

MANAGEMENT COMMUNICATIONS
RACINE UNIFIED SCHOOL DISTRICT
JUNE 30, 2016

RACINE UNIFIED SCHOOL DISTRICT
June 30, 2016

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To the Board of Education
Racine Unified School District
Racine, Wisconsin

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District of Racine Unified School District, Wisconsin (the "District") for the year ended June 30, 2016. The District's financial statements, including our report thereon dated [REDACTED], 2016, are presented in a separate audit report document. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on major federal and state programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Federal Uniform Guidance and the *State Single Audit Guidelines*.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with Federal Uniform Guidance and the *State Single Audit Guidelines*, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Compliance Supplement" and the *State Single Audit Guidelines* applicable to each of its major federal and state programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Significant Audit Findings

Consideration of Internal Control

Financial Statements

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 District as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control. Our report on internal control over financial reporting and on compliance and other matters is presented on pages 57 - 58 of the annual report.

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.

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 County's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

State Awards

In planning and performing our audit of compliance for each major federal and state program, we considered the District's internal control over compliance (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance requirements that could have a direct and material effect on each of the District's major federal and state programs for the year ended June 30, 2016, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control. Our report on internal control is presented on pages 59 – 60 of the annual report.

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. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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, noncompliance 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 noncompliance of the District's major federal or state award programs will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider 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 following deficiency in the District's internal control to be a significant deficiency:

Finding 2016-001 Special Education Aid Allowable Costs

This finding is described in detail in the schedule of findings and responses on page 71 of the annual report.

The District's written response to the significant deficiencies and material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note A to the financial statements. As described in Note B 1 to the financial statements, the District changed accounting policies related to fair value measurements by adopting Statement of Governmental Accounting Standards Board (GASB) No. 72, *Fair Value Measurement and Application*, in 2016. We noted no significant transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. To the best of our knowledge, all significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates included in the financial statements were:

Management's estimates of the pension and other post-employment benefits are based on an actuarial report. We evaluated the key factors and assumptions used to develop the pension and other post-employment benefits in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the depreciable life of the capital assets is based upon analysis of the expected useful life of the capital assets. We evaluated the key factors and assumptions and the consistency in these factors and assumptions used to develop the depreciable life in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the incurred, but not reported (IBNR) insurance reserves are based on actuarial projections of the expected cost of the ultimate settlement and administration of claims. We evaluated the key factors and assumptions used to develop the reserves in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension asset and related deferred outflows/inflows of resources is based on information received from the Wisconsin Retirement System. We evaluated the key factors and assumptions used to develop the net pension asset and related deferred outflows/inflows of resources in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Copies of the audit adjustments are available from management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of our audit. The following material misstatement detected as a result of audit procedures was corrected by management:

- Increased assets and liabilities by \$220,078 to record current year activity in Fund 60

Management Representations

We have requested certain representations from management that are included in the management representation letter dated [REDACTED], 2016. The management representation letter follows this communication.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and, to the best of our knowledge, our responses were not a condition to our retention.

In addition, during our audit, we noted certain other matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these matters in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized in the comments and observations section of this report.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, the budgetary comparison information and the schedules relating to pensions and other post-employment benefits, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

Sincerely,

Certified Public Accountants
Green Bay, Wisconsin
_____, 2016

OTHER COMMENTS AND OBSERVATIONS

1. Student Activity

Consistent processing procedures over student activity records maintained at each school are an important internal control area we review during the audit because of the decentralized nature of these transactions and bank accounts. Accordingly, we randomly selected seven District's schools to test their procedures relating to receipts, disbursements, and monthly bank reconciliations. We have summarized our results below:

Overall Comments

- Principal funds are being used throughout the schools for various items such as staff meeting meals, soda machines, etc.
- There is not a deposit slip being used by the teachers/advisors when making deposits, thus teachers/advisors are not always receiving receipts and the funds being deposited are not verified against what is being received.
- Debit cards are being used to purchase student activity related items under the control of the advisor and/or secretary without a formal policy in place.
- Segregation of duties with respect to authorization, custody, and recordkeeping functions may not always be optimal.

Horlick High School

- See comments above regarding the use of principal funds and segregation of duties.

Park High School

- Disbursements were not always properly signed off by the principal and/or advisor.
- Supporting documentation was unavailable for a number of disbursements.
- Receipts were not being deposited sequentially as a result of missing receipts.

Case High School

- The advisor and principal signatures were missing on a number of disbursements.
- Deposits are being made infrequent and not intact. There were often differences between deposit slips and bank statements.
- Receipts are not numbered making it difficult to trace whether or not deposits are intact.
- See comment above regarding segregation of duties

Gilmore Middle School

- See comment above regarding segregation of duties.

Walden Middle School

- See comments above regarding principal funds, deposit slips, and segregation of duties.

Olympia Brown Elementary School

- See comments above regarding principal funds and segregation of duties.

Westridge Elementary School

- See comments above regarding principal funds and segregation of duties.

We recommend the District establish a set of uniform internal control policies and procedures to be implemented at all the District's schools, specifically detailing controls over student activities receipts, disbursements, and bank reconciliations. In establishing these policies and procedures, it is important to emphasize adequate monitoring, approvals, and segregation of duties. Further, we recommend that all student activity accounts be evaluated for its purpose and determined whether or not they fit the Wisconsin Department of Public Instruction's Agency Fund Guidelines definition to ensure they should continue to be recorded within pupil activity funds. In conjunction with evaluating the accounts, determine if they would be better fit for a special revenue trust fund or an agency fund for scholarships. During testing, it was found that there are scholarship accounts being treated as student activity.

OTHER COMMENTS AND OBSERVATIONS (Continued)

2. Accounting and Reporting for Pensions and Other Postemployment Benefits

In June 2015, the Governmental Accounting Standards Board (GASB) issued pronouncements relating to pension benefits and other post-employment benefits (OPEB). Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68* requires governments providing defined benefit pension plans not administered through a trust or equivalent arrangement to recognize their unfunded pension benefit obligation as a liability, similar to the provisions of Statement No. 68. GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* significantly change the accounting and financial reporting of postemployment benefits that was established in GASB Statement Nos. 43 and 45. The primary purpose of these Statements is to improve accounting and financial reporting of pensions plans not administered through trusts and OPEB obligations and enhance transparency of pension and OPEB related information in your financial statements similar to how GASB Statements Nos. 67 and 68 were designed.

Since the District currently offers a supplemental pension benefit and other benefits considered to be Other Postemployment Benefits (OPEB), the District will need to implement these new accounting standards. To assist you with understanding the new standards, the key changes are summarized as follows:

- **Pensions:** Under current standards, governments only report a liability related to pensions not administered through a trust or equivalent for the unfunded portion of the annual pension cost, which included amortization of the unfunded actuarial liability over a period of time, not to exceed 30 years. The new standard requires that the government report the total pension liability in the district-wide financial statements. This will often result in a significant increase in the pension liability reported in your financial statements. The new standards also require that the entry age normal cost method be used to determine the liability, deferred inflows and outflows of resources to be reported for changes in economic and demographic assumptions and differences between expected and actual experience, and additional note disclosures and schedules.
- **OPEB:** Currently, governments report a liability related to other postemployment liabilities for the unfunded portion of the annual required contribution, which includes an amortization of the Unfunded Actuarial Liability (UAL) over an open period of time, not to exceed 30 years. Upon implementing the new standards, the District will recognize the difference between total OPEB liability and any plan assets (net OPEB liability) in the district-wide financial statements, often resulting in a significant increase in the OPEB liability reported in your financial statements. The new standards also require that the entry age normal cost method be used to determine the liability, deferred inflows and outflows of resources to be reported for changes in economic and demographic assumptions and differences between expected and actual experience, and additional note disclosures and schedules.

The new pension standard is effective for fiscal years beginning after June 15, 2016. The new OPEB standards are effective for financial statements for OPEB plans for fiscal years beginning after June 15, 2016 and for employers for fiscal years beginning after June 15, 2017.

We recommend that the District evaluate impact of these new standards with your actuary, and determine an implementation strategy to minimize your costs while ensuring adequate communication of the impact of these changes will have on your financial statements. As you develop your implementation strategy, you should evaluate the following:

- Do you anticipate any changes in benefits? If yes, you should approve benefit changes prior to implementation, as any changes in benefits in the future are treated as a current year activity.
- What is your valuation measurement date? You can roll back to a valuation date 12 months prior to year end, allowing you to complete your actuarial valuation prior to year end or you can roll forward to your reporting date, requiring your actuarial valuation to be completed after year end but before you anticipate issuance of your financial statements.

APPENDIX