

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

MANAGEMENT LETTER

JUNE 30, 2021



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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 year ended June 30, 2021, 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.

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

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

The District's written response to the matters identified in our audit has 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, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan, LLC

July 26, 2022

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

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Reassess Organizational Structure/Roles and Responsibilities

Comment

We believe that the District should assess the current roles and responsibilities in the business office and consider adding a payroll and purchasing clerk position to the organizational structure. The existing financial data analyst position would perform most accounting functions under the direction of Director of Finance and Operations as well as oversee a payroll and purchasing clerk that would have primary responsibility for processing payroll. This organizational structure would bring the accounting staff in line with similar sized school Districts and would increase the controls over the District's accounting functions. The additional position would also give the finance department the ability to implement its formal monthly and year-end closing process more consistently, which would allow for a timelier closing process. This would also help to facilitate a timelier filing of year-end reports with the Department of Revenue for certification of excess and deficiency, submission of the Department of Elementary and Secondary Education's End-of-Year Financial Report and completion of the District's annual financial statement audit.

Recommendation

We recommend that the District assess the current roles and responsibilities being performed in the business office and consider adding a payroll and purchasing clerk position to the organizational structure.

Management Response

A part-time Payroll & Purchasing Clerk position has been added to the organization chart and is currently posted. This new position was funded by savings generated from a restructuring of Central Office and other administrative positions, including elimination of two positions and savings from retirements.

This restructuring was presented to School Committee in fiscal 2022, and addressed Central Office responsibilities in a comprehensive manner, including creation of a new Human Resources Manager position and a new Operations Administrative Assistant position to address general and special education transportation, facilities rentals, and athletics. Additionally, the restructuring allowed for clarification of roles and responsibilities for existing special education and central office administrative assistant positions.

Timeliness of Actuarial Information for OPEB Financial Reporting and Disclosure

Prior Year Comment

Current GASB pronouncements require information that is provided through independent actuaries in order to meet the financial reporting and disclosure requirements for Other Postemployment Benefits Other Than Pensions (OPEB). The actuaries base their reports on a significant amount of information provided by the District. The actuarial valuation is required to be completed every two years for trust reporting with updates required on the off year. The actuary also provides an annual report, which includes the employer adjustments to properly record the OPEB liability in the financial statements.

The District has established an annual closing process and an audit schedule that anticipates an audit fieldwork completion date of early-November. The OPEB reporting was delayed in 2020 and our understanding is that much of the delay was related to the pandemic. However, the District has not established formal deadlines with the actuary such as a due date for the actuarial report and due dates identifying when supporting documentation must be provided to the actuary to meet the reporting deadlines. Ideally, the actuarial report would be available at the beginning of audit fieldwork.

Current Status

The District was able to provide all the required information for OPEB financial reporting and disclosure at the beginning of audit fieldwork.

Framework for Assessing and Improving Cybersecurity

Prior Year Comment

Throughout an organization's normal course of business comes the need to collect, transmit, and store extensive amounts of personal and financial information, both in paper and electronic form, relating to residents, vendors and employees. The use of technology has become a driver in helping organizations stay current and succeed. However, the sharing and compilation of this information lends itself to increasing the organization's vulnerability to either a cyber computer attack, ransomware attack, or a security breach, all of which are considered cybersecurity attacks.

We understand that management is aware of the risks associated with the collection of this information and is diligent in implementing the proper policies and procedures to help to expose these risks. While impossible for an organization to eliminate all risks associated with a cybersecurity attack, an organization can take a variety of steps to mitigate its exposure, satisfy its governance responsibilities and help to minimize the impact of any attack that may occur.

We recommended that management take a pro-active approach and assess the risk exposure to a cyber-attack.

Current Status

The District initiated a network security risk assessment in FY21, which continued into FY22 due to changes in personnel for the network manager role. Additionally, as part of its annual liability insurance renewal, the District completed a separate cybersecurity assessment for MIIA, which is evaluating and recommending best practices for all insured MA districts to consider. MIIA's review did not require any remedial action for the District, but the District is continuing to evaluate potential cyber and general network security enhancements based on the two external reviews.

Written Job Descriptions

Prior Year Comment

In the prior year, we indicated that management has completed job descriptions for new employees and restructured positions; however, job descriptions were not completed for all other financial positions.

Job descriptions allow management to understand the roles and responsibilities of the Business Office staff and serve as guidelines for anyone who subsequently replaces an existing position. Additionally, District policies and procedures will be further defined through this process. Roles and responsibilities should consider segregation of duties so that the same employee is not initiating, recording, and approving transactions and handling related assets. Employees should be assigned to the position best fitting their qualifications. Job descriptions provide a guideline to the employees of the responsibilities they are expected to perform. Without written guidelines, employees must assume what management desires. Having written, formal guidelines help ensure appropriate communication of expectations.

Current Status

As part of the Central Office restructuring reviewed in fiscal 2022 with School Committee, and prior routine transitions in personnel, written job descriptions have now been completed for all Business Office positions, including:

- Financial:
 - Accounts Payable/Accounts Receivable Specialist
 - Financial Data Analyst – Payroll, HR & Budget
 - Treasurer
 - Payroll & Purchasing Clerk (*part-time*)
- Human Resources Manager
- Clerical:
 - Operations Administrative Assistant (for athletics, regular/special education transportation, and facilities rental)
 - Central Office Administrative Assistant
 - Special Education Administrative Assistant
- Technology:
 - Network Administrator/Technology Manager
 - District Data Analyst/Database Administrator
 - IT Support Specialist

Consider Adopting Formal Financial Policies

Prior Year Comment

In the prior year, we indicated that the District has not adopted formal policies documenting the District's financial goals and objectives. For example, financial policies will establish benchmarks for excess and deficiency, fund balance levels, a long-term capital and debt plan, and other important financial indicators. Other policies that should be considered are purchase order requirements, and allowable use of District credit cards.

These policies and procedures will provide a framework for management to utilize when making important financial decisions.

Current Status

The District has not adopted formal financial policies.

Continuing Recommendation

We continue to recommend that the District document and adopt financial policies. Once adopted, the policies should be updated for any changes that put into effect.

Management Response

This matter has been referred to the School Committee's Policy Subcommittee.

Documentation of Internal Controls Over Federal Awards

Prior Year Comment

In December 2013, the U.S. Office of Management and Budget (OMB) issued *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) in an effort to (1) streamline guidance for federal awards while easing the administrative burden and (2) to strengthen oversight over the expenditure of federal funds and to reduce the risks of waste, fraud and abuse.

The Uniform Guidance supersedes and streamlines requirements from eight different federal grant circulars (including OMB Circular A-133) into one set of guidance. Local governments were required to implement the new administrative requirements and cost principles for all new federal awards and for additional funding of existing awards made after December 26, 2014 (fiscal year 2016).

In conformance with the Uniform Guidance, the non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States (the Green Book) and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management is responsible for internal controls and to see that the entity is doing what needs to be done to meet its objectives. Governments have limited resources and constraints on how much can be spent on designing, implementing, and operating systems of internal control. The COSO Framework can help management consider alternative approaches and decide what action it needs to take to meet its objectives. Depending on the circumstances, these approaches and decisions can contribute to efficiencies in the design, implementation, and conduct of internal control. With the COSO Framework, management can more successfully diagnose issues and assert effectiveness regarding their internal controls and for external financial reporting, help avoid material weaknesses or significant deficiencies.

The COSO internal control framework must incorporate the 5 major components of internal control, while addressing the 17 principles of internal control that support the COSO framework. Refer to www.coso.org for articles describing the 5 components and their 17 principles in detail.

Management should evaluate and assess the government’s internal control system to determine whether: each of the five essential elements of a comprehensive framework of internal control is present throughout the organization; whether each element addresses all of the associated principles; and whether all five elements effectively function together.

Current Status

The District has documented internal controls over federal awards in accordance with the COSO internal control framework. It is our understanding that management intends to have this document formally approved by the School Committee during fiscal 2022.

Management Response

MERSD's documented internal controls manual for federal awards was presented to School Committee on 3/1/22. The Committee voted to acknowledge receipt of the procedures.