

***MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT***

***MANAGEMENT LETTER***

***JUNE 30, 2004***



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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, 2004, 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 October 29, 2004, 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.

October 29, 2004

**MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT**

**MANAGEMENT LETTER**

**JUNE 30, 2004**

**TABLE OF CONTENTS**

**PAGE**

Budget Amendments .....	1
Student Activity Accounts .....	1
Grant Accounting .....	2
Chart of Accounts .....	2
Cash Reconciliation Procedures .....	2
Statement No. 45 of the Governmental Accounting Standards Board .....	3

## **Budget Amendments**

### Prior Comment

Budgetary adjustments made by member communities were not reflected within the District's appropriation budget and there was not a process in place to formally adopt the final budget.

### Action Taken

- Budget approval procedures are now in place through a combination of town and school committee meetings.

Current Status – Resolved.

## **Student Activity Accounts**

### Prior Comment

The District did not comply with state laws related to the maintenance of student activity funds. In the future, student activity funds should be maintained in accordance with Massachusetts General Law, Chapter 71 of the Acts of 1996.

The District does not have records to support the individual balances of each student activity program nor could we reconcile these accounts to the bank account used to record all deposits and receipts. The lack of such records puts the District at risk of overspending individual student activity funds, using the funds of one activity for another, and/or the unauthorized expenditures of student funds.

### Action Taken

- The District changed its cash receipt and disbursement policies so that the student activity funds would be in compliance with Massachusetts General Law, Chapter 71 of the Acts of 1996.
- A reconciliation procedure has been implemented to solidify the internal controls over student activities to the individual principal's account

Current Status – Resolved.

## **Grant Accounting**

### Prior Comment

The District does not have a process for reconciling grant balances between the grant administrators and the general ledger.

### Action Taken

- Procedures were implemented to monitor and properly recorded grant receipts and expenditures in the general ledger.
- Grant administrators now have access to grant balances at any time throughout the year.

Current Status – Resolved.

## **Chart of Accounts**

### Prior Comment

The District was using a general ledger and chart of accounts that did not meet its internal and external reporting requirements.

### Action Taken

- A new chart of accounts was designed to meet the District's reporting requirements
- A new general ledger package was purchased and successfully implemented in fiscal 2004.

Current Status – Resolved.

## **Cash Reconciliation Procedures**

### Prior Comment

Monthly bank account reconciliations are the primary internal control procedure relating to the District's cash accounts. We noted that the vendor and payroll accounts are not being completely reconciled. While recognizing that when properly funded the balance in each of these accounts should be zero, a full reconciliation of the account should be performed including identification of deposits in transit, outstanding checks and bank charges.

We recommend that the Treasurer perform a full reconciliation of both the vendor and the payroll accounts on a monthly basis and take any necessary action related to reconciling items that have not cleared the bank in a timely manner.

### Action Taken

- A full reconciliation of all bank accounts is now performed.

Current Status – Resolved.

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

### 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.

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 a total membership of fewer than 200. The projection of benefits should include all benefits covered by the current substantive plan (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided. The parameters require that the selection of actuarial assumptions, including the healthcare cost trend rate for postemployment healthcare plans, be guided by applicable actuarial standards. Failure to obtain an actuarial valuation will result in a qualification to the independent auditors' opinion on the basic financial statements.

Net OPEB obligations, if any, including amounts associated with under-or-over contributions from governmental funds, should be displayed as liabilities (or assets) in government-wide financial statements. Similarly, net OPEB obligations associated with proprietary or fiduciary funds from which contributions are made should be displayed as liabilities (or assets) in the financial statements of those funds.

An employer's net OPEB obligation is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan, including the OPEB liability or asset at transition, if any. (Because retroactive application of the measurement requirements of this Statement is not required, for most employers the OPEB liability at the beginning of the transition year will be zero.) An employer with a net OPEB obligation is required to measure annual OPEB cost equal to (a) the annual required contribution (ARC), (b) one year's interest on the net OPEB obligation, and (c) an adjustment to the ARC to offset the effect of actuarial amortization of past under-or-over contributions.

This Statement generally provides for prospective implementation—that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District is required to implement this statement in fiscal 2009, although earlier implementation is encouraged.

### Recommendation

We recommend that management take a proactive approach to the planning and implementation of GASB Statement No.45. The most important consideration in the planning process is obtaining an actuarial valuation.