

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

MANAGEMENT LETTER

JUNE 30, 2014

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, 2014, 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.



March 20, 2015

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

MANAGEMENT LETTER

JUNE 30, 2014

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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

Over the past several years, the District has assessed risk in several key areas and has implemented changes to roles and responsibilities, systems, and processes and procedures to reduce the identified risks to what management believes is an acceptable level. We commend the District for the improvements that have been to address the identified risks. Some of the changes include improved segregation of duties for accounting and Treasury functions, improved segregation of duties and better control over changes to the payroll and vendor master files, more timely reconciliation of cash and bank accounts, and management is currently in the process of implementing an integrated cash management system.

Continuing Recommendation

We continue to recommend that the risk assessments and mitigating controls be documented and submitted to the school committee for review and approval. This will ensure that the school committee members are aware of the risks and are in agreement with the level of mitigating controls that are in place to reduce the risks to an acceptable level.

Management Response

MERSD continues to examine and make enhancements to procedures such as cash management that could potentially pose fraud risk. This year, for example, the District has created new cash collection forms for departments handling cash that will require signatures and additional documentation from all parties involved.

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 will not only allow management to understand the roles and responsibilities of the Business Office staff, but will also 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

MERSD will endeavor to include job description creation in its annual performance review process this year.

Adopt a Cash and Investment Policy

Prior Year Comment

In the prior year, we indicated that new accounting standards have highlighted the need for governmental entities to consider adopting cash and investment policies that take into account custodial, credit and interest rate risk. Such policies establish guidelines for matters such as 1) the types of banks the District should have deposits with; 2) the maximum period that an investment can be held and; 3) the highest concentration the District can have in any one investment type or issuer.

Current Status

It is our understanding that the District is still in the process of developing and formalizing a cash and investment policy.

Continuing Recommendation

We continue to recommend that the District develop and formalize a cash and investment policy that includes both long and short-term objectives.

Management Response

The School Committee's Policy Sub-Committee has been working throughout the current year on drafting its cash and investment policy with the goal of formally adopting a final policy prior to the end of FY15 when the newly established OPEB Trust will be funded for the first time.

Financial Policies and Procedures Manual

Prior Year Comment

In the prior year, we indicated that the District does not maintain a written policies and procedures manual documenting the District's financial goals and objectives. A formal policies and procedures manual 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 yet developed a financial policies and procedures manual.

Continuing Recommendation

We continue to recommend that the District develop a written financial policies and procedures manual. This document should be updated for any new policy changes that are put into effect. A master manual should be maintained and stored in a secure location.

Management Response

The District does have written procedures for purchase order requirements and allowable use of credit cards. Long term debt has only been used for building projects and is likely to remain that way in the future, given the requirement to include towns in the regional school district's decision-making process on debt issuance. Ideal reserve levels were perhaps the single largest point of emphasis in the past two budget cycles and are the major reason that the district is seeking an override of the levy limit for FY16.

Supporting Documentation for Cash Receipts

Prior Year Comment

The District does not currently require all departments to prepare and submit a turnover sheet and supporting documentation for departmental receipts which has resulted in receipts being posted to the general ledger based on the amount deposited in the bank. Using bank information to post amounts to the general ledger is not a good internal control as it does not provide a “check and balance”, or corroboration, of information from two different sources.

Turnover sheets would facilitate more efficient posting of revenues to the general ledger, because receipts would be identified and coded to specific general ledger accounts at the department level. They also provide written documentation of the funds remitted to the Business Office and should be used by the Departments to verify proper posting of the receipts to the general ledger.

The receipt and centralization of supporting documentation would provide the Business Office with the ability to ensure that supporting documentation is sufficient, that receipts are properly classified, and that policies and procedures are being adhered to. Centralization of supporting documentation would also facilitate the audit process and other inquiries by management by making the documentation more readily available.

Current Status

Turnover sheets are now being utilized for student activity deposits and retiree payments for health insurance.

The Athletics department now photocopies all checks received and provides copies to the Business Office for reconciliation to the general ledger; however supporting documentation for cash receipts, such as gate receipts, is maintained at the department level.

Continuing Recommendation

We continue to recommend that the District require all departments to prepare and submit a turnover sheet with supporting documentation for all departmental receipts. We also recommend that departmental receipts are not posted to the general ledger until turnover sheets and supporting documentation are received. Once receipts have been posted to the general ledger, they should then be reconciled to the bank deposits.

Management Response

The District has created new cash collection forms for departments handling cash that will require signatures and additional documentation from all parties involved for all receipts. Once fully implemented, this should address the matter completely.

School Lunch Deficit

Comment

While completing our audit procedures, we noted that the school lunch fund was in a deficit position at year-end totaling approximately \$20,000. As of June 30, 2013, the school lunch fund had a positive balance totaling approximately \$21,000. Based on our discussions with management, the deficit balance was due to a combination of food cost increases exceeding projections and uncollected receivables for meals served. The uncollected receivables totaled approximately \$28,000 as of June 30, 2014. This deficit is expected to adversely affect the District's year-end certified excess and deficiency balance and will continue to do so until it is funded.

Management indicated that collection notices have been sent out in an attempt to collect the receivables and additional collection procedures are being considered.

Recommendation

We recommend that the District take whatever steps are deemed appropriate to fund this deficit and implement procedures to ensure that future deficits do not occur.

Management Response

Management is very concerned about this deficit, and has met with the Food Service department manager to implement a plan of action to reverse course. A new collections procedure is being launched that involves letters to parents, phone calls, principal and business manager involvement, and if necessary, referral to outside collection options. Given the added challenge of a decline in unit sales, some cost restructuring will likely be necessary as well.

Future Government Accounting Standards Board (GASB) Statements for Pensions and OPEB

Informational Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Pensions and Other Postemployment Benefits (OPEB). These new standards will start to phase in during 2015 and will substantially impact the District's financial statements and will also affect the requirements for accumulating the necessary data to meet the reporting requirements.

The new standards that have been issued and their effective dates are as follows:

- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in 2015.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in 2015.

The GASB is expected to issue additional standards following #67 & #68 for Pensions, which will similarly affect accounting and financial reporting for OPEB Plans. The GASB is encouraging earlier application of these standards. See below for a brief summary of these new standards:

- GASB #67 and #68 will substantially change the reporting for pension liabilities and expenses. Changes in pension liability will be immediately recognized as pension 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. Current actuarial methods may continue to be used to determine funding amounts. Employers will report in their financial statements a net pension liability (asset) determined annually as of the year end. *Net pension liability (asset)* equals the total pension liability for the plan net of the plan net position. Pension liability is the actuarial present value of projected benefits attributed to past service, and plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The District should expect to record significant pension and OPEB liabilities in the future. While the most significant changes from these GASB's do not go into effect until 2015, we wanted to make the District aware of the magnitude these changes will have on financial statement reporting and disclosures.