

HAMILTON-WENHAM REGIONAL SCHOOL DISTRICT

MANAGEMENT LETTER

JUNE 30, 2019



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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, 2019, 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 30, 2019

HAMILTON-WENHAM REGIONAL SCHOOL DISTRICT

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JUNE 30, 2019

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MATERIAL WEAKNESSES

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

COMMENTS AND RECOMMENDATIONS

COMPLIANCE WITH CASH AND INVESTMENT POLICY

Comment

The School Committee adopted a cash and investment policy on November 2, 2016. For custodial risk related to bank deposits, the policy allows for unlimited deposits up to one year in financial institutions that are fully collateralized or fully insured by Federal Depository Insurance or the Depository Insurance Fund. The District's policy limits unsecured deposits to no more than 5% of an institution's assets and no more than 25% of the District's cash. At year-end, the District's bank deposits totaled \$5,530,084. Of this balance, \$5,280,084 was uninsured and uncollateralized, which represents 95% of the District's bank deposits.

For custodial credit risk related to investments, the policy requires review of the financial institution's financial statements and the background of the brokerage house and broker/dealer (Advisor). Further, all securities not held directly by the District, will be held in the District's name and tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

Based on our discussion with the Treasurer, procedures have not been implemented to comply with these policies.

Recommendation

We recommend that the Treasurer implement procedures to comply with the School Committee's cash and investment policy or that the School Committee policy be revised if deemed necessary.

Management Response

Effective October 1, 2019, the District has transferred all funds in bank accounts with balances in excess of \$250,000 into an Internet Cash Sweep Management System, which allows all funds to be FDIC insured. In addition, the District Treasurer will annually review our financial institution's financial statements and will annually review all securities held by a third-party custodian to determine if they are held in the District's name and tax identification number.

PROCUREMENT – DOCUMENTATION OF WRITTEN QUOTES

Comment

Massachusetts General Laws for procurement, such as Chapter 30B for the procurement of supplies and services, require written quotations from no fewer than three vendors for purchases between \$10,000 and \$50,000. Currently, this supporting documentation is maintained at the individual school locations and is not centralized in the Business Office.

It is our understanding that it is possible to document the quotations electronically in the current accounting system and to upload supporting documentation to substantiate the quotations. Implementing this process would centralize the quotations electronically within the accounting system and would streamline the purchase requisition process by making the data available to the individuals that are responsible for approving the requisitions and ensuring compliance with procurement laws.

Recommendation

We recommend that the District consider utilizing the accounting system to document compliance with procurement laws and to streamline the requisition approval process.

Management Response

During fiscal year 2020, District leadership will meet with department heads and individuals tasked with creating purchase requisitions and train them on the software's capabilities to help streamline the approval process.

CENSUS DATA TESTING – OTHER POSTEMPLOYMENT BENEFITS LIABILITY

Comment

With the implementation of Government Accounting Standards Board Statement #75 – Accounting and financial reporting for postemployment benefits other than pensions, there is greater emphasis on substantiation of the underlying census data which is the basis for the actuarially determined liability. Based on our testing of the census data and the supporting documentation maintained in employee files to support the census data, we found approximately 60% of active employee files did not include marriage licenses to support spouse eligibility for health insurance.

Recommendation

We recommend that employee files are reviewed to ensure that marriage licenses have been obtained to support all spouses that are enrolled in District health insurance plans.

Management Response

Moving forward, the District will require all employees enrolling in our health insurance to submit marriage licenses and birth certificates for all dependents covered.

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 were 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).

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 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 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.

Recommendation

We recommend management follow the best practice for establishing and documenting their internal control system 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.