

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

MANAGEMENT LETTER

JUNE 30, 2019



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To the Honorable School Committee
Manchester Essex Regional School District
Manchester-by-the-Sea, Massachusetts 01944

In planning and performing our audit of the basic financial statements of the Manchester Essex Regional School District as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Manchester Essex Regional School District'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 the Manchester Essex Regional School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Manchester Essex Regional School District's internal control.

However, during our audit we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

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

A handwritten signature in black ink that reads "Powers & Sullivan, LLC".

July 1, 2020

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Timeliness of Grant Reimbursement Requests

Comment

At year-end, we noted deficit balances in the District's education grants totaling \$448,000. It is our understanding that no grant funds were requested from the Department of Elementary and Secondary Education's (DESE) until after year-end. However, the DESE grant management system allows for monthly drawdown requests in advance for the next months anticipated expenditures.

Grant deficits can reduce the certified Excess & Deficiency (E&D) balance if not funded by the following September 31st. Because the majority of the deficits were funded prior to September 31, the impact on E&D was minimal. In addition to the effect on E&D, grant activities were temporarily funded with available funds. This reduced cashflow and prevented the District from maximizing investment income, which would have otherwise been earned had monthly draw down requests been completed.

Recommendation

We recommend that the District implement procedures to ensure that drawdowns for education grants are being requested on a monthly basis.

Management Response

In FY19, MERSD's primary objective was to ensure that grant funds were requested prior to the end of the grant cycle (August 31st), which was accomplished. The delay in requesting funds did limit the district's ability to earn a small amount of interest income on grant receipts, while having the benefit of directing limited staff resources and time towards other high priority objectives.

Over the past two years, MERSD has initiated several improvements to its grant financial management processes, which enabled the district to make more timely requests in FY20. These changes include financial tracking templates for each grant to allow monthly monitoring of budget-to-actual financial results and forecasting through the end of the grant fiscal year. These templates are reviewed with grant managers several times throughout the fiscal year. This enhanced process has improved staff efficiency for processing drawdown requests and ensures that regular drawdowns will be the norm on a permanent basis in the future. The new grant management process is part of district-wide efforts to increase resources devoted to intra-year financial forecasting of key financial variables, including General Fund payrolls, health insurance, out-of-district tuitions and transportation, utilities, and food service revolving funds, which can now occur on a bi-weekly, monthly or bi-monthly basis, depending on the category.

Framework for Assessing and Improving Cybersecurity

Prior Year Comment

Throughout an organization's normal course of business comes the need to collect, transmit, and store extensive amounts of personal and financial information, both in paper and electronic form, relating to residents, vendors and employees. The use of technology has become a driver in helping organizations stay current and succeed. However, the sharing and compilation of this information lends itself to increasing the organization's vulnerability to either a cyber computer attack, ransomware attack, or a security breach, all of which are considered cybersecurity attacks.

We understand that management is aware of the risks associated with the collection of this information and is diligent in implementing the proper policies and procedures to help to expose these risks. While impossible for an organization to eliminate all risks associated with a cybersecurity attack, an organization can take a variety of steps to mitigate its exposure, satisfy its governance responsibilities and help to minimize the impact of any attack that may occur.

We recommended that management assess the risk exposure to a cyber-attack.

Current Status

The District did not complete a cybersecurity risk assessment in 2019.

Continuing Recommendation

We continue to recommend that management assess the risk exposure to a cyber-attack. An internal team with proper information technology experience can be used or a third-party vendor that specializes in this type of assessment can be used.

Once a review is completed, policies and procedures should be developed to mitigate each identified risk to an acceptable level that is compatible with the organization's determined risk tolerance.

Management Response

As noted in the prior fiscal year, MERSD has taken a proactive, ongoing approach to risk management in this area. Cyber liability insurance is in place through MERSD's policy with MIIA. Additionally, the district has increased its investment in threat prevention hardware, software and network settings, based on Network Administrator's threat assessment and evaluation of breaches seen in other communities. This includes back up software that can restore lost data and disaster recovery plans based on multiple sites of data storage. MERSD has also worked with its firewall vendor to identify potential cybersecurity intrusion risks and has adjusted its network defenses settings in accordance with those recommendation.

Cyber threat prevention has been and will continue to be an ongoing, routine management process. The district will examine the potential for a third-party external review in the coming fiscal year.

Written Job Descriptions

Prior Year Comment

In the prior year, we indicated that management has completed job descriptions for new employees and restructured positions; however, job descriptions were not completed for all other financial positions.

Job descriptions allow management to understand the roles and responsibilities of the Business Office staff and serve as guidelines for anyone who subsequently replaces an existing position. Additionally, District policies and procedures will be further defined through this process. Roles and responsibilities should consider segregation of duties so that the same employee is not initiating, recording, and approving transactions and handling related assets. Employees should be assigned to the position best fitting their qualifications. Job descriptions provide a guideline to the employees of the responsibilities they are expected to perform. Without written guidelines, employees must assume what management desires. Having written, formal guidelines helps ensure appropriate communication of expectations.

Current Status

Management has completed written job descriptions for new employees and restructured positions; however, job descriptions have not been completed for all Business Office positions. Management has also assessed roles and responsibilities of various personnel in the Business Office and has reassigned employees to the position best fitting their qualifications.

Continuing Recommendation

We continue to recommend that the District complete written job descriptions for all Business Office personnel.

Management Response

The School Committee Policy Subcommittee has been tasked with reviewing job descriptions for those few remaining positions in the Business Office that do not have one.

Financial Policies and Procedures

Prior Year Comment

In the prior year, we indicated that the District has not adopted formal policies and procedures documenting the District's financial goals and objectives. For example, financial policies and procedures will establish benchmarks for excess and deficiency, fund balance levels, a long-term capital and debt plan, and other important financial indicators. Other policies that should be considered are purchase order requirements, and allowable use of District credit cards.

These policies and procedures will provide a framework for management to utilize when making important financial decisions and are looked upon favorably by the credit rating agencies during the credit rating process.

Current Status

The District has documented a number of financial procedures including payroll, human resources, accounting, budget, accounts payable and accounts receivable. With the exception of accounts payable and accounts receivable, all procedures have been documented in electronic format. The last remaining financial areas to be documented are the Treasury function and the District's financial policies.

Continuing Recommendation

We continue to recommend that the District document and formally adopt its financial policies. We also recommend that the District document the Treasury function, accounts payable and accounts receivable in electronic format.

Management Response

Documentation of internal procedures has increased dramatically over the past few years in the business office, which has facilitated training of new staff considerably in the key area of payroll, accounting, budget management and human resources data management. The district's digital library includes more than 40 documents covering internal procedures in these areas. The district will endeavor to convert existing AP and AR procedures to a digital format in the coming fiscal year and will begin work on documenting Treasury procedures as well.

Creation of Financial Policies would need to be addressed by the School Committee's policy subcommittee. MERSD's recent credit rating report confirmed that such policies could help to improve the district's credit rating, which would in turn, yield financial savings on future borrowing. Management will determine if this can be a priority for the School Committee's subcommittee in the coming fiscal year.

Documentation of Internal Controls Over Federal Awards

Prior Year Comment

In December 2013, the U.S. Office of Management and Budget (OMB) issued *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) in an effort to (1) streamline guidance for federal awards while easing the administrative burden and (2) to strengthen oversight over the expenditure of federal funds and to reduce the risks of waste, fraud and abuse.

The Uniform Guidance supersedes and streamlines requirements from eight different federal grant circulars (including OMB Circular A-133) into one set of guidance. Local governments were required to implement the new administrative requirements and cost principles for all new federal awards and for additional funding of existing awards made after December 26, 2014 (fiscal year 2016).

In conformance with the Uniform Guidance, the non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States (the Green Book) and the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management is responsible for internal controls and to see that the entity is doing what needs to be done to meet its objectives. Governments have limited resources and constraints on how much can be spent on designing, implementing, and operating systems of internal control. The COSO Framework can help management consider alternative approaches and decide what action it needs to take to meet its objectives. Depending on the circumstances, these approaches and decisions can contribute to efficiencies in the design, implementation, and conduct of internal control. With the COSO Framework, management can more successfully diagnose issues and assert effectiveness regarding their internal controls and, for external financial reporting, help avoid material weaknesses or significant deficiencies.

The COSO internal control framework must incorporate the 5 major components of internal control, while addressing the 17 principles of internal control that support the COSO framework. Refer to www.coso.org for articles describing the 5 components and their 17 principles in detail.

Management should evaluate and assess the government's internal control system to determine whether: each of the five essential elements of a comprehensive framework of internal control is present throughout the organization; whether each element addresses all of the associated principles; and whether all five elements effectively function together.

Current Status

The District is in the process of documenting internal controls over federal grants using the COSO Internal Control Framework. This project has been assigned to the Payroll/Finance Assistant.

Continuing Recommendation

We recommend that management follow the best practice for establishing and documenting their internal control system using the COSO Internal Control Framework.

Management Response

The business manager and financial data analyst have met on several occasions during the current fiscal year to document its internal control system in accordance with the COSO framework. This work is ongoing and is on track to be completed during the next current fiscal year.