



Proven Expertise and Integrity

March 21, 2016

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

MANAGEMENT LETTER

In planning and performing our audit of the financial statements of the South Burlington School District 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 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 efficiencies of the South Burlington School District. The following pages summarize our comments and suggestions on those matters.

This report is intended solely for the information and use of the School 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, 2015, where we expressed an unmodified opinion on our independent auditors' report dated February 17, 2016.

School Lunch - Deficit Fund Balance:

As a result of recent audits, we noted that the school lunch continues to have a deficit fund balance, slipping further behind from the previous fiscal year; this despite continued budget appropriations from the District's general fund. The amount approximated \$362,000 at June 30, 2015. We also noted that management has no corrective action plan in place to reverse the deficit. Unless the lunch program is able to generate gains in future years to cover the deficit, the General Fund equity position will continue to erode. We recommend that this fund be reconciled to \$0 every year and at the beginning of the fiscal year (July 1), the District's lunch fiscal reporting starts over. In addition, we strongly recommend that the District initiate a detailed review of school lunch finances for accuracy and make procedural and fiscal changes to future budgets that mitigate this deficit.

Management's Response: The District has aggressively been dealing with this situation as it relates to current operations. A new manager has been in place for two and one-half years who has aggressively put into place new methods and menus. It is estimated that the FY 2016 revenues will cover its operating expenses.

The Administration has put forth several plans over the years to relieve this deficit which have not been supported at budget time due to State spending restraints. We will discuss with the Board your recommendation to reconcile this fund to zero every year.

Combined Budget:

It should be noted while performing our test work for the above mentioned year end, that the District has a defined school budget itemized over many cost centers, including those that are federally funded. The comingling of both general fund and special revenue fund budgets made the segregation of fund activity difficult. We recommend that the District establish budget guidelines that separate activity between fund types including revenue and expenditure accounts, to more clearly segregate the fiscal activity for the year. This would allow the District to more easily see the flow of finances for each fund throughout the year. These modifications will also assist the District in the timely and accurate reporting of these funds, avoid material misstatement of its financial information, and ensure reporting compliance in accordance with GASB requirements.

Management's Response: The Business office does separate the General Fund and Special revenue funds in the budget book made available to the public prior to the March election. However, when our chart of accounts was established, we had received guidance from a previous audit firm to combine them and this is how our accounting structure was established. When Vermont State guidelines are finished regarding new chart of accounts and systems, and we are able to change software programs, it will be designed to be able to more clearly report on these separate funds.

Old Outstanding Checks:

While performing our audit for the above mentioned year we noted the District is carrying several old outstanding checks, some dating back to 2013. The District should review all outstanding checks greater than 120 days old for accuracy and reissuance. The District should also consider sending these checks to the State of Vermont's Unclaimed Property Division so that the State may locate the vendors. Outstanding checks should be monitored regularly to ensure they are clearing in a timely manner. The District should also ensure that their checks are imprinted with an appropriate void option.

Old Outstanding Checks (Continued):

Management's Response: The District had been reporting uncashed checks to the State as required in past years, but did not do so on a timely basis this year. This has been corrected.

Underfunded Pension:

As a result of recent audits, it was noticed that the District has an underfunded pension obligation approximating \$2.7 million. We are aware that the District is addressing this matter on several fronts, through consistent annual budget appropriations, annual pension contributions beyond the actuarially required minimum, and working with the City on a joint effort to increase returns and cut costs. . We encourage the District to continue in its efforts in review of this obligation with its professional actuaries, and establish a written plan approved by the School Board of Directors to fully fund this obligation.

Management's Response: You have referenced the efforts that the District has taken to alleviate the underfunded pension obligation over the past years. Additionally, after September 11, 2013, the plan was closed to new participants who are offered a 403b defined contribution plan instead. We will work with the School Board toward establishing a written plan with the end result being a written plan to fully fund this obligation.

Cash Disbursements (District Level):

While performing our test work on cash disbursements for the above mentioned year end, we noticed multiple instances of e-mails used as support documentation for various purchases made at the District. In addition, paper was purchased and charged to books and periodicals versus general supplies. Generally Accepted Accounting Principles require that there be oversight regarding expenditures made for specific purposes to ensure that proper support and documentation for the expenditures exists. We recommend that all District funds disbursed should be accompanied by an approved and authorized invoice or reimbursement form prior to payment. In addition, we recommend that the administrator(s) over cash disbursements at the District review the current policies and procedures and where necessary revise and/or develop and implement policies to improve internal controls and fiscal accountability and reporting at the District.

Management's Response: The district has discontinued the use of emails as documentation of receipt. We are correcting the practice of using the books and periodicals account for paper purchases which should have coded to general supplies.

Student Activity Accounts – Cash Disbursements:

While performing our test work on cash disbursements for the above mentioned year end, we noted the following:

- **F. H. T. Middle School** – missing backup or insufficient support documentation; missing itemized receipt for restaurant carry-out order (listed on the G. Russell reimbursement form).
- **Chamberlin School** – no formal expense reimbursement sheet used to obtain expense approval prior to payment.
- **South Burlington High School Imprest** – sales tax was paid; missing or insufficient support documentation.

Student Activity Accounts – Cash Disbursements (Continued):

- **South Burlington High School Athletics** – e-mails where used as support documentation; no formal expense reimbursement sheet used to obtain expense approval prior to payment; certain invoices were paid outside of regular accounts payable process; missing itemized receipt.
- **South Burlington High School TIE** – sales tax was paid; insufficient support documentation; invoices are under the care, custody and control of the TIE coordinator – several were missing.

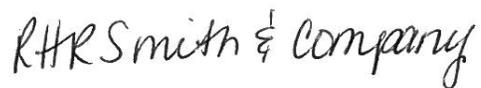
Again, Generally Accepted Accounting Principles require that there be oversight regarding expenditures made for specific purposes to ensure that proper support and documentation for the expenditures exists. We recommend that the administrator(s) over cash disbursements at the District review the current accounts payable policies and procedures and where necessary revise and/or develop and implement policies to improve internal controls and reduce the risk of loss. In addition, we recommend that all District funds disbursed should be accompanied by an approved and authorized invoice or reimbursement form prior to payment. All newly established or updated policies and procedures should be approved by the School Board of Directors. Also as a reminder, the District as a governmental organization, is exempt from paying sales tax.

Management's Response: The Business Office held a special session with those who hold those accounts and continue to send reminders and to correct issues found in this area. We have also added some staffing (.2 FTE) to help us with the monitoring of fundraising used in these areas. In the near future, an updated procedure will be presented to the Superintendent and School Board for discussion and their approval.

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

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

Very Best,



RHR Smith & Company, CPAs