

HAMILTON-WENHAM REGIONAL SCHOOL DISTRICT

MANAGEMENT LETTER

JUNE 30, 2016

Powers & Sullivan, LLC

Certified Public Accountants



100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

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, 2016, 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.

A handwritten signature in black ink that reads "Powers & Sullivan, LLC".

September 13, 2016

HAMILTON-WENHAM REGIONAL SCHOOL DISTRICT

MANAGEMENT LETTER

JUNE 30, 2016

TABLE OF CONTENTS

	PAGE
MATERIAL WEAKNESSES	1
PRIOR YEAR COMMENTS	3
Personnel Earnings Records	4
Audit of Student Activity Funds	4
Individual Scholarship Trust Fund Reconciliations	5
Investment of Trust Funds in Custody of the Treasurer	5
Preschool Revolving Fund	6
Develop Procedures Concerning Computer Passwords	6
Develop Written Procedures Concerning Capital Asset Disposals	7
Adopt a Cash and Investment Policy	8
CURRENT YEAR COMMENTS	9
Documentation of Internal Controls	10
INFORMATIONAL COMMENT	12
Future Government Accounting Standards Board (GASB) Statements for OPEB	13

MATERIAL WEAKNESSES

MATERIAL WEAKNESSES

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

PRIOR YEAR COMMENTS

PERSONNEL EARNINGS RECORDS

Prior Year Comment

In the prior year, we indicated that the District was in the process of standardizing procedures regarding the maintenance and upkeep of all personnel files, including personnel earnings records, documenting the employee's pay rate, pay grade and pay step. The Commonwealth of Massachusetts "Municipal Records Retention Manual" states that these records should be maintained as a permanent record of the District.

Current Status

In 2016, the District developed a Personnel File Checklist to ensure that documentation maintained in all employee personnel files is standardized.

Management Response

The District considers this matter closed.

MANAGEMENT OF STUDENT ACTIVITY FUNDS

Prior Year Comment

In the prior year, we indicated that Massachusetts General Law (MGL), Chapter 71, Section 47 requires that school districts maintain student activity funds in accordance with guidelines issued by the Department of Elementary and Secondary Education (DESE).

In 2014, the DESE published a comprehensive manual titled Agreed-Upon Procedures and Audit Guidelines – Student Activity Funds. Within each section of the manual is the DESE Policy Guidance, the MGL Requirement and DESE's explanation of what type of policies, internal controls and audit procedures should be implemented in order to be in compliance with the law.

These guidelines can be found on the DESE website at the following address:

<http://www.doe.mass.edu/finance/accounting>

One of the MGL requirements is that an annual audit of the student activities be completed. The DESE manual provides guidance on the acceptable methods and timing of the audit.

Current Status

The District engaged Powers & Sullivan to conduct an independent audit of these accounts, which was performed during 2016.

Management Response

In an effort to comply with MGL Chapter 71, Section 47, the District has engaged Powers & Sullivan, LLC to conduct an agreed-upon procedures engagement in accordance with the DESE Agreed-Upon Procedures and Audit Guidelines over the course of the next three (3) years, beginning in 2016 with the High School accounts. The full scope of the engagement includes completing the DESE Agreed-Upon Procedures and Audit Guidelines for all existing accounts including the High School, Middle School and three (3) Elementary Schools.

INDIVIDUAL SCHOLARSHIP TRUST FUND RECONCILIATIONS

Prior Year Comment

In the prior year, we indicated that the District currently maintains two investment accounts that have been setup specifically to maintain scholarship deposits (i.e. not part of pooled cash). One of the investment accounts includes several different scholarship accounts and the financial institution provides a separate accounting of each scholarship balance with the quarterly investment statement. For this account, the individual scholarship balances provided by the financial institution should be reconciled to the individual trust fund balances reported on the general ledger.

While the aggregate scholarship investment balances are reconciled to the aggregate general ledger balances, the individual scholarship investment balances are not reconciled with the specific general ledger balances. We recommended that procedures be put in place to reconcile the individual investment balances to the individual general ledger balances on a quarterly basis.

Current Status

The District reconciled the individual scholarship balances from the investment statement to the general ledger balances during 2016.

Management Response

The District considers this matter closed.

INVESTMENT OF TRUST FUNDS IN CUSTODY OF THE TREASURER

Prior Year Comment

In the prior year, we noted that the Eastern Bank investment portfolio has historically been invested in securities that are not listed on the Massachusetts legal list of investments as required by Massachusetts General Law (MGL) Chapter 44, Section 54. Per the Massachusetts Treasurer's manual published by the Massachusetts Collectors and Treasurers Association:

"Unless otherwise directed by the donor, the Treasurer must place trust funds in interest bearing savings banks or trust companies, invest in a combined investment fund such as the Massachusetts Municipal Depository Trust, or invest in bonds or notes that are legal investments for savings banks. For aggregate investments in excess of \$250,000, the Treasurer may also invest such funds in securities that are legal for the investment of funds of savings banks provided that not more than 15% of such trust monies shall be invested in bank or insurance company stocks and not more than 1.5% of such monies shall be invested in the stock of any one bank or insurance company."

The Massachusetts Legal List maintained by the Commissioner of Banks, sets out a list of legal investments for savings banks. The Legal List is published every year and is available online at the Massachusetts Department of Consumer Affairs and Business Regulation. <http://www.mass.gov/ocabr/banking-and-finance/laws-and-regulations/list-of-legal-investments.html>

Current Status

The District has requested that its scholarship trust funds with Eastern Bank be reinvested to comply with MGL Chapter 44, Section 54.

Management Response

Eastern Bank has confirmed that our request to reinvest the District's scholarship trust funds in accordance with MGL Chapter 44, Section 54 will be completed by September 30, 2016. The District considers this matter closed.

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 has developed procedures to ensure that sufficient costs are charged to the preschool revolving fund that will avoid the accumulation of surplus balances in the revolving fund and the unnecessary use of general fund appropriations to fund preschool operations. In 2016, sufficient costs were charged to the preschool program and no residual balance remained in the fund at year-end.

The District did not adopt financial policies pertaining to the allocation of direct and indirect costs to the preschool revolving fund in 2016.

Recommendation

We continue to recommend that the District adopt financial policies concerning the allocation of direct and indirect costs to the preschool revolving fund. This will ensure that expenditures are consistently charged to the program and will enable the District to properly set rates to cover the anticipated costs.

Management Response

The District does not view this recommendation as a high priority given the long list of existing priority projects and initiatives. That said, the District will develop written procedures concerning the allocation of direct and indirect costs to the preschool revolving fund as time and resources become available. The District does not believe that a formal Policy of the School Committee is warranted as recommended.

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

The District did not adopt a policy in 2016 regarding computer password security. However, the District has hired Presidio Network Solutions to conduct a detailed districtwide IT security assessment, which will include recommendations around IT policies and procedures. User passwords will be included as part of their assessment and review.

Recommendation

We continue to recommend that the District adopt policies and procedures concerning the assignment, modification, and deletion of user passwords. Passwords should be changed at least once every six months. Written policies and procedures will help to ensure that password assignments, deletions, and modifications are performed in a manner consistent with management's intentions.

Management Response

The District has engaged Presidio to conduct an independent review of the District's Technology infrastructure, systems, data, programs, and policies during the 2016 – 2017 School Year. We anticipate several recommendations to come out of this review including recommendations concerning computer passwords. The District will address this issue after Presidio's final report and recommendation has been provided.

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 not developed in 2016 for capital asset disposals.

Recommendation

We continue to recommend that written procedures be developed to strengthen internal controls over accounting and physical control of assets or proceeds from disposition.

Management Response

The District does not view this recommendation as a high priority given the long list of existing priority projects and initiatives. That said, the District will develop written procedures in order to strengthen internal controls over accounting and physical control of assets and/ or proceeds from disposition of assets as time and resources become available.

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 drafted a cash and investment policy in 2016; however that policy has not been adopted by the School Committee.

Recommendation

We continue to recommend that the District adopt a cash and investment policy with consideration given to the specific types of risks required for disclosure. The policies should be reviewed and updated periodically.

Management Response

The District has prepared an initial draft of a detailed Cash and Investment Policy and forwarded it to the School Committee for their review and approval during the 2016 – 2017 School Year. It is the School Committee's responsibility to establish Policy for the District.

CURRENT YEAR 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 & 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.

INFORMATIONAL COMMENT

FUTURE GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS FOR OPEB

Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Other Postemployment Benefits (OPEB). These new standards will start to phase in during 2017 and will substantially impact the District's financial statements and will also affect the requirements for accumulating the necessary data to meet the reporting requirements.

The new standards that have been issued and their effective dates are as follows:

- The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, which is required to be implemented in 2017.
- The GASB issued Statement #75, *Accounting and Financial Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.

See below for a brief summary of these new standards:

- GASB #74 and #75 will substantially change the reporting for other postemployment benefit liabilities and expenses. Changes in other postemployment benefit liability will be immediately recognized as other postemployment benefit 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. *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 these GASB's do not go into effect until 2017, we wanted to make the District aware of the impact that these new standards will have on financial statement reporting and disclosures.