

October 10, 2014

To the Board of Directors  
Addison Northwest Supervisory Union  
Vergennes, Vermont

In planning and performing our audit of the financial statements of Addison Northwest Supervisory Union for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Supervisory Union's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion 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.

However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. We previously reported on the Supervisory Union's internal control in our report dated October 10, 2014. This letter does not affect our report dated October 10, 2014 on the financial statements of Addison Northwest Supervisory Union.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Supervisory Union personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

**Unsigned Teacher Contract**

During the audit, we noted one of out three teachers in the Migrant Consortium program that had an unsigned contract on file. The Supervisory Union requires that all employees of the Supervisory Union and member districts have a signed contract agreement.

We recommend the Supervisory Union verify that all contracts are signed and on file.

**Missing Grant Application**

During the audit, client personnel were unable to locate the grant agreement for Title II SAHES. It is the Supervisory Union's fiduciary duty to maintain adequate records.

We recommend that a filing system be developed to ensure all grant documents are retained and easily accessible.

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### **Schedule of Capital Assets**

The Supervisory Union does not maintain a schedule of capital assets purchased with federal awards. Grant agreements require that capital assets purchased with federal awards needs to be summarized in a schedule and serial numbers need to be included in the schedule.

We recommend that the Supervisory Union maintain a list of capital assets, which include serial numbers to easily identify each capital asset purchased with federal awards.

### **Segregation of Duties over Journal Entries**

We noted that journal entries are not reviewed by a second person. The current process could allow incorrect adjustments to go undetected, resulting in overstated or understated accounts, which may not be detected in a timely manner. Additionally, without secondary review of journal entries, assets could be misappropriated and this could go undetected. In order to properly segregate duties surrounding this reporting function, we recommend that a second employee review and initial all journal vouchers created as indication of review.

### **Recording Revolving Fund Activity (Same as prior year)**

During the audit, we noted that the activity for the Revolving Fund was not recorded until the end of the fiscal year. Transactions should be recorded in the accounting system when transactions occur throughout the year.

We recommend that the Supervisory Union record transactions in the accounting system in a timely fashion.

### **Copier Lease Agreement (Same as prior year)**

The Supervisory Union leases copiers to the member school districts, but there are no written agreements. Since there are no written agreements, there is no legal obligation for the member schools to pay the SU.

We recommend that leases between the Supervisory Union and the member school districts be executed.

### **Employment Agreements (Same as prior year)**

We noted that employment agreements do not state that unused sick time is not paid on termination. The employment agreement should indicate whether sick time is paid out on termination or not.

We recommend that the policy be revised to state that unused sick time will not be paid upon termination.

**Fraud Risk Assessment (Same as prior year)**

The Supervisory Union currently assesses its risk of losses due to fraud on an informal basis. Statement of Auditing Standards 99, *Consideration of Fraud in a Financial Statement Audit*, requires that management understand its responsibility for establishing and monitoring the Supervisory Union's fraud risk assessment and prevention activities, and that management develop a fraud risk management program that is appropriate for the size and complexity of the Supervisory Union. This program should include procedures to identify fraud risks and to develop appropriate action to reduce or eliminate those risks. The audit committee, or equivalent, is required to oversee the activities of management and the fraud risk management program. The Supervisory Union should begin, and document, a formal risk assessment process. This process should include individuals at various levels. In particular, it should include the head of each department within the Supervisory Union.

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

*A.M. Peisch & Company, LLP*

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