

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

MANAGEMENT LETTER

JUNE 30, 2003



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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, 2003, 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 November 10, 2003, 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.

November 10, 2003

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

MANAGEMENT LETTER

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Introduction

This Management Letter reports on audit findings for the period July 1, 2002, through June 30, 2003 (fiscal 2003). Included in this letter are comments and recommendations related to prior fiscal years. Readers should note that a number of changes have occurred in several key positions during fiscal 2003 which include the Superintendent of Schools, Assistant Superintendent of Business and Finance, and Treasurer. Accordingly, the individuals currently holding these positions, while responsible for the resolution for the deficiencies existing in prior years, were not responsible for their creation.

***Prior Year Comments and
Recommendations***

MATERIAL WEAKNESSES

Prior Comment

The District did not have a system of internal controls in place to account for cash transactions, reconcile the general ledger cash balance to the Treasurer's cash balance, and allow for adequate monitoring and maintenance of the general ledger.

Action Taken

- The use of a cashbook was initiated and monthly reconciliations to the bank were performed.
- General ledger cash was reconciled to the Treasurer's cash balance monthly.
- Proper monitoring and maintenance of the general ledger accounts was performed.

Current Status - Resolved

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

- No formal budget approval procedures have been put in place.

Current Status – Unresolved.

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

- During fiscal 2003 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 still needs to be implemented to solidify the internal controls over student activities. Currently, all receipts are deposited in the Treasurers account. Transfers are made from the Treasurer's account to the Principal's account, who then makes disbursements for various student activities. Each Principal is responsible for maintaining records that detail receipts, disbursements and available balance for each student activity account. This balance should agree and be reconciled to the total cash maintained by the District on a monthly basis.

Current Status – Partially 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

- During fiscal 2003 procedures were implemented to monitor and properly recorded grant receipts and expenditures in the general ledger.
- However no procedures were put in place to reconcile the grant balances with the individual grant administrators. This is being implemented in fiscal 2004.

Current Status – Partially 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
- The District purchased a general ledger reporting package but subsequently determined that the package would not be the most suitable package for the District to utilize.
- A new general ledger package has been purchased and is being implemented in fiscal 2004.

Current Status – Partially resolved.

BUSINESS MANAGEMENT AND TREASURY FUNCTIONS

Prior Comment

During fiscal year 2002, the District did not employ a Treasurer or an accounting manager.

Action Taken

- During fiscal year 2003, the District hired a Treasurer and an Assistant Superintendent of Schools to provide the necessary support for all accounting and financial reporting matters.

Current Status – Resolved.

GASB 34 IMPLEMENTATION

Comment

In prior years we had made the District aware of the new reporting requirements applicable to the implementation of the new GASB34 reporting model and had recommend management develop an implementation strategy to complete the transition in an orderly manner so the issuance of the fiscal year 2003 financial statements would not be delayed and/or contain significant audit opinion qualifications.

Status – Resolved. Management has made the necessary adjustments to meet the requirements of the new reporting model.

***Current Year Comments and
Recommendations***

CASH RECONCILIATION PROCEDURES

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.

Recommendation

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.