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October 19, 2018

Board of School Directors  
North Hero School District  
c/o Grand Isle Supervisory Union  
5038 US Route 2  
North Hero, Vermont 05474

We have audited the financial statements of the North Hero School District as of and for the year ended June 30, 2017 and have issued our report thereon dated October 19, 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 North Hero School District'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 North Hero School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Hero School District'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 North Hero School District'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 and 2017-02 to be material weaknesses.

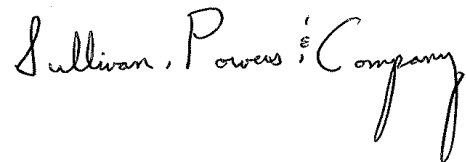
A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Deficiencies in Internal Control and Other Recommendations as Items 2017-03 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 School Directors, and others within the North Hero School District 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 North Hero School District for their assistance and cooperativeness throughout our audit. It has been a pleasure working with you.

Respectfully submitted,

A handwritten signature in cursive script that reads "Sullivan, Powers & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

SULLIVAN, POWERS & CO.  
Certified Public Accountants

NORTH HERO SCHOOL DISTRICT  
SCHEDULE OF DEFICIENCIES IN INTERNAL CONTROL  
AND OTHER RECOMMENDATIONS  
JUNE 30, 2017

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 School District 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 School District'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 final Special Education Expenditures Report (SEER) agrees to the underlying accounting records. Furthermore, a secondary review performed by the Director of Special Education should be done and documented.

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*Condition:*

The School District does not have adequate controls in place to provide for a complete and accurate submission of the final SEER. Numerous amendments were necessary resulting from inaccuracies in the general ledger.

*Cause:*

Unknown.

*Effect:*

The final SEER is not correct and will require an amended submission by the Supervisory Union.

*Recommendation:*

We recommend the District implement controls to ensure that the SEER agrees to the underlying accounting records and require the review and approval by the Director of Special Education before the final submission to the State of Vermont.

Significant Deficiencies:

2017-03 Fixed Assets Accounting and Reporting

*Criteria:*

Procedures should be in place to provide for complete and accurate tracking of the School District's fixed assets. Complete and accurate records are vital to the effective safeguarding of fixed assets owned by the district. They are needed to maintain individual accountability for resources, to develop the insurable value of district-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 School District has not verified their schedule of fixed assets nor have they performed periodic inventories substantiating the existence of the fixed assets.

*Cause:*

Unknown

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*Effect:*

Fixed assets could be susceptible to misappropriation as the District 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 District implement procedures to account for and record fixed asset activity. Furthermore, District personnel should perform periodic inventory of fixed assets to ensure the schedules completeness.

2017-04 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 tie 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 School District's accounts payable balances were incorrect.

*Recommendation:*

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

2017-05 Health Insurance Reconciliation

*Criteria:*

Internal controls should be in place to ensure that payroll withholdings are adequate to cover the employee portion of health insurance expenses as agreed upon in the teacher's contracts.

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*Condition:*

The School District does not have controls in place to reconcile employee benefit withholdings. The District was not withholding enough to cover health insurance expenses for individuals not participating in summer pay. Additionally, when an employee changed health insurance plans, the withholdings were not adjusted accordingly to reflect the change in cost.

*Cause:*

Unknown.

*Effect:*

The allocation between employee and employer portion of health insurance expenses was incorrect which resulted in the District overpaying for multiple teachers.

*Recommendation:*

We recommend that the District implement internal controls requiring an employee withholding reconciliation to supporting documentation to ensure the appropriate allocation of employee and employer related expenses.

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.

*Condition:*

The School District does not have an accounting and procedures manual in place.

*Cause:*

Unknown.

*Effect:*

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

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*Recommendation:*

We recommend that the School District 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 School District 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.

2017-07 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.

*Effect:*

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

*Recommendation:*

We recommend that the School District 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.

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Other Recommendations:

Fraud Policy

The School District does not have a fraud policy in place. A fraud policy outlines the School District'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 School District. This policy should further outline the responsibilities of different positions within the School District 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 School District implement a fraud policy.

Fraud Risk Assessment

The School District has not performed a fraud risk assessment. A fraud risk assessment is important because it identifies the School District'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 School District perform a fraud risk assessment to reduce the possibility of fraudulent activities.

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 School District 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 School District 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.



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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 School District’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 School District 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 School District 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 School District should update its procurement policy to be in compliance with the Uniform Guidance beginning July 1, 2018.

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.