

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

MANAGEMENT LETTER

JUNE 30, 2018



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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, 2018, 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".

March 23, 2019

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

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Framework for Assessing and Improving Cybersecurity

Current 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.

Management must be aware of the risks associated with the collection of this information and be 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 to help minimize the impact of an attack.

Because management is ultimately responsible to develop, implement and operate an organization's cybersecurity risk management program, management is ultimately responsible for developing, and presenting to the organization an overview of the entity's cybersecurity risk management program.

The first step in understanding an organization's risks and working to develop and implement an effective cybersecurity plan, is for the organization to conduct a risk assessment and understand where its greatest exposure and vulnerabilities lie. This can be completed internally if the organization has an experienced information technology team, or there are many organizations that employ experienced professionals in the information technology arena to assist in the risk assessment and implementation if desired.

Once a risk assessment is completed, the next step is to develop and implement a cybersecurity risk program which needs to be continually reviewed and updated as technology changes. This response program should be tested to determine if the proper policies and procedures have been implemented to minimize the potential costs of a cyber-attack.

The obvious benefit to conducting a risk assessment is having the knowledge and an objective identification of the organization's areas where exposure to risks is more prevalent and allows for the development of a roadmap to address the remediation of these risks.

Some of the main areas of review that should be incorporated into the risk assessment are as follows:

- Electronic Records, Human Resource Records, Bank Statements, Payroll Records, Resident Data, Employee Data, Physical Security of hardware and software, any Third Party or Vendor exposure, Password Security, E-Mail Security (Understanding the risks of malware and ransomware), Mobile phones and Portable Storage Devices, System Backup Procedures, Virus Protection Software, Data Encryption, Document Retention and Destruction Policies, Use of Unauthorized Software, Ongoing Employee Training.

Risk management is the ongoing process of identifying, assessing the risk, and developing a plan to address the risks. In order to manage their risk, organizations should understand what the likelihood is that an event will occur and assess the resulting impact of the event. This will assist the organization in developing their own acceptable level of risk tolerance and help to prioritize the areas in which internal controls should be strengthened.

Recommendation

We recommend that management take a pro-active approach and assess the risk exposure to a cyber-attack. An internal team with the 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, we recommend that policies and procedures be developed to mitigate each identified risk to an acceptable level that fits with the organization's determined risk tolerance.

We also recommend that the management look into obtaining Cyber Liability Insurance which will help to mitigate the costs associated with a breach in information technology security.

Finally, we want to make management aware that technology is constantly changing and that this is not a one-time static process, this will require additional risk assessments and the updating of policies and procedures with the changing technological landscape.

Management Response

MERSD has taken a proactive, ongoing approach to risk management in this area. A 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. Cyber threat prevention has been and will continue to be an ongoing, routine management process.

Assess Organizational Structure/Roles and Responsibilities

Prior Year Comment

In the prior year, we noted that the Director of Finance and Operations duties include, among other things, general ledger account reconciliations, posting payroll to the general ledger, making adjusting entries to the general ledger, and completing year-end closing procedures. In our experience, these accounting functions are typically performed by an accountant and are not part of the Director of Finance & Operations primary roles and responsibilities. We believe that the District should assess the current roles and responsibilities being performed by the Director of Finance & Operations and consider adding an accountant's position to the organizational structure. The accountant would perform the accounting functions that are currently assigned to the Director of Finance & Operations. This organizational structure would bring the accounting staff in line with similar sized school Districts and would strengthen internal controls by providing additional resources for the District's financial operations.

Current Status

The District hired a new payroll/finance assistant for the school business office in 2018. It is anticipated that, in addition to processing payroll, this position will also be responsible for accounting functions that are currently being performed by the Director of Finance and Operations.

Management Response

Significant training has occurred in this area, and responsibilities for many accounting tasks, including posting of payroll (roughly 2/3rds of all expense accounting), has been transitioned to the new position. As a result, accounting postings are now occurring on a routine monthly basis with proper supervision.

School Lunch Deficit

Prior Year Comment

In the prior year, the cafeteria fund was in deficit position of \$98,000. \$68,000 of the deficit related to employee fringe benefits which had previously been charged to the general fund. With the transition to a management company, the fringe benefits are billed as part of the management services and are charged directly to the cafeteria fund. In addition to the employee benefits, we have also noted a structural deficit between the revenues and expenditures that is increasing the deficit position of the fund.

Current Status

As of June 30, 2018, the cafeteria fund was in a deficit position of \$177,000, which is a \$79,000 increase in the deficit from the prior fiscal year. \$69,000 of the increase relates to current year employee fringe benefits.

Recommendation

We recommend that the District determine how the cafeteria employee benefits will be funded and determine how the remaining structural deficit will be eliminated in future years. For example, the District may consider appropriating funds for a general fund subsidy, increasing the prices of meals served, increasing sales by lowering the cost per meal served, or by implementing other cost savings measures.

Management Response

A review of the sources of deficit was presented to the School Committee in the summer of 2018, which relate primarily to migration of fringe expenses from the general fund (when benefits were for district employees) to the revolving fund (now that benefits are for outsourced staff, paid via vendor invoices). Outsourcing food service and negative balance collection procedures have helped to narrow deficits significantly on an annual basis. Consideration of meal price changes will take place in summer of 2019, and would help to narrow the structural deficit further.

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.

Current Status

The District has not documented and adopted financial policies and procedures.

Continuing Recommendation

We continue to recommend that the District document and adopt financial policies and procedures. Once adopted, the policies and procedures should be updated for any changes that are put into effect.

Management Response

This topic is handled through routine updates of the School Committee Finance subcommittee, but written policies and procedures have not been adopted.

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 has not documented internal controls over federal grants using the COSO Internal Control Framework.

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

Documentation of management procedures is a best practice that is beneficial, but time consuming. Although many procedures are documented, additional work is needed, and will occur as time permits.