

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

REPORTS ON FEDERAL AWARD PROGRAMS

FISCAL YEAR ENDED JUNE 30, 2011

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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To the Honorable School Committee
Manchester Essex Regional School District
Manchester-by-the-Sea, Massachusetts 01944

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Manchester Essex Regional School District, as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated March 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Manchester Essex Regional School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design of operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as item 2011-1, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Manchester Essex Regional School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Manchester Essex Regional School District in a separate letter dated March 30, 2012.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly we express no opinion on it.

This report is intended solely for the information and use of management of the Manchester Essex Regional School District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Powers & Sullivan LLP". The signature is written in a cursive, flowing style.

March 30, 2012



**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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Manchester-by-the-Sea, Massachusetts 01944

Compliance

We have audited the compliance of the Manchester Essex Regional School District, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Manchester Essex Regional School District's major federal programs for the fiscal year ended June 30, 2011. The Manchester Essex Regional School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Manchester Essex Regional School District's management. Our responsibility is to express an opinion on the Manchester Essex Regional School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Manchester Essex Regional School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

Management of the Manchester Essex Regional School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Manchester Essex Regional School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management of the Manchester Essex Regional School District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Manchester Essex Regional School District, as of and for the year ended June 30, 2011, and have issued our report thereon dated March 30, 2012. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Manchester Essex Regional School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of management of the Manchester Essex Regional School District, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



March 30, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditure:</u>
U.S. DEPARTMENT OF AGRICULTURE:		
<u>Passed through State Department</u>		
<u>of Elementary and Secondary Education:</u>		
Non-Cash Assistance (Commodities):		
National School Lunch Program	10.555	\$ 15,142
Cash Assistance:		
School Breakfast Program	10.553	1,637
National School Lunch Program	10.555	<u>66,708</u>
 TOTAL AGRICULTURE		 <u>83,487</u>
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through State Department</u>		
<u>of Elementary and Secondary Education:</u>		
Title I Grants to Local Educational Agencies	84.010	63,449
Special Education Grants to States	84.027	328,328
Improving Teacher Quality State Grants	84.367	21,950
ARRA - Title I Grants to Local Educational Agencies	84.389	33,188
ARRA - Special Education Grants to States	84.391	240,654
ARRA - State Fiscal Stabilization Fund	84.394	8,513
<u>Passed through State Department</u>		
<u>of Early Education and Care:</u>		
Special Education Preschool Grants	84.173	7,897
ARRA - Special Education - Preschool Grants	84.392	<u>8,106</u>
 TOTAL EDUCATION		 <u>712,085</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:		
<u>Passed through State Department</u>		
<u>of Elementary and Secondary Education:</u>		
Learn and Serve America School and Community Based Programs	94.004	<u>1,991</u>
 TOTAL		 <u>\$ 797,563</u>

See notes to schedule of expenditures of federal awards.

Note 1 - Definition of Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Manchester Essex Regional School District. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

Note 2 - Significant Accounting Policies

The accounting and reporting policies of the Manchester Essex Regional School District are set forth below:

- Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting. Accordingly, grant revenues are recognized when received and expenditures when paid.
- Cash Assistance - School Breakfast and Lunch Program - Program expenditures represent federal reimbursement for meals provided during the fiscal year.
- Non-Cash Assistance (Commodities) - School Lunch Program - Program expenditures represent the value of donated foods received during the fiscal year.

Note 3 - Program Clusters

In accordance with Subpart A §.105 of OMB Circular No. A-133, *Audits of States, Local Governments and Non Profit Organizations*, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	
School Breakfast Program	10.553
National School Lunch Program	10.555
Title I, Part A Cluster	
Title I Grants to Local Educational Agencies	84.010
ARRA - Title I Grants to Local Educational Agencies	84.389
Special Education Cluster	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173
ARRA - Special Education—Grants to States	84.391
ARRA - Special Education—Preschool Grants	84.392

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Manchester Essex Regional School District.
2. A material weakness relating to the audit of the financial statements is reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of non compliance material to the financial statements of the Manchester Essex Regional School District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements that could have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-13.
5. The auditors' report on compliance for the major federal award programs for the Manchester Essex Regional School District expresses and unqualified opinion.
6. No audit findings were required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

<u>Program Title</u>	<u>CFDA Number</u>
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173
ARRA - Special Education - Grants to States	84.391
ARRA - Special Education - Preschool Grants	84.392

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Manchester Essex Regional School District was not determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

2011-1 Material Weakness

Condition and Criteria: A cash reconciliation that reconciles from the Treasurer's cash book balance to the general ledger balance was not completed during fiscal year 2011.

Cause: Lack of procedures in place to meet the objectives of a properly designed system of internal control.

Effect: The District is unable to provide reasonable assurance that cash balances are properly monitored and transactions are executed in accordance with management's authorization and recorded timely and properly in the general ledger and the Treasurer's cash book.

Auditors' Recommendation: We recommend that the District implement procedures to ensure that cash balances are reconciled on a monthly basis.

Management Response: See the District's corrective action plan.

C. Findings and Questioned Costs

None.

D. Summary Schedule of Prior Audit Findings

None.