

HAMILTON-WENHAM REGIONAL SCHOOL DISTRICT

MANAGEMENT LETTER

JUNE 30, 2017

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To the Honorable School Committee
Hamilton-Wenham Regional School District
Wenham, Massachusetts 01984

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton-Wenham Regional School District (District) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan, LLC

September 29, 2017

HAMILTON-WENHAM REGIONAL SCHOOL DISTRICT

MANAGEMENT LETTER

JUNE 30, 2017

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MATERIAL WEAKNESSES

MATERIAL WEAKNESSES

This report does not identify any matters that we consider to be material weaknesses in internal control.

PRIOR YEAR COMMENTS

PRESCHOOL REVOLVING FUND

Prior Year Comment

In the prior year, we recommended that the District develop policies and procedures in regards to the allocation of direct and indirect costs to the preschool revolving fund.

Current Status

The District developed written procedures pertaining to the allocation of direct and indirect costs to the preschool revolving fund in 2017.

Management Response

The District considers this matter closed.

DEVELOP WRITTEN PROCEDURES CONCERNING CAPITAL ASSET DISPOSALS

Prior Year Comment

In the prior year, we indicated that the District does not have formal written procedures for disposing of capital assets. We believe that documenting procedures for capital asset disposals will improve physical and accounting control over the assets or proceeds from disposition.

We recommended that the written procedures include a provision requiring a request for disposal to be prepared that describes the asset, the reason for and means of its disposal, and any expected proceeds. An appropriate official who does not have custody of the asset or cash receipt duties should approve the request and send it directly to the accounting department to use as a basis for establishing control over the asset pending its disposal and any sales proceeds and for removing the asset from the records. This will allow the accounting department to prepare documentation to serve as authorization for releasing the asset and for preparing a billing invoice if the asset is sold.

Current Status

Written procedures were developed in 2017 for capital asset disposals.

Management Response

The District considers this matter closed.

ADOPT A CASH AND INVESTMENT POLICY

Prior Year Comment

In the prior year, we indicated that the District does not have an investment policy to address the types of credit risk disclosures required in the District’s financial statements. Accounting standards have highlighted the need for governmental entities to consider adopting cash and investment policies that take into account custodial, credit and interest rate risk.

Such policies establish guidelines for matters such as 1) the types of banks the District should have deposits with; 2) the maximum period that an investment can be held and; 3) the highest concentration the District can have in any one investment type or issuer.

Current Status

The District has adopted a cash and investment policy in 2017.

Management Response

The District considers this matter closed.

DEVELOP PROCEDURES CONCERNING COMPUTER PASSWORDS

Prior Year Comment

In the prior year, we indicated that the District does not have written policies and procedures concerning the role of user passwords in securing information and promoting an appropriate segregation of duties.

Current Status

Written procedures were developed in 2017 for computer passwords.

Management Response

The District considers this matter closed.

INFORMATIONAL COMMENTS

DOCUMENTATION OF INTERNAL CONTROLS

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 are required to implement the new administrative requirements and cost principles for all new federal awards and to additional funding to existing awards made after December 26, 2014 (fiscal year 2016).

In conformance with 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).

The COSO internal control framework is generally accepted as a best practice within the industry including the best practices prescribed by the Government Finance Officers Association (GFOA). COSO is a joint initiative of 5 private sector organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence. The original COSO framework was published in 1992 and has been revised several times for changes in operations, technology, and audit risk. The most recent updates to the COSO Internal Control - Integrated Framework were issued in 2013 and are available at www.coso.org.

Management is responsible for internal control 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 conducting 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 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 incorporates 5 major components of internal control, which are supported by 17 principles of internal control as follows:

1. CONTROL ENVIRONMENT

- 1) Demonstrates commitment to integrity and ethical values
- 2) Exercises oversight responsibility
- 3) Establishes structure, authority, and responsibility
- 4) Demonstrates commitment to competence
- 5) Enforces accountability

2. RISK ASSESSMENT
 - 6) Specifies suitable objectives
 - 7) Identifies and analyzes risk
 - 8) Assesses fraud risk
 - 9) Identifies and analyzes significant change
3. CONTROL ACTIVITIES
 - 10) Selects and develops control activities
 - 11) Selects and develops general controls over technology
 - 12) Deploys through policies and procedures
4. INFORMATION & COMMUNICATION
 - 13) Uses relevant information
 - 14) Communicates internally
 - 15) Communicates externally
5. MONITORING
 - 16) Conducts ongoing and/or separate evaluations
 - 17) Evaluates and communicates deficiencies

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.

Recommendation

We recommend management follow the best practice for establishing and documenting their internal control system over federal awards by using the COSO Internal Control Framework.

Management Response

The District will endeavor to develop a process and protocol for applying the COSO Internal Control Framework to all new Federal Awards. Before this work can begin however, the District must first acquire an in-depth understanding of the Framework as well as all associated administrative requirements. Given the relative newness of this requirement as well as the lack of resources currently available regarding the applicability of COSO to Municipal and School Finance, the District is unable to estimate the amount of time and resources that will be necessary to implement this recommendation.

FUTURE GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENT FOR OPEB

Comment

The Government Accounting Standards Board (GASB) has issued Statement #75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which is effective for 2018. GASB #75 will substantially change the reporting for other postemployment benefit liabilities and expenses. Changes in the other postemployment benefits liability will be immediately recognized as expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Employers will report in their financial statements a net other postemployment benefit liability (asset) determined annually as of the measurement date. The net other postemployment benefit liability (asset) equals the total other postemployment benefit liability for the plan net of the plan net position. The other postemployment benefit liability is the actuarial present value of projected benefits attributed to past service. The plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The District should expect to record significant OPEB liabilities in the future. While this GASB does not go into effect until 2018, we wanted to make the District aware of the impact that the new standard will have on financial statement reporting and disclosures.

Recommendation

We recommend that the District contact its actuary to ensure that the actuarial information needed to record the net OPEB liability and prepare the footnote and required supplementary information disclosures will be available for the 2018 audit.

Management Response

The District will update its actuarial valuation for the 2018 audit as recommended.