

***MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT***

***MANAGEMENT LETTER***

***JUNE 30, 2017***

# Powers & Sullivan, LLC

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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, 2017, 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.

*Powers & Sullivan, LLC*

March 23, 2018

**MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT**

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## **Fraud Risk Assessment**

### Prior Year Comment

In the prior year, we indicated that the opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommended that the District perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the District's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the District that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the District, its environment, and its processes. The fraud risk assessment process should consider the District's vulnerability to misappropriation of assets.

### Current Status

The District hired a consultant to complete a fraud risk assessment and is currently reviewing a final draft of the risk assessment. The District anticipates that the fraud risk assessment will be finalized in 2018.

## **School Lunch Deficit**

### Prior Year Comment

In the prior year, the District funded a school lunch deficit totaling \$65,000 and privatized the cafeteria operations by contracting with a professional cafeteria management company. The District was anticipating that privatization of the cafeteria operations would resolve the issues that led to the prior operating deficits.

### Current Status

As of June 30, 2017, the cafeteria fund was in a deficit position of \$98,000. \$68,000 of the deficit relates to employee fringe benefits which had previously been charged to the general fund. With the transition to the new management company, the fringe benefits are now billed as part of the management services. Based on the results of the cafeteria operations over the past several years, there is a structural deficit between the revenues and expenditures that is being recognized.

### Recommendation

We recommend that the District fund the existing deficit and determine how the 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

As noted, bringing in the management company has reduced the structural deficit by roughly 50% from \$65,000 in the prior year to \$32,000, after factoring in the change in accounting for fringe benefits described above. School Committee also recently approved a new policy related to charging for meals and collections, which should help

to reduce the structural deficit over time. As part of its annual assessment of the management company's performance, the District administration will examine additional options with the School Committee.

## **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 give consideration to 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 District's policy subcommittee of the school committee is continuing to prioritize documentation of policy changes including formalizing job descriptions. Most recently, the Treasurer's job description was finalized and adopted by the full school committee. The District intends to complete the remaining business office job descriptions in the coming year.

## **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 matter has been brought before the policy/finance subcommittee of the District's school committee for further action.

## **Assess Organizational Structure/Roles and Responsibilities**

### Prior Year Comment

The Director of Finance & Operations current 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

We are not aware of any action that was taken to address this matter in 2017. In addition to the matters previously noted, the District experienced transition in the payroll/finance position in 2017, which resulted in the finance department falling further behind in the monthly as well as year-end closing processes. During our fieldwork, which was completed the second week in November, we noted several material adjusting journal entries relating to 2017 transactions that were unrecorded. We also noted a significant number of cash reconciling items between the general ledger and the Treasurer's balances that had not been investigated and properly accounted for; however all of these items were resolved by the time that we completed our fieldwork. Timely month-end and year-end closing procedures including resolution of cash reconciling items are important internal controls that should be completed on a timelier basis. While some of this can be attributed to the transition in the payroll/finance position, we believe that additional accounting support should be considered.

### Recommendation

We recommend that the District 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.

### Management Response

The School Committee approved combining the existing payroll/finance position with a new part-time position for accounting support. A hire was made in December of 2017.

## 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 are required to implement the new administrative requirements and cost principles for all new federal awards and to additional funding to existing awards made after December 26, 2014 (fiscal year 2016).

In conformance with 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).

The COSO internal control framework is generally accepted as a best practice within the industry including the best practices prescribed by the Government Finance Officers Association (GFOA). COSO is a joint initiative of 5 private sector organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence. The original COSO framework was published in 1992 and has been revised several times for changes in operations, technology, and audit risk. The most recent updates to the COSO Internal Control - Integrated Framework were issued in 2013 and are available at [www.coso.org](http://www.coso.org).

Management is responsible for internal control 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 conducting 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 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 incorporates 5 major components of internal control, which are supported by 17 principles of internal control as follows:

1. CONTROL ENVIRONMENT
  - 1) Demonstrates commitment to integrity and ethical values
  - 2) Exercises oversight responsibility
  - 3) Establishes structure, authority, and responsibility
  - 4) Demonstrates commitment to competence
  - 5) Enforces accountability

2. RISK ASSESSMENT
  - 6) Specifies suitable objectives
  - 7) Identifies and analyzes risk
  - 8) Assesses fraud risk
  - 9) Identifies and analyzes significant change
3. CONTROL ACTIVITIES
  - 10) Selects and develops control activities
  - 11) Selects and develops general controls over technology
  - 12) Deploys through policies and procedures
4. INFORMATION & COMMUNICATION
  - 13) Uses relevant information
  - 14) Communicates internally
  - 15) Communicates externally
5. MONITORING
  - 16) Conducts ongoing and/or separate evaluations
  - 17) Evaluates and communicates deficiencies

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.

#### Recommendation

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

#### Management Response

The District's Director of Finance and Operations has attended professional development on adopting the COSO internal control framework for its Federal grants and will be looking for a resource to help document the District's adherence to the framework in the coming fiscal year.

### **Future Government Accounting Standards Board (GASB) Statements for OPEB**

#### Prior Year Comment

The Government Accounting Standards Board (GASB) has issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for 2018. GASB #75 will substantially change the reporting for other postemployment benefit liabilities and expenses. Changes in the other postemployment benefits liability will be immediately recognized as expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Employers

will report in their financial statements a net other postemployment benefit liability (asset) determined annually as of the measurement date. The net other postemployment benefit liability (asset) equals the total other postemployment benefit liability for the plan net of the plan net position. The other postemployment benefit liability is the actuarial present value of projected benefits attributed to past service. The plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The District should expect to record significant OPEB liabilities in the future. While this GASB does not go into effect until 2018, we wanted to make the District aware of the impact that the new standard will have on financial statement reporting and disclosures.

#### Recommendation

We recommend that the District contact its actuary to ensure that the actuarial information needed to record the net OPEB liability and prepare the footnote and required supplementary information disclosures will be available for the 2018 audit.

#### Management Response

The District will update its actuarial valuation for the 2018 audit as recommended.