



Proven Expertise and Integrity

February 25, 2013

Board of Directors
South Burlington School District
550 Dorset Street
South Burlington, Vermont 05403

MANAGEMENT LETTER

In planning and performing the Audit of the South Burlington School District for the year ended June 30, 2012, we considered the District's internal control. We did so to determine our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for expressing our opinion on the effectiveness of the South Burlington School District's internal control over financial reporting or compliance.

During our audit we became aware of several matters referred to as "management letter comments" that offer opportunities for strengthening internal control and improving operating procedures of the South Burlington School District. The following pages summarize our comments and suggestions on those matters and are in addition to the more significant issues addressed in the following reports included in South Burlington School District.

- Report of Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

These matters do not modify our opinion on the financial statements for the year ended June 30, 2012, where we expressed an unqualified opinion on our independent auditors' report dated October 5, 2012.

Grant Tracker:

While performing the audit for the above mentioned year end, it was noticed again that the District's fiscal software to track grants, (Grant Tracker) did not balance to the District's general ledger used to produce internal financial reports. The problem this creates is when we audit the individual grants of the "Grant Tracker" reports, these do not balance to the audited internal trail balances we use to reference to the District's financial statements. It appears that some set up issues were not finished when the District's initially set up its internal general ledger. We recommend that the District review this matter and make adjustments in set up to rectify this.

Unfunded Pension Obligation:

While performing the audit for the above mentioned year end, it was noticed that the District has an unfunded pension obligation approximating \$3,333,000. We recommend the District review this obligation with its professional actuaries, and establish a written plan approved by the Board of Directors to fund this obligation.

School Lunch - Deficit Fund Balance:

As a result of recent audits, we noted that the school lunch fund balance deficit continues to increase despite annual budget appropriations from the District's general fund. The amount approximates \$348,000 to date. This fund should be reconciled to \$0 every year and at the beginning of the fiscal year (July 1), the District's lunch fiscal reporting starts over. We recommend the District make a detailed review of school lunch finances for accuracy and make procedural and fiscal changes to future budgets accordingly.

Student Activity Accounts – All Schools:

While performing the audit for the above mentioned year end, it was noticed that all three student activity accounts had the following issues:

- 1) Checks were being made out to cash.
- 2) Sales Tax was being paid on numerous invoices.

We caution the school to avoid writing checks out to cash and that the school is also tax exempt and should not be paying sales tax.

We would like to thank John, Amadee, Sue and all of the staff at the District for all of their cooperation throughout this audit process.

If there are any questions regarding this letter, please do not hesitate to call.

Very Best,

R.H.R. Smith & Company

Ron H.R. Smith, C.P.A.

Management Letter Responses

1. Grant Tracker Response – The Business Office has been working with our software vendor to make this change. The issue is that, while the information for balance sheet accounts is posted on the general ledger, it has not been posted correctly in grant software to specific grants. It has proven difficult to repost entries from past years to accomplish this change using the software. We will prepare a spreadsheet to assist the auditors for their FY 2013 field work. This will save considerable time for the auditor to review in future periods.
2. Unfunded Pension Obligation Response – This is still being addressed on several fronts. The School Board increased the district pension contribution in the proposed FY 2013 budget by 25% (\$150,000). The proposed FY 2014 budget includes additional funding over the actuarially required minimum. The District is working with the City to on a joint proposal for an investment manager to increase returns and cut costs.
3. School Lunch - Deficit Fund Balance Response – The FY 2014 budget includes \$60,000 to cover this deficit. Discussions about this operation are ongoing.
4. Student Activity Accounts Response – These accounts are housed in the Principal's Office at the elementary and middle schools. The Business Office reviews the bank statements and activity in these accounts monthly and provides feedback to the schools. We will look at the possibility of having the activity in these accounts moved and paid through the district's accounts payable system to increase control and transparency.