

***MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT***

***MANAGEMENT LETTER***

***JUNE 30, 2005***



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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 financial statements of the Manchester Essex Regional School District for the fiscal year ended June 30, 2005, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the District's financial statements and not to provide assurance on internal control.

During our audit we became aware of some opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations concerning those opportunities.

This letter does not affect our report dated August 12, 2005, on the financial statements of the Manchester Essex Regional School District.

The accompanying comments and recommendations are intended solely for the information and use of management of the Manchester Essex Regional School District, and are not intended to be and should not be used by anyone other than these specified parties.

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

A handwritten signature in dark ink that reads 'Powers &amp; Sullivan' in a cursive script.

August 12, 2005

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## Statement No. 45 Of The Governmental Accounting Standards Board

### Comment

The Governmental Accounting Standards Board (the GASB) issued Statement No. 45 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement requires that:

1. a systematic, accrual-basis measurement and recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and;
2. information about actuarial accrued liabilities associated with OPEB be reported and whether, and to what extent, progress is being made in funding the plan.

To implement GASB 45 the District will have to adopt actuarial calculations for OPEB that are similar to pension calculations. This means the District will have to have an actuarial valuation performed. This actuarial valuation is similar in nature to pension plan valuations in that future OPEB costs are considered to be part of today's employee costs. It is intended to answer the question "How much should the contribution be today to finance tomorrow's cost?"

The actuarial valuation will be 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 a total membership of fewer than 200. Failure to obtain an actuarial valuation will result in a qualification to the independent auditors' opinion on the basic financial statements.

Recent estimates have indicated that a community can anticipate the OPEB liability to approximate 17% of eligible payroll or 75% - 85% of the existing pension liability. If either of these estimates, or factors of them, prove to be true, the impact on the Districts financial statements and budget will be significant.

It has been recognized that the establishment of a separate irrevocable trust is the best method to account for the OPEB plan because the assumptions used in an actuarial study will not be diluted by commingled asset accounting.

It has been further recognized that communities that have filed for Medicare Part B will have a lower liability in the GASB 45 calculation because Part B of the Medicare Program is medical insurance. This coverage helps pay for medical and surgical services by physicians, as well as certain other health benefits such as ambulance transportation, durable medical equipment, outpatient hospital services, and independent laboratory services. Any costs assumed by Medicare Part B will reduce the District OPEB obligation

The District is required to implement GASB 45 in fiscal 2009.

### Recommendation

We recommend that:

1. management obtaining an actuarial valuation,
2. management review Chapter 88 of the Acts of 2004 (the Wellesley" legislation) for the formation of a separate trust,
3. management be assured that the District is enrolled in Part B of The Medicare Program.

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

### 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.

### Recommendation

To avoid severe impairment to the District's computer operations in the event of a prolonged failure or localized disaster, we 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.