

***MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT***

***MANAGEMENT LETTER***

***JUNE 30, 2009***



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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 fiscal year ended June 30, 2009, 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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

The Manchester Essex Regional School District's written responses to the comments identified in our audit have 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 of the Manchester Essex Regional School District, and is not intended to be and should not be used by anyone other than these specified parties.

Wakefield, Massachusetts  
March 12, 2010

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## **Develop an Information Technology Disaster Recovery Plan**

### Prior Year Comment

The District should develop a written contingency plan to ensure the continued operation of data processing in the event of a localized disaster or hardware failure.

Current Status – *Unresolved*. The District setup a disaster recovery server in Fiscal 2009, however the District has not yet developed a written contingency plan.

### Recommendation

To avoid severe impairment to the District's computer operations in the event of a prolonged failure or localized disaster, we continue to recommend that the District do the following:

- Establish a priority processing plan based on the impact of the delay expected for equipment replacement.
- Investigate alternate facilities to provide sufficient processing time for critical applications.
- Perform periodic test operations at the alternate facility and document the contingency operating procedures.
- Provide for notification of equipment changes at the alternate facility and for updating the plan periodically.

### Management's Response

We have completed a draft of a written contingency plan that will be developed as part of the updating of our Emergency Response Plan. This process has begun with key staff attending regular meetings with representatives of the police and fire departments in both member towns.

## **Withholding Accounts**

### Prior Year Comment

The payroll withholding liability accounts do not appear to be reconciled on a monthly or quarterly basis. The balance in each withholding liability account should represent amounts withheld from employees but not yet paid out. This is usually one week to one month worth of withholding, depending on the type of withholding. These accounts should be reconciled on a regular basis to ensure that all withholdings are being paid out and charged to the appropriate withholding account.

Current Status – *Unresolved*. No significant progress was made in Fiscal 2009 to resolve this matter.

### Recommendation

We continue to recommend that procedures be implemented to ensure that correct amounts are paid from the withholding accounts and that the accounts are reconciled in a timely manner.

### Management's Response

Some reconciliation of withholding accounts was accomplished at the beginning of the year resulting in some adjusting journal entries. An effort will be made to complete the reconciliation prior to the close of Fiscal 2010 and then to continue with periodic reconciliations.

### **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 – *Unresolved*. No significant progress was made in Fiscal 2009 to resolve this matter.

#### Recommendation

We continue to recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.

#### Management's Response

Due to the workload involved in opening the new Middle/High School, and moving the business office to its new location, the District was not able to address this issue in Fiscal 2009. The District will consider hiring an outside firm in Fiscal 2010 to educate administrators and perform a fraud risk assessment.

### **Statement No. 45 of the Governmental Accounting Standards Board**

#### Prior Year Comment

In July of 2004, the Governmental Accounting Standards Board (the GASB) issued Statement No. 45 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement improves the relevance and usefulness of financial reporting by (a) requiring a systematic, accrual-basis measurement and recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. We recommended that management be proactive in its approach to the successful implementation of GASB Statement No. 45.

Status – *Resolved*. The District obtained an actuarial valuation and implemented GASB Statement No. 45 in Fiscal 2009.

## **Student Activity Funds**

### Prior Year Comment

The District is required to maintain its student activity funds in a manner that is mandated by Massachusetts General Law, Chapter 71, Section 47 of the Acts of 1996. The student activity accounts should be used exclusively to account for student activity funds. The raising and expending of activity money by student bodies should have but one purpose: to promote the general welfare, education and morale of all students through the financing of the normal legitimate co-curricular activities of the student body operation. In reviewing current policies and procedures we noted the following areas in which the process can be improved:

- The middle and elementary student activity bank accounts are not reconciled with the middle and elementary school student activity records.
- The student activity accounts have not been audited by an outside audit firm in the last three years.

Current Status – *Unresolved*. No significant progress was made in Fiscal 2009 to resolve this matter.

### Recommendation

We recommend that the student activity bank accounts (checking and savings) are reconciled with the middle and elementary school student activity records on a monthly basis.

We recommend that the District consider having the student activity funds audited by an outside auditing firm every two to three years.

### Management's Response

Currently the District does not have sufficient personnel to reconcile elementary school activity funds on a monthly basis. The emphasis is placed on the middle/high school account due to the larger amount of money involved. An effort will be made to find a way to resolve this issue. The District may be able to fund an audit of these funds prior to the close of Fiscal 2010.

## **Treasurer – Old Reconciling Items**

### Prior Year Comment

We noted that many reconciling items, some dating back to the beginning of the fiscal year, are being carried on the payroll account reconciliations. As of June 30, 2009, these items totaled approximately \$70,000. The Treasurer was unable to provide supporting documentation for several of these items at the time of our audit. This causes additional time to be spent by personnel to reconcile the bank accounts each month. It is less time consuming to research and resolve these items if they are done on a monthly basis.

Current Status – *Unresolved*. No significant progress was made in Fiscal 2009 to resolve this matter.

### Recommendation

We recommend that checks and other uncleared reconciling items that are over six months old be investigated and removed from the bank reconciliation and that the original transaction be reversed. Research should be done periodically to eliminate large numbers of old items being carried from month to month.

### Management's Response

Some progress has been made in Fiscal 2010. The Treasurer will continue to adjust reconciling items on a timely basis when possible. The new Business Manager will make this a priority when he takes over the position on April 1, 2010.

## **Establish a Program for Evaluating Employee Performance**

### Prior Year Comment

The Business Office does not have a prescribed standard or written record for measuring, evaluating, and reporting employee performance. It has been demonstrated that individuals generally accomplish more and work better as a team when they fully understand their responsibilities and have a common agreement with their superiors about the job objectives and performance standards on which they will be evaluated.

Current Status – Partially Resolved. Periodic reappraisal of employee functions and job descriptions, operating objectives, and performance standards are discussed at monthly staff meetings. The District is still in the process of completing written job descriptions for all employees. The use of employee evaluation forms has been implemented, however not all evaluations were completed.

### Recommendation

We recommend that the Business Office complete implementation of its personnel performance evaluation program. We continue to recommend the following actions:

- The preparation and issuance of written job responsibilities for all personnel.
- An employee evaluation and progress report prepared at regular intervals by the employee's supervisor, discussed with the employee, and filed in the employee's personnel file. Ideally, the employee would have an opportunity to challenge the supervisor's evaluation and record comments before signing it as an indication that it had been discussed with the supervisor.

### Management's Response

Job descriptions have been drafted and are currently under review. Due to the workload involved in opening the new Middle/High School and moving the business office to its new location, the District was not able to address this issue in Fiscal 2009. The administration will make this a priority before the close of Fiscal 2010.

## **Payroll Processing**

### Prior Year Comment

The District's teacher's contract runs from September 1 through August 31 while payroll is currently processed every two weeks with teachers paid on a Thursday for wages earned the previous two weeks. Because of when the contract period begins; and the timing of the pay periods and pay date; the School has experienced timing issues that have effected appropriations voted in the budget process.

For example, the teacher's contract states that the first payment for each contract year is due in September. However, due to the timing of the bi-weekly payroll, the first check for FY2008 was paid out in August. Not only was this payment outside the budget year, but it represented a payment in advance of the work being performed.

Current Status – *Resolved*. This issue was discussed with the union and an agreement was reached to push the first payroll back to September.

## **Adopt a Cash and Investment Policy**

### Comment

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 – *Unresolved*. No significant progress was made in Fiscal 2009 to resolve this matter.

### Recommendation

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

### Management's Response

Although the District follows state guidelines for investing its cash, it does not have a formal policy in place. The District is currently working on updating its policy manual and will research and adopt an appropriate policy during the next fiscal year.

## **Other Postemployment Benefit Actuarials**

### Comment

Now that the District has met the requirements for implementation of GASB Statement #45, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, it is time to acknowledge the requirements necessary to stay in compliance with the GASB and obtain the information necessary to complete the District's annual audit.

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with total membership of fewer than 200.

This means that an updated actuarial valuation dated July 1, 2010 will have to be obtained in order for the District to remain compliant with GASB Statement #45, for Fiscal 2011 and 2012.

#### Recommendation

We recommend that the District work with their actuarial firm to assure that information needed for the next valuation report is provided in ample time for the Fiscal 2011 audit.

#### Management's Response

The District plans to engage a firm to update the actuarial valuations as of July 1, 2010 in order to remain in compliance with GASB Statement #45.

### **Statement No. 54 of the Government Accounting Standards Board**

#### Comment

In February 2009, the GASB issued Statement #54, *Fund Balance Reporting and Government Fund Type Definitions*, which is required to be implemented in Fiscal 2011. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund types, capital projects fund types, and permanent fund types are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

#### Recommendation

As it appears that this GASB Statement will significantly impact the fund balance classifications presently reported, we recommend that management begin to study and evaluate these changes for financial statement reporting and disclosure purposes, and to formulate plans to be used in explaining these changes to interested parties within the District and to the external users of the District's financial statements.

#### Management's Response

The District's management will become familiar with the changes in financial reporting and disclosure required under GASB No. 54 and will be prepared to implement and explain these changes to interested parties in Fiscal 2011.