

VERGENNES UNION ELEMENTARY SCHOOL

ADDITIONAL REQUIRED REPORT

JUNE 30, 2012

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**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**

To the Board of School Directors
Vergennes Union Elementary School
Vergennes, Vermont

We have audited the financial statements of Vergennes Union Elementary School as of and for the year ended June 30, 2012, and have issued our report thereon dated June 17, 2013. The auditor's report expresses an adverse opinion on the financial statements of Vergennes Union Elementary School. Vergennes Union Elementary School has not adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Accounting principles generally accepted in the United States of America require the adoption of GASB statement No. 34. 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.

Internal Control Over Financial Reporting

Management of Vergennes Union Elementary School, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Vergennes Union Elementary School's internal control over financial reporting 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 Vergennes Union Elementary School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Vergennes Union Elementary School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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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 entity'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 findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vergennes Union Elementary School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to the management of Vergennes Union Elementary School in a separate letter dated June 17, 2013.

Vergennes Union Elementary School's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Vergennes Union Elementary School's response and, accordingly, we express no opinion on it.

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

AM. Peisch & Company, LLP

St. Albans, Vermont
June 17, 2013
VT Reg. No. 92-0000102

A-3 Lack of Segregation of Duties for Agency Fund Cash

Condition: There exists a lack of segregation of duties over cash receipts and disbursements for the Agency Funds. The School secretary receives cash from the teachers, signs checks for disbursements, posts cash receipts and disbursements to the accounting records, prepares the deposit slip, brings the deposit to the bank, maintains the checkbook, distributes signed checks, and prepares the monthly bank reconciliation.

Criteria: The School is responsible for implementing internal control procedures to ensure that all cash is received and recorded and is disbursed for valid purposes.

Effect: Assets could be misappropriated and cash could be misstated due to error or fraud.

Recommendation: We recommend that cash procedures be reviewed and duties segregated to minimize the risk of misappropriation or misstatement.

Response: Recognizing there are limited funds with which to hire additional staff, we will implement procedures to minimize risk.

A-4 Appropriate Use of Student Activities Fund

Condition: The Student Activities Fund cash has been used to fund general miscellaneous school expenses in addition to various student group activities. Additionally, the Student Activities Fund is used to account for a grant from the Vermont Department of Health.

Criteria: Agency funds are custodial in nature and should not be used for general operations of the School.

Effect: The cash could be used for inappropriate purposes.

Recommendation: We recommend that this account no longer be used to pay for general school expenditures. We also recommend that the Vermont Department of Health grant be transferred to a separate Special Revenue Fund. To ensure that only appropriate activity occurs in the Student Activities Fund, we recommend that the Business Manager or another knowledgeable person review this fund on a quarterly basis.

Response: We will review the status of the Vermont Department of Health grant. Any remaining balance will be moved to a separate Special Revenue Fund. The Supervisory Union purchased the account module for Student Activities Funds. We will consider the benefit of implementing the software here.