



*Proven Expertise and Integrity*

November 7, 2014

Board of Directors  
Burlington School District  
150 Colchester Avenue  
Burlington, Vermont 05401

#### MANAGEMENT LETTER

In planning and performing the Audit of the Burlington School District for the year ended June 30, 2014, 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 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 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 District, 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.

**Bank reconciliations:**

The District throughout the fiscal year was still behind in various cash reconciliations. We consider this area crucial in the District’s processing of accurate financial information. We recommend that the District perform all cash reconciliations on its financial software within 15 days of month end. We recommend that the District review its current fiscal staffing and consider restructuring duties and responsibilities. It is possible that the District may need to create a fiscal position after the completion of its review.

**General Ledger Reconciliations to Subsidiary Ledgers:**

All general ledger accounts should be reconciled on a monthly basis and when necessary to subsidiary ledgers. During the audit we became aware of a potential issue with payroll liabilities not matching reports submitted to various regulatory Agencies. It should be noted that the Districts payroll is consolidated with the City’s payroll. The City received various correspondences of amounts due and refunds from these regulators during and subsequent to year end. Some of these discrepancies go back as far as 2011. While these discrepancies may not all be School, it appears that there is a relationship. It also appears that timing differences of transactions and reporting are part of this problem. The City and School continue to work on a resolution subsequent to year end.

**Qualified School Construction Rebates Delayed:**

While performing the audit for the above mentioned year end, and as a direct result of the preceding comment, the IRS has delayed the issuance of rebated for the City under the Qualified School Construction Loan program. The amount approximates \$600,000. The City and District are confident that these rebates will be issued subsequent to year end based on preliminary work necessary to reconcile the payroll discrepancies as noted above.

**Investment Policies:**

As of July 1, 2014, all District cash will be separated from the City’s coffers. The District does not have any clear guidance to invest its excess cash dollars during the fiscal year. The District can and does have excess cash at any time in general funds, grant funds, and other reserve funds. We recommend the District establish policies and procedures governing all dollars including reserves in order to comply with state and federal regulations ensuring the following standards of safety, liquidity and yield.

**Fund Balance Policy:**

Currently the District operates in a general operating deficit. As a result of recent audits, and with discussion with the District management on desired carryover or fund balance, we recommend that the District develop a fund balance policy to meet the everyday needs of the District. The policy should consist of a general fund balance policy which will include what the District would maintain as undesignated fund balance, and then a reserve fund balance policy which would take into consideration all aspects of District reserves including but not limited to, capital (by department), debt service, special ordinances, special request of the community, and other designations to meet the everyday and long term needs of the District.

**Budget Controls:**

The District has had a chronic problem with overspending its annual operating budget. The over expenditures have exceeded millions of dollars. In 2014 the amount approximated \$2.8 million dollars. This has put an obvious strain in the district cash flow. Furthermore, it appears the District has operated on budgets prepared using historical data which may not have been a fair representation of its current budget. The District should review all existing budget policies and adjust where necessary. Furthermore, we understand the District has prepared its current 2015 budget under the same past practices. We recommend the District implement an immediate budget freeze for all non essential program services.

**Benefit Policies:**

While performing the audit for the above mentioned year end, it was noticed that the District had many benefits it offered. It should also be known that there were usually multiple agreements that governed these various benefits. In many instances, these agreements were not consistent with the applications of these benefits. The District offered and paid these benefits consistent with past practices. Examples would be health, vacation, other earned benefit time, and other various benefits. The District should review all existing benefits and make sure language and practice is consistent.

**Stipends:**

While performing the audit for the above mentioned year end, we understand that the District pays stipends to various employees within the District. We understand Stipends to be additional compensation to the employee for responsibilities performed by that employee in addition to the employee's everyday job. In discussing these stipends with various management staff, we see no formal process in granting stipends. We see no formal written policy in awarding stipends. We recommend the District review this practice and consider adjustments which will include a formal policy which is practiced.

**Cash Receipting:**

While performing the audit for the above mentioned year end, it was noticed that on many occasions cash receipts were held for as many as 30 days before depositing. These receipts were tracked on an excel spreadsheet. We recommend the district establish a cash receipting process and make frequent deposits.

**I-9's:**

We noted during the above mentioned year audited that while performing our payroll test that certain selected I-9's were not on file for the employee. All employees being compensated should be paid from a time sheet or contract approved by the employees' direct supervisor. All employees before hiring should fill out an I-9 form certified by the District with all applicable identification verified. Subsequent to year end, the District is verifying and will complete necessary information.

**Accrued Benefit Payable:**

While performing the audit for the above mentioned year end, it was noticed while reviewing various District personnel policies and bargaining agreements, that employees who satisfy certain work requirements, are eligible after working for a certain number of years to be eligible for health insurance coverage by the District upon retirement. It appears the District has not quantified nor recorded an obligation for this at June 30, 2014. The District should review this matter in more detail and address in the next fiscal year.

**Unfunded Pension Obligation:**

While performing the audit for the above mentioned year end, it was noticed that the District had an unfunded pension obligation in excess of \$434,000. We understand the District is reviewing this obligation with its professional actuaries, and continues to establish a plan to fund this obligation.

**Existing Bank Accounts Not on District's Books**

While performing our test work on cash receipting, we became aware of banking accounts having the District's federal tax identification number that was being maintained separate from the District and as of June 30, 2014, were not on the District's computerized accounting system. It should also be noted that these accounts have existed for some period of time. We recommend that the District review all accounts for propriety and include all accounts on the District's internal financial software.

**Student Accounts – All:**

After reviewing student activity accounts at all schools the following is a summary of our findings:

- 1) Lack of oversight and approval of monthly bank reconciliations is being performed. In many cases monthly reconciliations are still not being performed timely.
- 2) During the year large amounts of money sits in a very low yield interest bearing account. The District should look at different investment vehicles.
- 3) Void after 90 days should be placed on all checks to eliminate a stale dated check not being cashed.
- 4) It appears that compensation was being paid from student accounts for employees and non-employees providing services to the District. All compensation checks should be paid from the District's general fund checking account for tracking purposes.
- 5) Vendors were paid from statements. It appears some vendors were also paid in cash. Please be advised that all vendors should be paid from an invoice and by check only.
- 6) Many student specific accounts at various schools ended with deficit balances. It is not known how and where the additional funding came from to fund these activities.
- 7) It was noticed that on many occasions cash receipts (cash and checks) were held for as many as 30 days before depositing.

**Student Accounts – All (continued):**

8) It appears that many of these accounts paid sales tax during the year. We caution the district that it is exempt from paying sales tax on business related matters.

9) It appears that disbursements were made from various student accounts for numerous services of which we are not sure how they are related to the student activity. In many cases there is no documentation on what that student activity is for.

10) It appears that Gift Cards are being purchased with student account monies. We are unsure as to why and whether or not some of the gift cards purchased are for employees. If they are employees, it should be considered as compensation to that employee.

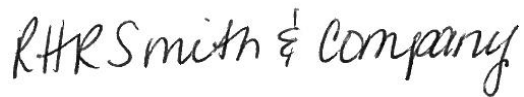
It appears that controls in many cases over student accounts are weak or not being followed in many cases. We recommend that the District review all existing student accounts at the respective schools and modify where necessary. The District should also consider written student account policies and procedures for all schools. Furthermore, the District should consider bringing all student accounts in house and performed by central office.

The letter is intended solely for the information and use of management, those charged with governance, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank Miranda 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,

A handwritten signature in cursive script that reads "RHR Smith & Company".

RHR Smith & Company, C.P.A.'s