

Stafford County School Board

A Component Unit of Stafford County, Virginia

Report to the School Board
December 19, 2016





RSM US LLP

December 19, 2016

P.O. Box 15409 (28561-5409)
3120 Wellons Boulevard
New Bern, NC 28562-5247

To the Honorable Members of the Stafford County School Board
Stafford County Public School Boards
Stafford, Virginia

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Attention: Holly Hazard, Chair

We are pleased to present this report related to our audit of the financial statements of Stafford County School Board, a component unit of Stafford County, Virginia, (the School Board) for the year ended June 30, 2016. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the School Board's financial reporting process.

This report is intended solely for the information and use of the School Board and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the School Board.

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Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States, have been described to you in our arrangement letter dated June 7, 2016. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in this letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.
Accounting Policies and Practices	<p>Preferability of Accounting Policies and Practices Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p>Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by the School Board. The School Board did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.</p> <p>Significant or Unusual Transactions We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p>Alternative Treatments with Management We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.</p> <p>Management's Judgments and Accounting Estimates Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.</p>
Basis of Accounting	The financial statements were prepared on the assumption that the School Board will continue as a going concern.

Area	Comments
Audit Adjustments	There were no audit adjustments made to the original trial balance presented to us to begin our audit other than those prepared by the School Board.
Uncorrected Misstatement	An uncorrected misstatement is summarized in the attached Summary of Uncorrected Misstatement.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed with or the subject of correspondence with management
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Letter Communicating Significant Deficiency and Internal Control Deficiency	We have separately communicated a significant deficiency in internal control over compliance identified during our audit of the major awards, as required by the <i>Government Auditing Standards</i> and the Uniform Guidance. This communication is included in the Compliance Section of the School Board's Financial and Compliance reports as of June 30, 2016.
	We have also separately communicated a control deficiency identified during our audit of the financial statements, and this communication is attached as Exhibit A.
Significant Written Communications Between Management and Our Firm	Copies of significant written communications between our firm and the management of the School Board, including the representation letter provided to us by management, are attached as Exhibit B.

Summary of Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the School Board's June 30, 2016, financial statements.

Area	Accounting Policy	Estimation Process	Comments
Capital asset depreciable lives	Assets are assigned lives from 3- 50 years based on the type of asset.	Lives are assigned based on historical usage.	The policy has been consistently applied.
Reserve for liabilities incurred but not reported	A liability is recorded in the Health Benefits Funds to reserve for outstanding medical claims.	A liability is recorded based on recent settlement trends including frequency and amount of payouts as well as knowledge of outstanding claims.	The policy has been consistently applied.
Other post employment benefit liability	A liability is recorded for the underfunded portion of promised benefits for past services.	The School Board contracted with a third party actuary to calculate the future service obligation, required annual contribution and liability.	The liability is materially consistent with the School Board's policy and follows the requirements of GASB 45.
Allowance for doubtful accounts receivable	Recorded as a contra asset to reduce the value of accounts receivable to estimated net collectible amount.	Estimated by the SCPS finance department based on expected net collections.	Estimation process is consistent with accounting policy and in accordance with GAAP.
Net pension obligation	Accrued as a liability where not fully funded.	Actuarial calculations made by Virginia Retirement System and audited by Virginia Auditor of Public Accounts.	Estimation process is consistent with accounting policy and in accordance with GAAP.

Summary of Uncorrected Misstatement

During the course of our audit, we accumulated an uncorrected misstatement that was determined by management to be immaterial, both individually and in the aggregate, to the financial position, results of operations, and cash flows to the related basic financial statement disclosures. Following is a summary of that difference.

Aggregate Remaining Funds

Description	Effect—Increase (Decrease)				
	Assets	Liabilities	Fund Balance	Revenue	Expense
Allocation of the pension liability to Fleet Services Fund at June 30, 2016	\$ -	\$ 668,000	\$ (289,000)	\$ -	\$ 379,000
Total effect			(379,000)	\$ -	\$ 379,000
Statement of net position effect	\$ -	\$ 668,000	\$ (668,000)		

Exhibit A—Letter Communicating Internal Control Deficiency



RSM US LLP

December 19, 2016

P.O. Box 15409 (28561-5409)
3120 Wellons Boulevard
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Dr. Bruce Benson, Superintendent
and the Management of
the Stafford County School Board
Stafford County School Board
Stafford, Virginia

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In planning and performing our audit of the financial statements of Stafford County School Board (the school board or SCPS) as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, we considered the school board's internal control over financial reporting (internal control) as a basis for designing audit 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 school board's internal control. Accordingly, we do not express an opinion on the effectiveness of the school board's internal control.

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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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.

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.

Following is a description of an identified deficiency in internal control that we determined did not constitute a significant deficiency or material weakness:

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Segregation of Duties Related to Payroll

We noted that the payroll staff has access within the payroll system to add new employees, change direct deposit information, and change pay rates. We also noted that when new employees are approved to be hired, the principals/supervisors who approve the hiring of the individuals do not always formally indicate their approval. Although the payroll is compared to the budget, we believe controls designed to prevent errors from occurring are also necessary to reduce the risk of fraud and error. We recommend that the individual(s) maintaining time sheets, recording payroll transactions, and processing payroll payments should not also be maintaining employee data and pay rates. Systems-based user controls should be established to prevent users from having the ability to update the payroll database and also process payroll transactions. We also recommend that employee files include formal hiring approval by departmental directors or supervisors.

Management response: Management concurs with the recommendation to improve the segregation of duties related to payroll, but due to limitations in the existing modified payroll module of the HTE financial system, system-based controls will not become effective until the new Human Resource & Payroll and Benefits modules of the newly acquired MUNIS ERP system are implemented as currently planned on April 1, 2017.

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

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Exhibit B—Significant Written Communications Between Management and Our Firm

SCHOOL BOARD MEMBERS

HOLLY HAZARD
Chair

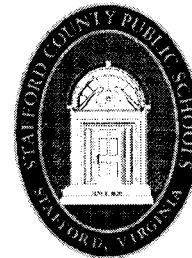
IRENE EGAN
Vice-Chair

CHRISTOPHER CONNELLY
JAMIE L. DECATUR
PATRICIA HEALY
C. SCOTT HIRONS
DEWAYNE McOSKER, JR.

STAFFORD COUNTY PUBLIC SCHOOLS

31 Stafford Avenue
Stafford, Virginia 22554-7246
Phone: 540-658-6000
<http://www.staffordschools.net>

W. BRUCE BENSON, Ed.D.
Superintendent



December 19, 2016

RSM US LLP
3120 Wellons Rd
New Bern, NC 28562

This representation letter is provided in connection with your audit of the basic financial statements of Stafford County School Board (the school board), a component unit of Stafford County, Virginia, as of and for the year ended June 30, 2016, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of December 19, 2016:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated June 7, 2016, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions, including those with Stafford County, which appropriates budgetary funding for the Stafford County School Board, and interfund transactions, including interfund accounts and advances receivable and payable, internal service sales and purchase transactions, interfund transfers, and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

8. We agree with the findings of specialists in evaluating the pension and OPEB plan obligations and disclosures and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists. We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
9. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with U. S. GAAP.
10. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statements.
11. We have complied with all aspects of contractual agreements that would have a material effect on the basic financial statements in the event of noncompliance.
12. We have recorded all adjustments needed to implement GASB Statement Nos. 68 and 71 except as noted in the table below.

As of and for the Year Ended June 30, 2016

Management believes that the effects of the uncorrected misstatement aggregated by you and summarized below is immaterial, both individually and in the aggregate, to the opinion units of the basic financial statements. For purposes of this representation, we consider the item to be material, regardless of its size, if it involves the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Aggregate Remaining Funds

Description	Effect—Increase (Decrease)				
	Assets	Liabilities	Fund Balance	Revenue	Expense
Allocation of the pension liability to Fleet Services					
Fund at June 30, 2016	\$ -	\$ 668,000	\$ (289,000)	\$ -	\$ 379,000
Total effect			(379,000)	\$ -	\$ 379,000
Statement of net position effect	\$ -	\$ 668,000	\$ (668,000)		

Information Provided

13. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the governing boards and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

14. All transactions have been recorded in the accounting records and are reflected in the financial statements.
15. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
16. We have no knowledge of allegations of fraud or suspected fraud, affecting the entity's financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in the internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
17. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements received in communications from employees, former employees, analysts, regulators, short sellers, or others.
18. There are no known instances of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
19. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements.
20. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.
21. We are aware of a significant deficiency and no material weaknesses in the design or operation of internal controls that could adversely affect the Stafford County School Board's ability to record, process, summarize, and report financial data.
22. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Supplementary Information

23. With respect to supplementary information presented in relation to the financial statements as a whole:
 - a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.
24. With respect to all items presented as required supplementary information as required by Government Accounting Standards Board (GASB) to supplement the basic financial statements:
 - a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.

- c. The methods of measurement or presentation have not changed from those used in the prior period.
- d. There are no significant assumptions or interpretations regarding the measurement or presentation of such information outside the assumptions and interpretations used in the presentation of the financial statements.

Compliance Considerations

In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm that management:

- 1. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
- 2. Is responsible for compliance with laws, regulations, and provisions of contracts and grant agreements applicable to the Stafford County School Board.
- 3. Is not aware of any fraud or noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 4. Is not aware of any noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 5. Is not aware of any abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 6. Is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 7. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
- 8. Has a process to track the status of any audit findings and recommendations.
- 9. Has identified for the auditor previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 10. Has provided views on the auditor's reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.
- 11. Acknowledges its responsibilities as it relates to any non-audit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.

In connection with your audit of federal awards conducted in accordance with Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), we confirm:

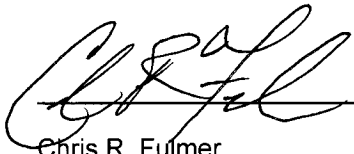
1. We are responsible for complying, and we have complied, with the requirements of the OMB Uniform Guidance.
2. We are responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have complied, in all material respects, with those requirements.
3. We are responsible for establishing and maintaining, and we have established and maintained, effective internal controls over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal programs.
4. We have prepared the schedule of expenditures of federal awards in accordance with the Uniform Guidance and have included expenditures made during the period being audited for all awards provided by federal agencies in the form of grants, food commodities, direct appropriations, and other assistance. There were no federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, or insurance.
5. We have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
6. We have made available all contracts and grant agreements (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.
7. We are unaware of any amounts of questioned costs or known noncompliance with the direct and material requirements of federal awards.
8. We are unaware of any noncompliance with direct and material compliance requirements.
9. We have made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
10. We have provided you our interpretations of any compliance requirements that are subject to varying interpretations.
11. There have been no communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of your report.
12. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit and to the date of the auditor's report.
13. We are responsible for taking corrective action on audit findings of the compliance audit.
14. We have provided the auditor with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
15. There have been no subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.
16. There was no known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by your report.
17. There have been no changes in internal control over compliance or other compliance or other factors that might significantly affect internal control, including any corrective action taken by us with regard

to significant deficiencies and material weaknesses in internal control over compliance, that have occurred subsequent to the date as of which compliance is audited.

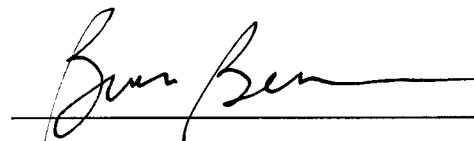
18. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
19. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
20. We have charged costs to federal awards in accordance with applicable cost principles.
21. We are responsible for, and have accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance.
22. We have accurately completed appropriate sections of the data collection form. We further acknowledge our responsibility for the complete, accurate, and timely filing of the data collection form with the Federal Audit Clearinghouse.

During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Stafford County School Board


Chris R. Fulmer

Director of Finance and Accounting


Dr. Bruce Benson

Superintendent