

A situation report is an effective tool to inform citizens and management of issues in order to foster forward progress. A situation report is not an audit and expresses no opinion nor draws conclusions. Instead, the report gathers information in order to indentify issues relevant to the entity. Ultimately, it is the responsibility of the entity’s stakeholders 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

Authority

This exercise was conducted pursuant to the State Auditor’s (SAO) authority contained in 32 VSA §163 which permits the State Auditor *“In his or her discretion, conduct a continuing post audit of all disbursements made through the office of the commissioner of finance and management or the office of the state treasurer, including disbursements to a municipality, school supervisory union, school district, or county.”*

Background

Windham Northeast Supervisory Union – SU #47 (WNESU) provides services to seven schools across five school districts:

Athens/Grafton Elementary School	K – 6	Athens and Grafton School Districts
Westminster Center School	K – 6	Westminster School District
Westminster West	1 – 4	Westminster School District
Saxtons River Elementary	K – 5	Rockingham School District
Central Elementary	K – 4	Rockingham School District
Bellows Falls Middle School	5 – 8	Rockingham School District
Bellows Falls Union High School	9 – 12	Union High School District #27

From here forward WNESU and its member districts are referred as WNESU or the Entity. Total K-12 enrollment for the 2008-2009 school at WNESU was 1,219.

Why are we doing this situation report?

- In 2002, the SAO conducted a review of WNESU’s distribution, accounting and expenditures of Medicaid reimbursement funds for school-based health services provided to Medicaid-eligible students.

The resulting report entitled “Improving Student Performance” was issued April 26, 2002, and presented certain Findings and Recommendations to both the Vermont Department of Education (DOE) and WNESU.

- In 2006, DOE, under its authority, conducted a FY 2005 audit of Special Education expenditures at WNESU. The audit scope included all five member districts. The number of audit findings for the Entity was: WNESU- 6, Rockingham School District - 12, Westminster - 6, Athens/Grafton - 3 and Union District #27 – 13. Additionally, the audit resulted in the member town school districts

owing the State approximately \$427,000 (local share) due to Special Education expenditures that were found to be ineligible for reimbursement from the State.

- During 2008 and 2009, the SAO received citizen inquiries regarding WNESU. Included in those citizen concerns were: the continued handling of Medicaid reimbursement funds at the Supervisory level; the disallowed Special Education expenditure reimbursements as determined by DOE audit; the level of the ending FY 08 Medicaid fund balance of approximately \$472,860; and general concern over lack of transparency in regards to financial reporting either real or perceived.
- To gather any information on issues of importance to citizens, emerging issues/opportunities or initiatives by the Entity.

In consideration, of these above issues the SAO viewed it appropriate to:

- Follow up on findings and recommendations as presented in the SAO April 26, 2002, report.
- Inquire of WNESU or DOE to determine how the findings of the 2005 Special Education Expenditure Audit were addressed.
- Examine the balance in the Medicaid Reimbursement fund to determine if the balance is acceptable with state statute and DOE best practices.
- Determine other relevant issues and if SAO should conduct further inquiry, review or audit of WNESU.

Issue Updates

SAO 2002 Report

The SAO 2002 Report presented a list of Findings and Recommendations to both WNESU and DOE. Findings 3-5 pertained specifically to WNESU. Finding 1 and 2 and Recommendation 1-4 were related to DOE practices that affect operating procedures at both WNESU and all other supervisory unions while Recommendation 5 pertained to both WNESU and DOE. During 2009, the SAO sought updates from both WNESU and DOE on the implementation of measures to address those findings and recommendations.

2002 Report Findings & Recommendations made to WNESU

Finding 3

Annual reports to the Department of Education did not fully meet the reporting requirements of 16 VSA §2959a(e), and the Department accepted these reports as adequate.

Finding 4

WNESU, at the time (2002) of this review, had not distributed Medicaid funds to member towns as directed by State statute.

Finding 5

WNESU Medicaid claims-processing errors were made, in part, due to complexity of the system, and the need to manually process forms. Our review identified claims totaling \$15,057 that should not have been allowed due to incomplete documentation.

Recommendation 5

The Department of Education, WNESU and field representatives should strengthen their claims-monitoring process and implement necessary policies and procedures to reduce errors and improve monitoring activities. We also recommend a more formalized documentation and review process be put in place between Department and field representatives and their supervisors, delineating, for example, when and how many files are checked for completeness.

In regards to Recommendation 5, the SAO did not conduct audit procedures to evaluate if errors have been reduced and monitoring activities have been implemented. However, in 2006, the DOE did conduct an audit of 2005 Special Education expenditures as discussed below. At that time, the DOE found the monitoring and control activities to be inadequate.

WNESU Actions Steps

On May 12, 2009, the WNESU Superintendent of Schools, Ms. Johanna Harpster, responded via letter to the SAO which included the following comments:

WNESU has addressed *Finding 1 (below) and 3* through its adopted Action Plans that tell how expenditures will address the goals set forth in plans. Additionally, Ms. Harpster noted that the DOE issued a letter dated October 27, 2008, which determined that WNESU is “operating within the guidelines set forth in state statute for the expenditure, distribution and balance of Medicaid funds.”

Ms. Harpster stated that WNESU addressed *Finding 4* in 2002 when the school boards of the member districts voted to return the Medicaid funds received by WNESU to the Supervisory level in a motion to support a district-wide early intervention pre-school program, contingent upon all schools in the district participating. The SAO reviewed each member school district’s minutes from April 2002 and found that Westminster, Bellows Falls Union District #27 and Rockingham voted in favor of the recommendation to return the Medicaid funds to the Supervisory level. The Grafton and Athens Boards both voted to participate only if a child from each of their towns was guaranteed a seat.

The SAO notes, that subsequent to the 2002 SAO report, 16 VSA §2959a(c) has been amended so that a supervisory union could spend the Medicaid reimbursement funds and the funds need not be distributed to the member districts.

Finding 5 – WNESU has hired a clerk to supervise the monitoring of the funds.

2002 Report Findings & Recommendations made to DOE

Finding 1

Medicaid funds are distributed by the Department of Education to supervisory unions without documentation of how expenditures for prevention and intervention-related activities will address goals of local action plans.

Finding 2

The Department of Education does not determine whether supervisory unions adhere to the statutory requirements related to Medicaid reimbursements, including: the distribution of funds to member school districts and the use of funds for local Medicaid billing administration costs.

Recommendation 1

The Department of Education should require supervisory unions to describe how prevention and intervention activities are linked to local school action plans that will improve student performance. The Department, as part of its overall efforts to evaluate student performance, should provide clear guidance to schools about performance-based budgeting and other tools to relate the use of Medicaid and other public funds to improved student performance.

Recommendation 2a

The Department of Education should strengthen its reporting requirements to better track the distribution of Medicaid funds, and ensure that administrative costs are spent according to appropriate guide.

Recommendation 2b

The Department of Education should require supervisory unions to report regularly to their respective boards and member districts all Medicaid revenues and prevention and intervention-related expenditures.

Recommendation 3

The Department of Education should ensure that the Act 117 Educational Support System Reports completed by supervisory unions and school districts indicate how programs funded with Medicaid receipts conform to new or continuing Action Plan goals. The Department should retain the authority to withhold reimbursements for those schools failing to comply with these reporting provisions.

Recommendation 4a

The Department of Education should provide clear guidance to supervisory unions regarding the requirements of 16 VSA §2959a(c) and communicate this guidance to all supervisory unions, as well as local school boards.

Recommendation 4b

The Legislature may want to amend 16 VSA §2959a(c) to clarify how and when supervisory unions distribute Medicaid funds to member school districts.

Recommendation 5 – Same as above made to WNESU

DOE Actions Steps:

In June 2009, DOE responded via e-mail to the SAO's request for an update as to the status of the implementation of measures to address the above findings and recommendations. We have summarized DOE answers as follows:

Finding 1 & 2 and Recommendation 1, 2a, 3 and 4a – were addressed in 2005-06 school year when DOE began to require each supervisory union to annually complete the Medicaid Reinvestment Report. The report identifies the amount of money granted to the supervisory union, the amount of money distributed to the member districts and the amount of money spent by the supervisory union and/or member districts. Additionally, the report requires supervisory unions and school districts to report how Medicaid funds were spent and how those expenditures relate back to an item in the school district action plan. However, the DOE is not aware of any statutory requirement to review or make recommendations on the budget process related to Medicaid reinvestment dollars.

Recommendation 2b – DOE finds nothing in State statute that requires them to implement this recommendation.

The SAO found that 182 VSA §2959a(e) requires an annual written submission to the commission of education providing details on the use of Medicaid funds and how the funds “*use is expressly linked to provisions of the school district's action plan that directly relate to improving student performance.*” This requirement resulted in the DOE creating the Medicaid Reinvestment Reports filed by all supervisory unions.

The SAO agrees that state statute does not require the DOE to implement *Recommendation 2b*. However, we believe, the DOE, under its authority, could require supervisory unions to report to their respective boards and member districts all Medicaid revenues and prevention and intervention related expenditures. We believe the information to be easily complied and disseminated and would only serve to improve transparency.

Recommendation 4a - addressed by DOE letter to all supervisory unions prior to the implementation of the annual reinvestment report in 2005.

Recommendation 4b - DOE believes the statute has been revised such as to provide sufficient clarity regarding the distribution of funds.

Recommendation 5 – DOE states that since 2004, it has developed a more uniformed set of guidance, an updated billing manual based on state and federal requirements and has developed a new system for auditing claim submissions that result in group audits being conducted in at least 50 percent of supervisory unions on an annual basis.

2005 Special Education Expenditure Audit

The audit scope for the 2005 Special Education Expenditure Audit included the supervisory union and its five member districts. For all districts there was a combined 40 audit findings. Most of the 40 audit findings are directly related to one of the following two issues:

1. Disallowance of charges for which the member districts sought Special Education formula funds reimbursement but were determined to be ineligible for State reimbursement.
2. Inadequate controls that contribute to deficient record keeping and grant management. This included an incomplete audit trail, improper invoice maintenance and incorrect allocation of expenses within Special Education expenditures between direct services and support services. These deficiencies also prevented DOE from completing its audit work.

The audit found approximately \$747,000 of Special Education expenditures ineligible for formula funds reimbursement. In 2005, the State reimbursement rate for Special Education expenditures was 57.14 percent which resulted in approximately \$427,000 due to the State from the member districts. The amount to be reimbursed by each town school district was as follows: Athens \$6,764, Grafton \$7,609, Rockingham \$307,027 and Westminster \$105,762 for a total of \$427,162. According to the DOE, these amounts were deducted from the payment made in May 2009 for the FY 2009 Special Education funds.

In March 2010, the SAO discussed this audit with a DOE representative, who agreed that much of the audit findings originate from systems problems. Finding 2 in this audit notes that that:

“The State of Vermont is required by the Federal Government to monitor all Federal monies that we pass on to supervisory unions and school districts. The current system being used is not sufficient. It is vital that you create, within your accounting system, a system for tracking all your grant revenues and the specific expenditures.

We will expect the next time we come to audit your Supervisory Union, that these measures will have been taken. If these steps are not taken, we will be forced to disallow any grant expenditures not appropriately documented.”

The DOE plans in the summer of 2010 or 2011 to inquire of WNESU on the status of the report findings to determine if adequate systems have been implemented.

Large Medicaid Fund Balance

In a letter dated October 2008, the DOE responded to the SAO’s request to review the FYE June 2008 WNESU Medicaid Reimbursement balance of approximately \$473,000. This balance was 156 percent of WNESU’s annual program revenue of approximately \$303,000. The SAO understands that the DOE considers it a best practice that an SU’s year-end Medicaid fund balance does not exceed one-year’s

program revenue. Though WNESU's balance exceeded 100 percent of annual program revenue, the DOE found the FYE June 2008 balance to be comparable to the balances of other SU's and felt "*WNESU is operating within the guidelines set forth in state statute for expenditure, distribution and balance of Medicaid funds.*" Based upon this assessment the DOE did not intend to take any further action.

SAO reviewed the FYE June 30, 2008, Medicaid Reinvestment Report and found:

1. All but one supervisory union/district had submitted its Medicaid Annual Reinvestment Report. Grant awards were being withheld from the one supervisory union that did not submit its report.
2. Of the 61 reporting supervisory unions/districts, 29 reported an unspent FYE 2008 balance greater than 100 percent of annual program revenue. Nine of those 29 reported FYE 2008 balances greater than 200 percent with one SU maintaining a balance of over 300 percent of annual program revenue.

Comparatively, 32 supervisory unions had FY 2008 beginning balances in excess of 100 percent of FY 2008 program revenue. Based on this analysis, WNESU practices of maintaining balances greater than 100 percent of annual program revenue are not uncommon for supervisory unions.

WNESU Action Steps

Per correspondences with the WNESU superintendent, WNESU plans for the accumulated Medicaid fund to be used to expand the services in early outreach and to cover the projected reimbursement shortfalls that may result from adjustments to the Medicaid Reimbursement rates. The SAO does not believe program expansion is the original intent of the money because Medicaid money paid to WNESU as well as other supervisory unions represents a reimbursement of prior expenses incurred by a supervisory union. Additionally, we believe this practice of maintaining balances greater than 100 percent of annual program revenue should be addressed by DOE or by amending State statute. This remains a practice that the SAO will continue to monitor among supervisory unions throughout the State.

Citizen Concerns

The SAO has been contacted by citizens of the WNESU district with varied concerns related to WNESU operations. The SAO met with two of the citizens to inquire of their concerns; interviews are summarized below.

Citizen 1

We conducted an interview with this citizen during early March 2010 with a follow-up interview in August 2010. At the time of the March interview the citizen served as a member of the Rockingham School Board and by August 2010 the citizen was serving as both Vice Chair of the Rockingham School Board and Chairman of the WNESU board. His areas of concern were:

- WNESU Governance Structure. Currently there is one board for each member district except Athens/Grafton, which is a combined board, and the WNESU Board. This structure results in five different boards that must meet and make decisions within the WNESU Entity. Additionally, the Athens and Grafton members have six of the 15 votes on the WNESU board or 40 percent of the voting power but their students represent a much smaller proportion of students in the WNESU district. Additionally, Athens/Grafton and Westminster students are offered school choice for seventh and eighth grade therefore they may not necessarily attend Bellows Falls Middle School. This further diminishes their student count as a percentage of total WNESU student population.

The SAO reviewed 16 VSA §266 of Vermont State Statute which reads that *“for the purpose of holding meetings and transacting the business of a supervisory union, the school board of any district assigned to a supervisory union, and having more than three members, shall elect from such board three members who shall represent and act for it in meetings of the supervisory union to which it is assigned.”* Therefore any change to the voting structure initiated by the stakeholders of WNESU would likely first require a change in state statute.

- Lack of goals and performance measures at WNESU level. During the March interview, the citizen stated that he was encouraging the WNESU board to adopt goals for the district. He believes such performance measures such as NECAP results, financial performance analytics or other measures would help stakeholders assess progress at WNESU and identify both positives and negatives at WNESU.

During the August interview, the citizen stated that WNESU has since taken steps that will address his concerns regarding lack of goals and performance measures. Specifically, at the July 2010 WNESU board meeting, the board received a draft of a “Goals & Objectives” document that had been prepared by Ed Banks of the Grafton Board along with WNESU superintendent Johanna Harpster. According to the citizen, this document includes the following goals:

1. Ensure finances of WNESU are sound and audits are completed in timely manner.
2. Improve student performance in math and reading.
3. Improve climate and level of performance of teachers including adopting Danielson model for teacher evaluation.

Now as WNESU chair, the citizen has asked board members to review the document and bring comments to the next board meeting. He hopes the board will adopt a final document this fall.

- **Business Management Function.** During the March 2010 interview, the citizen expressed concerns regarding the business management function that included repeat audit findings, financial statement compliance and reporting. He has since witnessed significant improvement in this area. Specifically, as a board member, he sees considerable evidence that the newly hired business manager is working to address repeat audit findings, now provides internal cash flow reports which aid in WNESU evaluating its working capital needs and produce other timely internal financial reports. Also, he believes WNESU is on track to meet the various August State reporting deadlines.

Citizen 2

We conducted an interview in early February 2010; this citizen focused on the following areas:

- Medicaid Reimbursement fund balance of over \$400,000. This citizen believes the balance to be quite high and would like to see the money used to deliver educational services to children, which could include technology investments.
- The citizen was also concerned that administrative expenditures were high. She believes this could be the result of high administration salaries or staffing levels and that unlike teachers, administrators do not pay a percentage of their healthcare premium.
- Prior to this interview, the citizen had made several requests to the business office with various financial questions. She generally did not find the office forthcoming which can contribute to lack of financial transparency either real or perceived. Additionally, she noted that the school audit report wasn't ready in time for town meeting which adds to this perception.

Emerging Issues

Business Office Instability & Accounting Systems Deficiencies

The audit firm of Fothergill Segale & Valley was engaged to perform the WNESU FY 09 audit. According to the December 16, 2009, WNESU Board minutes, the firm directly contacted board chairs expressing their belief that the district had not met its contractual obligations, which ultimately delayed the audit completion.

The FY 2009 audit has since been completed and issued with an unqualified (clean) opinion on March 16, 2010. However, the auditor's *Report on 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* found seven material weaknesses and compliance findings as noted in the Management Letter attached in Appendix 1. Serious problems relate to a lack of: a) policies and procedures, b) timely reconciliations, c) timely recording of inter-district activity, d) journal entry review and approval, e) timely follow through on uncollected receivables, f) accurate grant reporting, and g) timely grant certifications. A Corrective Action Plan has been written by the WNESU superintendent and the former business manager of WNESU.

Over the past several years, there has been employment turnover in the business office. In April 2010, the business manager offered her resignation effective June 30, 2010, after holding the position for 2 to 3 years. WNESU board voted on April 26, 2010, to relieve the business manager of her duties with full pay and benefits through June 30, 2010. Subsequently a new business manager was hired in May 2010.

A natural result of high turnover is that the overall improvement in financial reporting and compliance as well as grant management is impeded. Timetables for annual financial audit completion and other State reporting requirements should be implemented. Additionally, WNESU management should ensure that the aforementioned Corrective Action Plan is fully implemented.

Special Education

Special Education Curriculum

According to an April 24, 2010, article in the *Brattleboro Reformer*, during December 2009 State consultants selected WNESU to visit “because special education students were spending too much time away from their regular classrooms, and also because the dropout rate within the district in the 2008 school year was almost twice the state average.”¹ The consultants’ findings offered praise for the work that has been accomplished but acknowledged many violations of state or federal regulations still exist. The praise centered on the work of staff to improve instruction for children and some member districts making data-based decisions. The areas of concerns were low expectations for students from poverty or with disabilities, lack of integration of the educational system and too often teachers and administrators across the whole district are not making data-based decisions that incorporate research-based practices in the curriculums.

Special Education Costs

The SAO found that WNESU has recently lowered their Special Education costs in comparison to all other 60 supervisory unions.

Specifically, the SAO found:

- WNESU’s cost per IEP student ranked fifth in 2007 and 17th in 2008 and 25th in 2009.
- WNESU realized the most dollar decrease for Special Education formula amounts between 2008 and 2007 with the third largest decrease as a percentage of annual formula funds between 2008 and 2007.
- WNESU realized the most dollar decrease for Special Education formula amounts between 2009 and 2008 with the six largest decreases as a percentage of annual formula funds between 2009 and 2008.

¹ Brattleboro Reformer April 24, 2010.

By these measures WNESU has reduced its Special Education costs. However, we noted that WNESU continues to rank at or near the top among supervisory unions in total PK-12 expenditures according to the Federal Definition even as Special Education formula amounts decrease.

Bellows Falls Middle School Renovations

Originally the Article 6 Study Committee formed in the summer of 2008 and was renamed the Bellows Middle School Renovation Committee (BFSRC) in early 2010. According to the WNESU superintendent, the charge of the committee was to “assess the needs of Middle School population of students and consider various options for facilities.” The committee met with the boards of Westminster and Athens/Grafton to seek their support for either a new building or for renovations of the existing Middle School. Those boards did not wish to participate in such a project.

In August 2010, the SAO interviewed BFSRC chair Mr. Tim Doherty, who also serves on the WNESU and Rockingham School Boards, regarding the committee work. Mr. Doherty shared the following:

- The BRSRC committee hired a consultant who was recommended to them by staff at DOE. The consultant was charged with helping the committee evaluate its options.
- The committee considered building on to the Bellows Falls Union High School. The committee determined that it was not feasible to combine certain grades with the high school student population, the cost to add to the high school was prohibitive, an active middle school in the downtown district was an asset to the Village of Bellows Falls, and the Middle School was structurally solid.

In the spring of 2010 the committee issued an RFP for an architectural firm to evaluate the middle school facility needs and related costs. After advertising and conducting an interview process of the responding firms, Black River Design was selected.

At the BFSRC July 29, 2010, meeting, Black River Design submitted its reports on structural, mechanical and electrical engineering along with preliminary cost analysis for all recommended renovations. The estimated costs of the recommended work were approximately \$11 million. According to Mr. Doherty, the next meeting will include a discussion of how to conduct the public information campaign. Currently, there is not a timetable for this project and the committee will now have to evaluate how much, or if all of the work, will be proposed to residents. Additionally, the committee will pursue funding options besides general obligation bonds which might include State aid.

Another citizen did inform our office of a renewed interest in utilizing the BFUHS campus for BFMS educational delivery. They went on to note that citizens on a public access television show called “Hometown Talk” were also speaking to the merits of making a solid investment at the BFUHS campus. In prior decades, there were initiatives where community members tried diligently to consolidate. Some arguments against consolidating to one educational campus include deed issues and surrounding community buy-in.

Historical Perspective of Major Construction within WNESU in Recent Years shared By Citizen 1

We moved back to Vermont in September 2005. At that time a proposal to renovate and expand Rockingham's two elementary schools was adopted. That construction project took place during 2006-2007 at a cost of \$8.2 million. (Together the two schools can accommodate 360 pupils.) Due to a special program offered by the State, we received a 50 percent reimbursement from the DOE for this project. Both schools were in serious need of rehabilitation, after 50 years of use since the last major work was done on each facility.

I joined the Rockingham School Board (RSB) in October 2006 and am now serving my second three-year term. The Bellows Falls Middle School (BFMS) is in serious need of renovation as no significant work has been done to the facility since its last renovation/expansion in 1955. The RSB asked taxpayers to fund research into what to do with the BFMS in 2008. For over a year (2008-2009) this Article 6 Committee looked at options for the BFMS. Primarily the group looked at two options: renovate the existing facility or build new. We also spent time, with the help of a consultant (Brian O'Regan), to explore options to attract the high school board, Westminster, Athens, and Grafton Boards to partner with us on this project. After 18 months the committee voted to pursue a renovation of the existing building by the Town of Rockingham. Neither the three towns nor the high school board was interested in the project. The cost to build new was found to be far in excess of the cost to renovate.

In March 2010, the voters in Rockingham authorized the Middle School Renovation Committee (MSRC) to hire an architect to do a preliminary design and costing for the renovation project. After a search, the MSRC hired Black River Design to conduct this phase of the project. Very preliminary estimates indicate a cost of approximately \$11.5 million to fully renovate the facility. Much of this cost involves updating the infrastructure of the building (air-handling, heating, electrical, fire safety, and security). Certainly after 55 years it is obvious these things must be done.

The critical issue for the MSRC now is how are we going to pay for this much needed project? Certainly the Town of Rockingham's taxpayers cannot afford this price tag, nor can the RSB ignore what needs to be done. Rockingham/Bellows Falls already has one of the highest tax rates in the State, in spite of benefiting from the hydroelectric power plant that resides in our town. Our school system is challenged with a high, if not the highest, number of children with special needs (20 percent of students), and children in poverty (60 percent of students qualify for free and reduced-cost lunches).

Our timing is terrible as the State is being severely impacted by the current recession. Furthermore, our president and Congress are spending billions on stimulus, and yet, vital school improvements (like our middle school) didn't make their list. The substantial dollars being spent on education seem to be allocated to the Teachers Union rather than school construction. How can anyone analyze this situation and not conclude to spend stimulus money on school infrastructure rather than temporary teaching jobs. School construction would put many in the building trades to work and at the end of the day we would have 21st century classrooms and facilities to enhance the education of our children and support our teachers into the future.

Planning- Example

The following is a basic framework that the SAO believes would aid WNESU and citizens as they move forward to address the identified issues and help to decide where to focus sustained attention on emerging issues. We recognize that Vermont's school and municipal environments are under tremendous stress, causing an abundance of items that qualify as important and urgent. This is a guide to help communities "get a planning mindset" by charting their own priorities and action steps by urgency levels. The framework was proposed by Dr. Stephen Covey in his book The Seven Habits of Highly Effective People and challenges the organization members to work to identify the following four quadrants:

Important and Urgent – Those issues would include:

1. Meet financial and state reporting requirements and timetables. Resolve audit findings and get financial house in order.
2. Bellows Falls Middle School renovations/solutions.

Important, but not as Urgent – This is the quadrant where the most optimal planning takes place. For WNESU this quadrant would include:

1. Address the concerns of the State consultants regarding how Special Education is functioning.
2. Improve on accounting systems so that the State of Vermont Special Education Audit requirements are met and so WNESU has more accurate and timely financial information. Ensure Corrective Action Plan, written in response to WNESU FY 2009 audit, was fully implemented.
3. Implement a performance measurement system that will require goals that are linked to a strategic plan, tracking and reporting (feedback loop). For example, this process could answer questions like: What is the strategic direction of the Entity? Are graduation rates improving? What percentage of WNESU IEP students exceeds statewide averages in achievement and graduation?
4. Review governance and impacts on BFMS regarding Athens and Grafton.

Urgent & Not Important – This quadrant should be minimized even though the quadrant includes urgent activities they are not important to the person's or entities overall goals. For WNESU this **MAY** include:

- Unnecessary meetings, deadlines and reports.
- Minor issues that are being addressed by the wrong person in the organization and will lead to distraction.

Not Urgent & Not Important – This is the fourth quadrant and is considered to be time wasters and as such the stakeholders should look to eliminate.

Look Ahead

On June 11, 2010, the SAO met with WNESU Superintendent Johanna Harpster to discuss present issues at WNESU and the type of planning that is currently taking place. The SAO asked a series of questions concerning various topics. A summary of the questions and the superintendent responses are found below:

- 1 What is the status of your hiring of a new business manager? What hiring process will be used/was used?

The new business manager is Ms. Edie Cole. There was an eight- member committee charged with selecting the new business manager. The committee was chaired by, Rockingham Board Member Jim McAuliffe. Russ Capron, Bellows Falls Union Board member, and Sandra Donaldson, Athens/Grafton Board member, participated. Paul Obuchowski of Rockingham and Hardy Merrill of Grafton participated as community members.

There were 20 applicants. Six or eight candidates were interviewed. Three of the eight were experienced business managers. Ms. Cole was one of two finalists. The hiring committee was searching for a business manager who had experience in the business office of another supervisory union in Vermont and who could demonstrate timeliness of their work. Ms. Cole was most recently the assistant business manager at Windsor Central and she had also worked Rutland-Windsor Supervisory Union for 17 years.

- 2 Do you have an audit committee or finance committee that is dedicated to assisting the audit process or budgeting process?

There is no audit or finance committee but there is a budget committee for each board. For the WNESU, the committee consists of Jim McAuliffe, Russ Capron and Margaret Perry. Ms. Harpster said she believes that the recently elected board chair may initiate the formation of such a committee.

- 3 Do you have a formal or informal advisory group that helps assist you as you foster strategies to mitigate past, current and emerging problems and crises?

No such advisory group exists.

- 4 What planning or prioritization processes are occurring in the district? Is there strategic planning happening? Where? When was the last strategic planning process undertaken and who was involved? Is there a strategic plan document available?

There is no strategic plan or planning process currently taking place. However, there are some other planning documents that have been recently developed or are in process including:

Curriculum Document for K-12 that was developed over the last three years.

Previously no such document existed and the document has been adopted district-wide.

Teacher Evaluation System – Currently in process working with administrators and teachers.

Vision Plan – Ms. Harpster has met with all PTOs in the supervisory union and Assistant Superintendent Chris Kibbe has met with various teachers. The vision plan is asking parents and teachers what they want from their schools.

- 5 What are the things you are most proud of as superintendent; or of WNESU in general? Examples may include innovation to process or delivery of services.
- *The high school test scores have met the criteria for the last three years leading to achieving AYP for two of those three years though the middle school and Westminster Elementary School are currently on technical assistance.*
 - *Renovation work at Saxtons River and Central School.*
 - *Special Ed – Sharon Reynolds, the director for the last two years, Ms. Harpster believes the department is focused and costs are down.*
 - *Working on a Russ Grant in the amount of \$300,000 that could bring distance learning opportunities and lower costs to WNESU.*
- 6 What areas of progress do you feel the public does not recognize and/or examples of accomplishments or innovative changes the public should be made aware of?
- Annual Yearly Progress meeting state targets at the high school level.*
- 7 Can the level of civility or understanding by citizens improve? What can citizens do to help? Can they play a role in a citizen's committees of any type? What is their best role?
- *Ms. Harpster praised the number of volunteers at Saxtons River and Westminster.*
 - *Community members come in and cook for the students during SATs.*
 - *Ms. Harpster said she likes to keep the curriculum development to the district staff.*

Closing Comment:

The SAO performed the following tasks to complete this report over the period from January to July 2010:

- We canvassed minutes of board meetings for WNESU and their member districts.
- Followed newspaper stories that were pertinent to WNESU during our review period.
- Reviewed documents relevant to the issues which included:
 - 2002 SAO report entitled “Improving Student Performance.”
 - 2005 Special Education Expenditure Audit conducted by the Vermont Department of Education.
 - Various financial, Special Education and other reports that are publicly available at the DOE website for each supervisory union.
 - Interviewed citizens who had reached out to SAO with their concerns.

Dr. Stephen Covey says “Begin with the End in Mind.” This situation report is designed to begin a process to take a 360-degree look at issues that exist for stakeholders of WNESU. Ultimately, the SAO intends this report to be a tool to organize, discuss and address past, current and emerging issues at WNESU with the goal of promoting awareness among all stakeholders and aid all stakeholders in evaluating which areas require sustained attention.

The SAO submitted this report to WNESU Superintendent Johanna Harpster and requested her comment. Her response is included below as a supplement.

SUPERINTENDENT'S RESPONSE TO SITUATION REPORT

JULY 15, 2010

I write in response to the Situation Report your office has written about WNESU. There is much to celebrate in the data that you review:

- Medicaid funds are being spent according to the wishes of the Supervisory Union Board and while we continue to maintain high balances, your report now acknowledges that practice is acceptable to the DOE.
- The DOE has visited our district to monitor our grant spending this year and they report a much improved accounting system. They acknowledge that there is still room for improvement and suggested to us that we should employ a part-time grant manager which we are in the process of hiring. Commendations to Chris Kibbe, Assistant Superintendent, for his work on the grants.
- We have a new Business Manager, Edie Cole, with 17 years of experience in Vermont. We look forward to her timely completion of the Audit and better handling of cash flow data.
- We have lowered our Special Education costs over the past few years going from fifth highest in 2007 to 25th highest in 2009. This is extraordinary news that is well worth congratulations to Sharon Reynolds, Director of Instructional Support Services.

You have also raised concerns expressed to you by two citizens:

- Governance structure – because of a reading of state law, we added an additional vote from Ath/Graf to the Supervisory Union Board. Given their low enrollment in our schools, some Board members were unhappy.
- Lack of goals and performance measures at the WNESU level. The new Board Chair has made this a focus for change.
- Business Manager function – we have a new Business Manager.
- High Medicaid fund balance – acceptable practice.
- Administrative salaries are high – we are working on this starting with my salary and the Director of Transportation position. Administrators now pay a percentage of their healthcare premiums.
- Audit was late – we have a new Business Manager.

Goals we are working on:

1. Complete audit in a timely way.
2. Address facilities issues at the Middle School.
3. Implement Special Education Compliance Monitoring plan.
4. Set goals and provide a feedback loop.
5. Improve student performance on the state tests both for regular education students and Special Education students.
6. Improve graduation rate.

FOTHERGILL SEGALE & VALLEY

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March 16, 2010

To the Board of School Directors
Windham Northeast Supervisory Union
Bellows Falls, VT 05101

Dear Board,

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Windham Northeast Supervisory Union as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Windham Northeast Supervisory Union's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Supervisory Union's internal control. Accordingly, we do not express an opinion on the effectiveness of the Supervisory Union's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified accrual basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results 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 control. We believe that the following deficiencies constitute material weaknesses:

- Lack of accounting policies and procedures manual
- Lack of timely balance sheet reconciliations
- Lack of timely and consistent recording of inter-district activity.

- Lack of journal entry review and approval.
- Lack of timely follow through on uncollected receivables.
- Lack of accurate reporting on quarterly SDE 1.1 reports for grants.
- Lack of time certification as required by federal grant regulations.

Below we describe each of the above noted material weaknesses along with other matters we noted during the audit. We believe that the implementation of the recommendations will provide the Supervisory Union with a stronger system of internal control while also making its operations more efficient.

Material Weaknesses

A more detailed description of the weaknesses is as follows:

Accounting policies and procedures manual needed

During the time of the audit it was unclear as to who was responsible for what in regards to accounting duties and maintaining of the general ledger. We recommend that the Supervisory Union establish a standard accounting manual that would inform all employees of desired operating procedures and policies. All accounting functions should be identified and assigned to staff appropriately so each staff knows what his/her duties are. Such a manual would also serve as an aid in training new employees, monitoring the performance of existing employees and improving internal communications. At a minimum, the manual should include:

- An organizational chart
- Job descriptions, outlining duties and responsibilities
- A timeframe upon which certain functions should be completed
- Descriptions of methods, procedures and accounting principles to be followed including explanations and examples of principle transactions
- A chart of accounts with detailed explanation of the items to be included therein
- Any other documents or forms for which uniformity of use is desired

Without such procedures in place routine activities such as bank reconciliations can get put on the “back burner” or delayed for several months. Having an individual responsible with a set deadline helps ensure accounting records are kept up to date. This will provide management with up to date financial data for management decision purposes. We understand that circumstances arise that make this difficult and there may be times when staff may need to work overtime in order to keep the records current.

Timely balance sheet reconciliations

Performing timely reconciliations of Balance Sheet Accounts (Cash, Accounts Receivable, Accounts Payable, and others) is critical in ensuring accurate financial reports, including budget to actual revenue and expenditure reports. At the start of the audit not all balance sheet accounts had been reconciled. This is probably a direct result of not having a designated person responsible for that function as noted above. We recommend that all Balance Sheet accounts be reconciled monthly between the accounting system and supporting documentation.

Timely and consistent recording of inter-district activity

There are numerous items that run either through the Supervisory Union to and from other member school districts that affects the Supervisory Union as a result of grants, special education, and other joint related activities. Many of these transactions are not reconciled until the end of the year. These flow-thru items need to be recorded timely and consistently between Districts to ensure that all activity is appropriately reflected at each of the entities. We recommend that all balances be recorded and reconciled between Districts at least quarterly.

Journal entry review and approval

During our audit this year we noted journal entries were made by the Business Manager but no review of these entries was done. We also noted that some entries did not have clear supporting documentation. All entries should be authorized and reviewed by someone other than the preparer of the entry to ensure inappropriate or incorrect entries are not posted, resulting in inaccurate financial information. We recommend that all journal entries have appropriate documentation to support the entry and it be reviewed by someone other than the individual proposing the entry.

Timely follow through on uncollected receivables

During our audit we noted some receivables greater than a year old had not been addressed as to why the funds were not received. Delay in this follow up could result in the funds no longer being collectable. We recommend that the review and follow up on old receivables be added to the required accounting procedures.

Accurate reporting on quarterly SDE 1.1 for grants

As a requirement of some of the state and federal grants received by the Supervisory Union, there is a reimbursement request done quarterly (form SDE 1.1). During our audit, we noted some of the final reports filed did not agree with the amounts shown in the accounting system financial records for carryover revenue amounts and expenditure amounts. The incorrect reporting could result in some costs not being covered by the grant. We recommend that all SDE 1.1 reports be reviewed by someone other than the person preparing the reports to ensure the reports filed are accurate and agree with the accounting system financial records.

Time certification as required by federal grant regulations

As part of receiving federal grants, there is a specific requirement to provide verification from the employees to support their time spent on grant activities. Although we were able to test this verification a different way, it does not meet the federal guidelines for "time certifications". We recommend that a procedure be implemented to ensure that these time certifications are done and done timely.

Prior Year Internal Control and Compliance Findings Status

The below noted prior year findings are reflected above within the current year findings:

- Lack of journal entry review and approval.
- Lack of bank reconciliation review.
- Lack of account receivable and accounts payable accuracy and review.
- Lack of timely follow through on uncollected receivables.
- Lack of accurately reporting on quarterly SED 1.1 reports for grants.
- Lack of time certification as required by federal grant regulations.

The below noted prior year findings have been resolved during the fiscal year:

- Properly and timely sign off of warrants by the board member.
- Accurate calculation and accounting for “sub-grant” reimbursements.

Other Recommendations

Below we describe other matters we noted during the audit. We do not believe any of the items listed are significant deficiencies.

Many of the federal and state grants are amended throughout the year as changes are made regarding funds available or change of use for the grants. When these amendments are made, the budget reflected in the accounting system is changed so that management can better monitor the status of these grants. We noted that not all grant amendments were reflected in the accounting system. We recommend that a procedure be implemented to ensure these budget changes be entered in the accounting system.

The accounting system is also used for tracking budget to actual variances for the Supervisory Union’s general operations. We noted that the budget reflected in the accounting system did not agree to the final approved budget. We recommend that a review process be established to ensure that the budgets reflected in the accounting system agrees with the approved budget.

These recommendations will provide management with an up to date accurate budget when comparing cost to actual for decision making purposes.

Other matters – Financial Model and Performance

The financial statements format under GASB 34 are presented in two separate types of reporting, 1) the “Government-Wide” Reporting and 2) the “Governmental Fund” reporting. Page 3 of the Management’s Discussion and Analysis under “Financial Highlights” provides an overview of the financial outcome under each reporting statement. Pages 4 – 7 provide a more detailed analysis.

For budgetary purposes, the Board uses the “Governmental Fund” reporting statements. These statements are shown in Exhibit C and Exhibit E of the audited financial statements. For budgetary purposes, the Supervisory Union ended with a General Fund fund balance of \$350,862. Exhibit G of the audited financial statements provides a detailed budget to actual analysis of revenues and expenditures for fiscal year June 30, 2009 for the General Fund.

Some of the larger variances are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
General administration revenue	\$ 67,984	\$ 500	\$ (67,484)
Expenditures:			
Assistant Superintendent	173,124	127,735	45,389
Fiscal services	316,912	264,706	52,206
Building services	81,804	60,896	20,908
Special education -			
Speech Services	212,853	185,823	27,030
Physical Therapy	46,900	24,429	22,471
Other general expenditures	67,195	106,648	(39,453)

The Special Revenue Fund ended with a Fund balance of \$126,039, which \$125,563 is from the EPSDT program. Schedules 1 and 2 of the audited financial statements provide the detail of revenue and expenses for this fund.

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

Respectfully submitted,

Fothergill Segale & Valley, CPAs

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