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September 5, 2018

Board of Directors
Grand Isle Supervisory Union
5038 US Route 2
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We have audited the financial statements of the Grand Isle Supervisory Union as of and for the year ended June 30, 2017 and have issued our report thereon dated September 5, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the Grand Isle 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 Grand Isle Supervisory Union's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Grand Isle Supervisory Union's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed as follows, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Grand Isle Supervisory Union's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations as Items 2017-01 through 2017-04 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations as Items 2017-05 through 2017-07 to be significant deficiencies.

We have also noted other matters during our audit as indicated in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations that are opportunities for strengthening internal control and operating efficiency. We have discussed the recommendations with the staff during the course of fieldwork and some of the recommendations may have already been implemented.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Grand Isle Supervisory Union and is not intended to be, and should not be, used by anyone other than these specified parties. If you would like to discuss any of the recommendations further, please feel free to contact us.

We would like to take this opportunity to thank the staff of the Grand Isle Supervisory Union for their assistance and cooperativeness throughout our audit. It has been a pleasure working with you.

Respectfully submitted,

Sullivan, Powers & Company

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SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL
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Deficiencies in Internal Control:

Material Weaknesses:

2017-01 Timely Reconciliation of Balance Sheet Accounts

Criteria:

Internal controls should be in place to provide for the timely reconciliation of all balance sheet accounts to supporting documentation on a monthly basis in order to detect and correct errors in account balances.

Condition:

The Supervisory Union does not have internal controls in place to ensure that timely reconciliations are performed for all balance sheet accounts. Most of the balance sheet accounts were not reconciled to the actual balances at year end or during the year which resulted in various adjustments to revenue and expenses.

Cause:

Unknown.

Effect:

Most of the Supervisory Union's balance sheet account balances were incorrect during the year and at year end.

Recommendation:

We recommend that all balance sheet accounts be reconciled to supporting documentation on a monthly basis in order to detect and correct errors.

2017-02 Special Education Report

Criteria:

Internal controls should be in place to ensure that the Special Education Expenditures Report (SEER) agrees to the underlying accounting records. Furthermore, a secondary review performed the Director of Special Education, should be done and documented.

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Condition:

The Supervisory Union does not have adequate controls in place over the Special Education Expenditures Report to ensure the information agrees to the underlying accounting records. There were several amendments to the final Special Education Expenditures Report due to inaccurate amounts in the general ledger. Also, there is not adequate controls in place to ensure that the review of the report by the Director of Special Education is properly documented.

Cause:

Unknown.

Effect:

The final SEER was not correct and requires an amended submission by the Supervisory Union.

Recommendation:

We recommend that the Supervisory Union implement controls to ensure the Special Education Expenditures report agrees to the underlying accounting records and that the Director of Special Education documents the review of the report for accuracy.

2017-03 Controls Over Accounts Payable

Criteria:

Internal controls should be in place to ensure that accounts payable and related expenses are reported in the correct accounting period. Additionally, accounts payable recorded in the general ledger should agree to the subsidiary ledger detailing the vendor and amount owed at year end.

Condition:

There were insufficient controls in place to ensure that all accounts payable were recorded in the proper fiscal year. As a result, adjustments were required in order to adjust accounts payable to actual.

Cause:

Unknown.

Effect:

The Supervisory Union's accounts payable balances were incorrect.

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Recommendation:

We recommend that the School District implement controls to ensure they review year end invoices in order to properly record all accounts payable.

2017-04 Health Insurance Reconciliation

Criteria:

Internal controls should be in place to ensure that health Insurance expenses are reported in the proper accounting period and reconciled to the general ledger in a timely manner.

Condition:

The Supervisory Union does not have controls in place to ensure that health insurance expense is properly recorded in the appropriate fiscal year and that the break out between the employee and employer portion is accurate.

Cause:

Unknown.

Effect:

Health insurance expense was not properly recorded in the appropriate fiscal year and the allocation between the employee and employer portion was inaccurate

Recommendation:

We recommend that the Supervisory Union implement internal controls to ensure that health insurance expenses are appropriately recorded to the correct fiscal year. We also recommend that the Supervisory Union reconcile health insurance expense to supporting documentation in a timely manner.

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Significant Deficiencies:

2017-05 Fixed Assets Accounting and Reporting

Criteria:

Procedures should be in place to provide for complete and accurate tracking of the Supervisory Union's fixed assets. Complete and accurate records are vital to the effective safeguarding of fixed assets owned by the Supervisory Union. They are needed to maintain individual accountability for resources, to develop the insurable value of Supervisory Union-owned property and equipment, and to document proof of loss for claims. In addition, fixed asset records are essential for effective long-range management planning for replacement of existing property and equipment.

Condition:

The Supervisory Union has not verified their schedule of fixed assets nor have they performed periodic inventories substantiating the existence of the fixed assets.

Cause:

Unknown

Effect:

Fixed assets could be susceptible to misappropriation as the Supervisory Union is not safeguarding its fixed assets from potential loss. Additionally, fixed assets could be misstated on the government-wide financial statements due to additions or deletions not recognized.

Recommendation:

We recommend that the Supervisory Union implement procedures to account for and record fixed asset activity. Furthermore, Supervisory Union personnel should perform periodic inventory of fixed assets to ensure the schedule's completeness.

2017-06 Accounting and Procedures Manual

Criteria:

An accounting and procedures manual should be in place. This manual should define duties and responsibilities for current personnel so as to prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. It will also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees.

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Condition:

The Supervisory Union does not have an accounting and procedures manual in place.

Cause:

Unknown.

Effect:

The Supervisory Union staff does not have a manual to turn to when questions arise about the scope of their duties and responsibilities.

Recommendation:

We recommend that the Supervisory Union develop this document for all accounting procedures as soon as possible. Each individual should document their duties and how to perform them. The manual should include examples of forms with descriptions of their use. Once developed, only changes in procedures or forms will require changes in the manual.

We believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

We also recommend that the Supervisory Union make sure that there are no jobs related to accounting and finance that only one person knows how to perform. The procedures manual would also be useful in determining whether this situation exists.

2017-7 Authorization of General Journal Entries

Criteria:

Internal controls should be in place that require appropriate individuals to approve all adjustments to the books of original entry.

Condition:

Internal controls over recording of journal entries are inadequately designed. Journal entries prepared by the Business Manager are not reviewed by another individual nor is adequate supporting documentation retained.

Cause:

Unknown.

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Effect:

This one deficiency in internal control structure could allow other working control policies to be circumvented.

Recommendation:

We recommend that the Supervisory Union consistently ensure that all journal entries are properly supported with documentation as to how and where the amount was derived. We also recommend that all journal entries be reviewed by an appropriate official so as not to circumvent the original approval process.

Other Recommendations:

National School Lunch Program Income Verification

Criteria:

Internal controls should be in place to ensure that eligibility determinations and redeterminations, (including obtaining any required documentation/verifications) are performed and the individual is determined to be eligible in accordance with the compliance requirements of the program.

Condition:

Income used to determine eligibility was not verified.

Cause:

Unknown.

Effect:

Benefits could have been provided to ineligible individuals.

Recommendation:

We recommend controls be implemented to ensure income verifications are done.

Controls over Reporting

Criteria:

Internal controls should be in place to ensure that the AOE Form 2.0 Expenditures report agrees to the underlying accounting records and any carry over amount is reported accurately.

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Condition:

The Supervisory Union does not have adequate controls in place over AOE Form 2.0 Expenditures reports to ensure the information agrees to underlying accounting records and that any carryover is reported accurately. There were a number of other instances where the expenses reported did not agree with the general ledger.

Cause:

Unknown.

Effect:

Grants receivable and/or unearned revenues were inaccurately reported.

Recommendation:

We recommend that the Supervisory Union implement controls to ensure the AOE Form 2.0 Expenditures reports agree to the underlying accounting records and any carry over amounts are reported accurately.

Schedule of Expenditures of Federal Awards

Criteria:

The Supervisory Union should have internal controls in place to ensure that the data utilized to prepare the Schedule of Expenditures of Federal Awards is accurate.

Condition:

The Supervisory Union does not have adequate controls in place to ensure the Schedule of Expenditures of Federal Awards is accurate. There were adjustments made to the general ledger that also affected the Schedule of Expenditures of Federal Awards amounts.

Cause:

Unknown.

Effect:

The Schedule of Expenditures of Federal Awards was inaccurate.

Recommendation:

We recommend that the Supervisory Union implement procedures to ensure that the data utilized to prepare the Schedule of Expenditures of Federal Awards is accurate and that all federal awards are properly included.

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Budget Amendments

Criteria:

The Special Education Grant to States Grant indicates that if the budget is to be adjusted by more than 10% ,the grantee needs to amend the grant.

Condition:

There are no controls in place to monitor the grant budget and to ensure they are in compliance with budget amendments.

Cause:

Unknown.

Effect:

The Supervisory Union may not be in compliance with special tests and provisions of the Special Education Grants to State grant.

Recommendation:

We recommend the Supervisory Union comply with the special tests and provisions of the Special Education Grants to State Grant to monitor the budget.

Fraud Policy

The Supervisory Union does not have a fraud policy in place. A fraud policy outlines the Supervisory Union's position on fraudulent activities and dishonest conduct and sets out procedures for employees to report suspected fraud or misconduct to the appropriate personnel within the Supervisory Union. This policy should further outline the responsibilities of different positions within the Supervisory Union in regards to reporting and investigating these claims. It should also discuss the actions that will be taken to investigate the claim and the protection that will be afforded to the person making the claim against retaliation from the accused.

We recommend that the Supervisory Union implement a fraud policy.

Fraud Risk Assessment

The Supervisory Union has not performed a fraud risk assessment. A fraud risk assessment is important because it identifies the Supervisory Union's vulnerabilities to fraudulent activities and whether those vulnerabilities could result in material misstatement of the financial statements. The fraud risk assessment would also identify processes, controls, and other procedures used to mitigate the identified fraud risks.

We recommend the Supervisory Union perform a fraud risk assessment to reduce the possibility of fraudulent activities.

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Documentation of Internal Control System

A solid understanding of internal control is essential. An organization must continually assess their internal control systems to ensure accurate financial reporting and compliance with laws and regulations. As part of this process, the Supervisory Union should formally document its control systems.

This documentation should provide management with an understanding of the systems related to financial reporting and the controls over relevant assertions related to all significant accounts, disclosures in the financial statements, antifraud programs and controls over selection and application of accounting policies.

We recommend that the Supervisory Union document the internal control process. This should break out the internal control process into the following five areas:

1. Control Environment – Sets the tone of an organization and is the foundation for all other components.
2. Risk Assessment – The identification and analysis of relevant risks to achieve its objectives forming a basis for how risks should be managed.
3. Control Activities – The policies and procedures that help ensure management directives are carried out.
4. Information and Communication – The identification, capture and exchange of information in a form and timeframe that enables people to carry out their responsibilities.
5. Monitoring – The process that assesses the quality of internal control performance over time.

Procurement Policy

The Supervisory Union's procurement policy has not been updated to comply with the Uniform Guidance for purchases using federal funds.

The Uniform Guidance allows a non-federal entity to delay implementation of the prescribed procurement standards for three fiscal years. This grace period allows the Supervisory Union to continue to use its current procurement policy through the fiscal year ending June 30, 2018. However, to delay implementation of the new standard, the Supervisory Union must document whether it is in compliance with the old or new standard. We recommend that this be documented in the policy itself and in the Selectboard minutes. Further, the Supervisory Union should update its procurement policy to be in compliance with the Uniform Guidance beginning July 1, 2018.

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Uniform Guidance Policies

Sections of the Uniform Guidance require non-federal entities that receive federal awards to have certain written policies and procedures or standards of conduct. Examples of these requirements are listed below:

- Conflict of Interest Policy
- Financial Management Policy
- Payment - Cash Management - Drawdowns and Reimbursement Requests Policies
- Uniform Guidance Procurement Policy
- Compensation Policy
- Relocation Costs of Employees Policies
- Travel Cost Policy

We recommend that all policies be reviewed and amended to include the requirements outlined in the Uniform Guidance.

Investment and Banking Policy

The Supervisory Union does not have a formal investment and banking policy. This policy is extremely important in establishing and maintaining cash management in accordance with School Board directives. This policy should include general guidance for the Treasurer in the areas of bank selection, types of investments and policies for minimizing the risk of losses.

We recommend that the School Board and the Treasurer work together to establish guidelines for the Treasurer in the areas of cash management and investing.

Held Checks

We noted that a number of checks were written and held past the fiscal year-end in an effort to include all appropriate expenses in the corresponding fiscal year despite a lack of cash. This is not sound accounting policy, and given the Supervisory Union's use of the accrual basis of accounting, not necessary as well. The accrual basis allows for the accrual of these expenses into the year in which the expenses were incurred regardless of whether or not they were paid for. The net effect of held checks is that cash and accounts payable are understated.

We recommend that the Supervisory Union record accruals instead of preparing checks and holding them.

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Assessment Reconciliation

The Supervisory Union bills the member school districts for services it performs. During the year, the member districts pay the Supervisory Union based on a budgeted amount, however, at year end the amounts were not reconciled to actual expenses paid by the Supervisory Union and the assessments were not adjusted to reflect the actual amounts.

We recommend that a reconciliation be performed at year end to ensure the member districts are reimbursing the Supervisory Union for actual expenses paid.