to the maintenance department.
Current Year Recommendations

Textbooks Receiving/Shipping Documentation

Condition:

During our audit testing, we noted that the District does not maintain adequate documentation for textbooks received at the warehouse and textbooks shipped from the warehouse to local schools. Partial shipments from the warehouse to local school are not recorded as shipped to the school until the full order is shipped; thus, creating inventory balance differences. This condition hinders the District's ability to track the location of textbooks at any given point in time. In addition, this could cause timing differences at fiscal year-end that result in a misstatement of textbook asset balances.

Recommendation:

We recommend that the District implement procedures to properly account for all shipments received by the warehouse and those from the warehouse to local schools. Shipping and receiving documents should be filed by date and school to account for this activity.

Management Response:

We agree with the recommendation that the District refine its procedures to properly account for all shipments received by and sent from the warehouse. The current system does not retain records of partial shipments. The system currently overwrites each partial shipment resulting in only the final shipment data and date being retained in the records. Due to these limitations in the current system, manual shipment records are created. However, inventory adjustments are made in the system with each shipment regardless of partial or full shipments so that corrected inventory data is recorded.

To comply with the recommendation, the Warehouse staff will retain all hard copies of received and shipped tickets which will be filed by date and school to account for all activities.
Title VI-B Flow-through OMB Semi-Annual Certifications

**Condition:**

While testing the Title VI-B payroll expenditures during the Single Audit, we noted that some semi-annual certifications requested for testing were dated after year-end. This indicated to us that either those certifications were not found on file and had to be re-created when requested or were not obtained semi-annually for those employees as required. The lack of adequate documentation on file could result in payroll expenditures that are not allowable or a violation of the recordkeeping requirement for federally-funded personnel.

**Recommendation:**

We recommend that the District ensure that federally-funded employees complete the semi-annual OMB certifications on a timely basis and that these forms are appropriately filed in the Special Student Services office. Consideration should also be given to appointing an individual at this office to oversee that employees listed on payroll records have completed the required semi-annual certifications and that the forms are on file in the Special Student Services office.

**Management Response:**

The Special Student Services office has refined its procedure for the distribution and collection of the OMB periodic certification forms. Newly created payroll and human resources reports will be used to verify the Federally-funded personnel for each reporting period and to confirm that signed forms are obtained in a timely manner from each person. This process will be coordinated by the budget supervisor and budget secretary in Special Student Services.
Valuation of Library Books

Condition:

During our audit procedures, we noted that certain library books were recorded on the District-wide financial statements with an incorrect cost value. Specifically, certain volume-set reference books were individually costs at total volume-set cost while other reference books had a zero cost. This incorrect valuation could result in a material misstatement of net assets on the District-wide financial statements at year-end.

Recommendation:

We recommend that the District implement procedures in the Media Services Department to review the accuracy of the library book values at local schools. In addition, the Department should ensure that newly purchased books are entered at the correct values in the Destiny Software system.

Management Response:

The ongoing implementation of a centralized library automation system continues to result in enormous improvements in the accuracy of these records. While the central office Media Services Department cannot review all of these records, they will facilitate their review by the school library media specialists. Instructions and training will be provided at the upcoming Destiny Library Manager workshops and individual library media specialists will be assisted as needed as they review their records and resolve these issues.