

This Situation Report is intended to document the review of several questions presented to the State Auditor's Office (SAO) regarding the business functions at the Barre City School District. The Barre City School District is a member of the Barre Supervisory Union School District, U61.

A Situation Report is an effective tool to inform citizens and management of issues in order to foster forward progress. It is not intended to place fault, blame or guilt. A Situation Report is not an audit; the report gathers information in order to identify issues relevant to the questions presented. Ultimately, it is the stakeholders of the entity's responsibility to address the issues. This report is a tool to improve effectiveness and efficiency. "If we improve government performance we will improve the lives of Vermonters." - State Auditor Thomas M. Salmon, CPA

A long time School Board Member, Jim Ward, presented several questions to the SAO concerning the financial operations of the Barre City School District. His intent is not to find fault with individual administrative team members. He repeatedly stated that he did not believe that anyone was guilty of "wrong doing" for personal gain. Jim Ward explained that the Business Manager in the Supervisory Union Office is relatively new. (Mark Lyons was hired on July 1, 2010.) Mr. Ward explained that the Superintendent has been in his position for about two years. Mr. Ward is hopeful that once these questions are resolved and communications expectations on both sides are established and complied with these problems will go away.

### **Deficit FY 2010:**

Several different events converge during the Fiscal Year 2010.

Change in Business Manager,

(There have been several Business Managers over a short period of time. During calendar year 2009 the Business Manager moved to Florida for reasons not related to the Supervisory Union. She worked remotely for the remainder of FY2010.)

Change in how Federal Grants were handled,

(Grants Management shifted from the School Districts to the Supervisory Union.)

A significant drop in the interest earned by investments,

(The rate went down as well as the amount to invest reduced as grant money now flowed through the SU, not the School District.)

The FY2010 budget anticipated a Balance Brought Forward as revenue.

(This balance was used during FY2009 and was unavailable for FY2010)

The end result was a deficit Fund Balance at the end of FY 2010 of about \$400,000.

The School District was never deficit of cash; it always had cash sufficient to pay its bills.

From a review of the financial records for FY 2010 it is clear that the deficit is the result of revenue short fall and not the result of over spending the budget. There seems to have been significant discussion about how to handle this deficit. Vermont Statute gives the board direction in how to handle such a deficit.

24 VSA § 1523 (b) When a school district at the end of the fiscal year contemplated by section 1683 of this title has a deficit, ..., the school board shall add an amount sufficient to pay the deficit to its next adopted budget and report the total to the commissioner of education for purposes of calculating education spending.

According to the Business Manager, an amount sufficient to pay the deficit has been added to the budget for FY 2012 (Town Meeting 2011).

**Board Notification of the deficit:**

According to Jim Ward, the School Board had been advised as late as May 2010 to expect an end of year surplus of as much as \$300,000. This information changed to a significant deficit shortly after the end of the fiscal year. The Fiscal Year ends on June 30 each year. During this time the former Business Manager was working remotely from Florida.

In response to the lack of foreknowledge of the deficit, the NEW Business Manager has implemented routine reports to the School Boards of each unit in the Supervisory Union with “End of Year” projections. This should allow the School Boards to be more proactive in planning for the end of the Fiscal Year.

New accounting software has been installed so that financial tracking should be more accurate and efficiently reported.

There is no required format for financial reports. This should be a “living” document that changes to meet the needs of the School Boards and Administration.

**Follow up on findings of the Independent Auditor:**

Jim Ward expressed concern that the findings of the Independent Auditors have not been resolved from year to year. There has been several Business Managers over the past several years. This lack of continuity may have contributed to this condition. The audit firm that had been doing the audit for years, for some reason did not bid to continue doing the audit for FY 2010. Jim wanted to be sure that the findings of the Independent Auditors are being taken seriously and being resolved.

Independent Auditors report on conditions that in their opinion increase the risk of errors in the financial statements. In their words:

“A *material weakness* is a significant deficiency, or combination of significant deficiencies that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal controls.”

In addition to “Material Weaknesses” the audit report and management letter will point out other areas of concern intended to improve the Internal Control of the district’s finances.

In order to evaluate Mr. Ward’s concern, we looked back at the Management Letters from FY 06 to present. If a concern keeps repeating as an issue in the Management Letters, it is likely that the concern is not being addressed appropriately.

FY 2006 (Audit firm: Fothergill Segale & Valley)

Material Weakness:

**Improve Grant Fiscal Oversight.** The auditor recommends that one person be responsible for all grants fiscal reporting. Specific mention is made of the Federal OMB Circular A-87.

Other Recommendations:

- Journal Entry Approval needs proper documentation
- Secure cash in bank, either under FDIC limits or collateralization
- The following are Prior Year recommendations that had been implemented during FY2006
  - Reconcile bank accounts monthly
  - Investigate stale checks at six months rather than one year
  - Reconcile insurance eligibility monthly so that coverage matches employment status. *Partially implemented.*

FY 2007 (Audit firm: Fothergill Segale & Valley)

Material Weakness:

- **Timeliness of Bank Reconciliations:** The auditor found that due to a flood and displacement of personal, this function fell behind. Since this appears as a *material weakness* for FY 07 only, it seems that this condition has been addressed.
- **Transactions between the District and the Supervisory Union:** The auditors made several recommendations to improve the efficiency of these transactions. These transactions need to be completely documented in terms of purpose, amount and timing.
- **Grant Fiscal Oversight.** The auditor found improvement in this condition from the year before but not sufficient improvement to remove it from the status of Material Weakness.

## Other Recommendations:

- Secure cash in bank, either under FDIC limits or collateralization
- Making bank deposits more frequently, small checks get lumped to make larger deposits.
- Improve the handling of encumbrances at the end of the Fiscal Year
- Keep grant report supporting documentation with the grant reports on file.

FY 2008 (Audit firm: Fothergill Segale &amp; Valley)

## Material Weakness:

- **Transactions between the District and the Supervisory Union:** The auditors recommended the School District and Supervisory Union enter written contracts for each transaction. *This is the second year that this item has been listed as a Material Weakness.*
- **Grant Fiscal Oversight.** The auditor found weakness in reconciling the grant reports to the general ledger and recommends this be done on a monthly basis. *This is the third year where this condition raised to the level of Material Weakness.*
- **Highly Qualified Teachers:** The State of Vermont found that there was no system in place to track the HQT status of all educators. The auditor concurs with their finding.

## Other Recommendations:

- W-4s and I 9s retention schedule was not followed as required.
- Improve communications whenever there is a change in the working status of an employee including but not limited to hours and functions.

FY 2009 (Audit firm: Fothergill Segale &amp; Valley)

## Material Weakness:

- **Balance Sheet Account Reconciliations:** The audit firm was not supplied with the reconciliation schedules for the Balance Sheet Accounts. They noted that errors in these accounts were largely related to accounting for grants. They recommend that this reconciliation be done monthly so that accurate Fund Balance information is available through out the year. *This should not to be confused with bank account reconciliation.*
- **Controls over Special Education Expenditures:** Vermont DOE conducted a routine SPED audit and found some problems with linking expenses to individual IEPs. This finding was sufficient to trigger a second audit for FY 2010 as follow up. The auditor concurred with the state's findings.
- **Grant Fiscal Oversight.** *This continues to be an issue.* Specifically the translation between grant expense categories and the accounting system expense categories.
- **Transactions between the District and the Supervisory Union:** *This continues to be a problem.* Specifically transactions need to be documented in contract and done before the end of the fiscal year.

## Other Recommendations:

- W-4s and I 9s retention schedule was not followed as required. *This is the same comment as the prior year.*
- Improve communications whenever there is a change in the working status of an employee including but not limited to hours and functions. *This is the same comment as the prior year.*
- Outstanding checks are being written off. Stale checks should be investigated regularly and as appropriate reissued and sent state's unclaimed property division. *Comments related to stale check were made in the FY 2006 audit findings.*

FY 2010

(Audit firm: Mudgett Jennett &amp; Krogh-Wisner)

## Material Weakness:

- **Capital Assets:** The auditor found that the capital asset inventory had been left to the auditor to maintain. They recommend that management maintain this list and associated depreciation. They made the list current as of 6/30/10 with the understanding that the SU would maintain it in the future.
- **Long Term Debt (N/A for BSU).** Long term debt records are a management issue not an auditor responsibility.
- **Year end reconciliations:** The audit firm found that audit schedules and supporting documentation was not reconciled prior to the audit. The balance sheet accounts should be reconciled monthly with the end of the year audit as a review and confirmation of those monthly activities.
- **Capital lease/School Bus Lease transition agreement:** Lease liability and capital assets were not recorded properly.

## Other Recommendations:

- Internal Controls over Payroll Transactions: Payroll warrants are not being reviewed and endorsed properly and sick leave and vacation benefits are not consistent.
- Inter-district reconciliations: *This continues to be a problem.* This is a restatement of a Material Weakness "Transactions between the District and the Supervisory Union" found by the previous audit firm.
- Grant Management: *This continues to be an issue problem.* This is a restatement of a Material Weakness "Grant Fiscal Oversight" found by the previous audit firm.
- Personnel file documentation: This is a similar finding to the comments made in prior years "W-4s and I 9s retention schedule". It was found that for new employees the documentation is in place but for existing employees this was not complete.
- Internal Controls of Building Trades Fund expenditures: This is a high school/technical center issue relating to accounting for the Building Trades program. These funds should be handled through the "Normal" warrants process.

- Budget approval: The auditor found that the SHS and BTC budgets did not have the correct figures.
- Capital Lease: The capital lease for the accounting software was not recorded as a long term liability.
- Documentation of procurement process: The auditors found that the School District followed their procurement process, in the change order for renovation of a specific kitchen, but the documentation was not mentioned in the minutes of the appropriate Board meeting.

These management letters are included in this report as attachments.

Several items recur in the periods documented above:

- Grant Management: Both audit firms pointed out the need for attention to detail on accounting for expenses related to grants, reports for grants and documentation of grant activities.
- Transaction between the Districts and the Supervisory Unions: This seems to be a theme above. It is important for all such transactions to be documented and completed in a timely manner, not accumulated to the end of the year but done through out the year.
- Bank reconciliation: This was mentioned three times above as either a material weakness in the year with the flood and again in regards to handling stale checks. In conversation and by way of the check list, it is clear that the Business Manager is aware of this situation and has processes in place to comply with the requirements.
- Personnel information: W4s and I9s and payroll related communication are being addressed. Continue attention to detail concerning this is important.
- Special Education, the state DOE is doing a second audit following the findings of a routine audit. This action will provide the district with guidance concerning the SPED expenditure requirements.

It is important to note that the current Business Manager was not a part of the Supervisory Union for any of these periods. He has completed a Self Evaluation Internal Checklist to document the process in place and to help point out needed improvements. This checklist will provide a baseline in terms of the present Internal Controls and it points out areas where improvement is available.

#### **Dates of the Annual Audit:**

It is desirable for the Annual Audit to be complete before the budget amount is approved by the Board for presentation to the voters at Town Meeting. This means that the audit should be complete and accepted by the Board no later than the end of the calendar year. Without the completed audit, the actual Unreserved Fund Balance (Balance Brought Forward or Deficit) would be an estimate in preparing the following year budget.

This has not happened in recent past:

Fiscal Year	Audit and Management letter date
2006	September 15, 2006
2007	January 25, 2008
2008	January 27, 2009
2009	March 3, 2010
2010	Pending (2/4/2011)

### Strategic planning and expectations:

A Situation Report is by nature a look at a current, past or on-going event or condition. It is also critical to evaluate and comment on the sustainability of the actions put in place to correct the situation in question. While no “crystal ball” exists to accurately predict the future, past practice can predict with some success future conditions.

- **Financial Management:** A new accounting system has been purchased and is being used. This system improves the reliability of information because it required only one entry of data. This will improve the budget process as well as management of encumbrances during the year and at year end. This will improve the ability to provide reliable “End of Year” projections.
- **Maintenance and building issues:** The NEW Business Manager has addressed several deferred maintenance as well as structural issues within the Operations of the Plant. With the help of maintenance experts and Efficiency Vermont, these issues are being addressed. This should lower the cost of the plant operations and ensure that the current facilities are clean and operating efficiently.
- **Grant Management:** The current grant management leader is moving onto become the Superintendent in another district. He is working on and is committed to a smooth transition of the current grants to his successor. The successor has not been identified as yet. However, the current Superintendent has history in grants management and will serve in Barre for at least the next fiscal year. This expertise will ensure that the progress reported in grants management will continue.
- **Curriculum and educational planning:** The planning and implementation of educational objectives is carried out by the existing Administrative Team. This model is common, in place and working well. This will continue to provide well planned and documented education delivery into the future.

Based on the strategic planning in place and the actions taken, we have every reason to believe that the situations addressed in this report will not recur in the future.

**Summary:**

- Mr. Ward presented some interesting and valid questions concerning the financial operations the Barre School District.
- Nothing found here indicate any fraud or malfeasance on the part of any member of the school district.
- There was in calendar year 2009 and FY2010 a Perfect Storm of events that resulted in a deficit in the Fund Balance at the end FY2010. Each of those contributing factors has been addressed and the plans for the future give no reason to expect a repeat of these events.
- It is important that the continued attention to detail be applied to the Internal Controls of the School District and Supervisory Union.
- It is critical that the Board and the Administration establish and maintain trust and transparent communications.

Submitted by

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