

***MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT***

***MANAGEMENT LETTER***

***JUNE 30, 2020***



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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, 2020, 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.

May 19, 2021

**MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT**

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**JUNE 30, 2020**

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## **Timeliness of Grant Reimbursement Requests**

### Prior Year Comment

In the prior year, we noted deficit balances in the District's education grants totaling \$448,000. It is our understanding that no grant funds were requested from the Department of Elementary and Secondary Education's (DESE) until after year-end. However, the DESE grant management system allows for monthly drawdown requests in advance for the next months anticipated expenditures.

Grant deficits can reduce the certified Excess & Deficiency (E&D) balance if not funded by the following September 31<sup>st</sup>. Because the majority of the deficits were funded prior to September 31, the impact on E&D was minimal. In addition to the effect on E&D, grant activities were temporarily funded with general available funds. This reduced cashflow and prevented the District from maximizing investment income, which would have otherwise been earned had monthly draw down requests been completed.

We recommended that the District implement procedures to ensure that drawdowns for education grants are being requested on a monthly basis.

### Current Status

Procedures were implemented to request grant funds on a timelier basis in 2020 and as a result, the deficit balances in the District's education grants significantly decreased and totaled \$116,000 as of June 30, 2020.

## **Timeliness of Actuarial Information for OPEB Financial Reporting and Disclosure**

### Current 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.

### Recommendation

We recommend that the District establish and agree to formal due dates with the actuary. This will help to ensure that required information is available at the beginning of fieldwork.

### Management Response

This task will be added to the summer duties for the business office.

## **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 did not complete a cybersecurity risk assessment in 2020.

### Continuing Recommendation

We continue to recommend that management take a pro-active approach and assess the risk exposure to a cyber-attack. An internal team with proper information technology experience can be used or a third-party vendor that specializes in this type of assessment can be used.

Once a review is completed, policies and procedures should be developed to mitigate each identified risk to an acceptable level that is compatible with the organization's determined risk tolerance.

### Management Response

We have been working with our current IT managed services provider to identify a third-party vendor with the experience to complete this assessment. We expect to conduct the review in the current fiscal year, including development of policies and procedures to manage the risk proactively.

## **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 helps ensure appropriate communication of expectations.

#### Current Status

Management has not completed written job descriptions for all Business Office positions. The Business Office is responsible for the day to day operations of the District, and as such, it is important that employees understand their roles and responsibilities.

#### Continuing Recommendation

We continue to recommend that the District complete written job descriptions for all Business Office personnel.

#### Management Response

With the upcoming retirement of our Accounts Payable/Accounts Receivable administrator, the district is currently in the process of finalizing all Business Office job descriptions.

### **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

Development of these policies has been assigned 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](http://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. Management intends to have this document formally approved by the School Committee during FY2021.

### Management Response

We remain on track to present this document to our School Committee in FY2021.