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School Committee
Masconomet Regional School District
20 Endicott Road
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In planning and performing our audit of the financial statements of the Masconomet Regional School 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 Masconomet Regional School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Masconomet Regional School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Masconomet Regional School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We have reviewed the fiscal year 2016 financial statements and have found no significant deficiencies or material weaknesses.

Our audit involves reviewing internal accounting control procedures that are being followed by the District. During our audit we select a sample from the entire population of transactions, using generally accepted auditing standards (GAAS), that have been developed by the American Institute of Certified Public Accountants (AICPA). The sample transactions that were selected relate to payroll, accounts payable, accounts receivable, cash receipts and related items. During our review of the selected sample of transactions, we found that the District has very good internal accounting control policies and procedures in place.

Uniform Guidance

On December 26, 2013, OMB published its comprehensive overhaul of federal grant administrative, cost accounting, and audit policies in the Federal Register. This final guidance, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) supersedes and combines the requirements of eight existing OMB Circulars (A-21, A-50, A-87, A-89, A-102, A-110, A-122 and A-133). The Uniform Guidance significantly reforms federal grant making to focus resources on improving performance and outcomes with the intent to reduce administrative burdens for grant applicants and recipients and reduce the risk of waste, fraud, and abuse.

The Uniform Guidance is a substantial document that addresses (among many other topics) cost principles, internal controls, procurement requirements and audit requirements. The Uniform Guidance is effective December 26, 2014. New and incrementally-funded awards issued on or after December 26, 2014 will be subject to the Uniform Guidance. Audit Requirements will apply to audits of fiscal years beginning on or after December 26, 2014 (i.e. fiscal year 2016).

One of the primary focuses of the new Uniform Guidance (as it relates to grantees) is internal controls over federal grants. The meaning of “must” and “should” as they are used throughout the Uniform Guidance is clarified. “Must” is not optional, “should” is recommended.

Section 200.303 of the Uniform Guidance addresses internal controls and states:

The non-Federal entity (i.e. the District) 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 and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- (b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.
- (c) Evaluate and monitor the non-Federal entity’s compliance with statute, regulations and the terms and conditions of Federal awards.
- (d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
- (e) Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state and local laws regarding privacy and obligations of confidentiality.

The “Internal Control Integrated Framework” issued by the COSO commission identifies five components of internal control that they believe should be considered in every system of internal control.

The five components are:

- (1) Control Environment - The “tone at the top” should promote and expect ethical behavior.
- (2) Risk Assessment - Consider what could go wrong and what the impact is.
- (3) Control Activities - What controls have we established – reconciling, approvals, oversight...

(4) Communication and Information - Is pertinent information captured, identified and communicated on a timely basis? Are records and information systems sufficient to provide reliable reporting and to demonstrate compliance with the federal award?

(5) Monitoring - Are the internal controls operating as intended? Have controls become outdated or obsolete? Monitoring occurs in the course of everyday operations; it includes regular management & supervisory activities and other actions personnel take in performing their duties.

The Uniform Guidance requires that the internal control policies and procedures must be in writing. Topics that must be addressed in the internal control procedures document relating to procurement include the following:

- Must maintain oversight to ensure contractors perform within the terms, conditions and specifications of the contracts or purchase orders.
- Must maintain written standards of conduct covering conflict of interest with respect to employees engaged in the selection, award and administration of contracts.
- Must maintain written standards of conduct covering organizational conflict of interest.
- Must avoid acquisition of unnecessary or duplicative items.

The Uniform Guidance raises the threshold for the requirement of an audit performed under the Single Audit Act to \$750,000 of federal expenditures in a fiscal year. Although the District may not fall under the requirements of the Single Audit Act in the near future, we recommend that the District become familiar with the new requirements of the Uniform Guidance and develop written internal control policies and procedures in order to comply with the Guidance.

Cash Reconciliation

During the fiscal year ended June 30, 2016, there was a turnover of two key personnel involved in the cash reconciliation process. Both the District Accountant and the Assistant Treasurer left the employment of the District. It was during this turnover period that the CFO discovered that cash was not fully reconciled since November of 2015. These matters related to cash variances between the Treasurer's cashbook and the reconciled bank statement balances and to the general ledger cash balances. It was noted that transactions had been posted as "net transactions", instead of posting the "gross transaction amounts", which made reconciliation very difficult. In addition, transactions that occurred in one month were posted in the wrong month. Also, the work was driven by reconciling the Accountants general ledger activity to the cashbook, instead of reconciling the cashbook to the actual bank statements. Our conclusion is that there are controls that are in place, however, these controls were not properly followed.

Subsequent to the departure of the personnel noted above, the District CFO was able to hire a very qualified Certified Public Accountant to assume the role of District Accountant. In addition, the person who had been the assistant to the District Accountant, during fiscal year 2016, was moved to the vacated position of Assistant Treasurer.

In order to ensure that all of the various District recording, reporting and reconciliation procedures are being properly performed, in a timely manner, it is extremely important to have qualified personnel with the necessary experience performing the duties of District Accountant and Assistant Treasurer. In addition to our review of the June 30, 2016 cash reconciliation work, we also performed procedures to review the cash reconciliation work for the periods ending July 31, 2016, August 31, 2016 and September 30, 2016. During this review we were very impressed with the work that was being performed by the new District Accountant and the Assistant Treasurer.

The District CFO has set up a very good process for being able to properly reconcile the various cash accounts from the actual bank statements to the Treasurer's records, and also to the general ledger balances. This system includes a "Treasurer's Cashbook". This spreadsheet has been set up so that all receipts, disbursements, transfers and other necessary activity are recorded with the appropriate detail.

The spreadsheet also has a column for each bank account used by the District. In addition, the spreadsheet has been set up so that the process of reconciling to the bank statements and also to the Accountants general ledger cash balances, can be done in an efficient and timely manner.

In addition to the Treasurer's Cashbook, cash reconciliation spreadsheets have been set up for every bank account so that the process of reconciling to the actual bank statements, from the District's detailed records, can be performed in an efficient manner. These monthly spreadsheets are set up to include places to record the actual bank statement balance, the outstanding checks, deposits in transit, and other required information. These monthly bank statement reconciliation spreadsheet are extremely helpful in performing the monthly reconciliation work.

One additional cash reconciliation spreadsheet that has been created, that is extremely helpful in making certain that, not only is cash properly reconciled from the Treasurer's records to the actual bank statement balances, but that cash is also properly reconciled to the Accountants general ledger cash balances. This spreadsheet is the monthly "Cash Balance" reconciliation worksheet. This spreadsheet has several very important cash reconciliation items, including not only the Treasurer's bank account information, but also the Accountants general ledger cash information, and a place to record the proper detail relating to any reconciling items. Another very important control relating to this particular spreadsheet is that it must be signed and dated by both the Accountant and Assistant Treasurer.

During our review of the cash reconciliation procedures, and the related accounting records maintained by the District, for the four months of June, July, August and September 2016, we found that the cash reconciliation problems that were noted above, have been corrected. During our review of the work being performed by the new District Accountant and the new Assistant Treasurer, we feel very confident that a proper and timely reconciliation of all cash accounts will be able to be performed. The Accountant that has been hired is a Certified Public Accountant that has extensive education and experience that will enable her to not only perform the needed cash reconciliation work properly, but she will also be able to perform all of the other important internal accounting control work relating to recording and reporting.

In addition, the new Assistant Treasurer appears to be very capable of properly utilizing all of the cash reconciliation spreadsheets that have been set up by the CFO. We feel confident that she will be able to perform this work so that cash will be properly reconciled to both the actual bank statements and to the Accountants general ledger balances in a timely manner every month.

Implementation of New GASB Pronouncements

During fiscal year 2016, the following GASB pronouncements were implemented:

- The GASB issued Statement No. 72 *Fair Value Measurement and Application*. The standard created a hierarchy of the valuation methods used in determining the fair value of investments. The implementation of this pronouncement required new disclosures related to the District's investments.
- The GASB issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The implementation of this pronouncement did not impact the financial statements.
- The GASB issued Statement No 79, *Certain External Investment Pools and Pool Participants*. The implementation of this pronouncement did not impact the financial statements.

The following GASB pronouncements will be implemented in future fiscal years:

- The GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No. 77, *Tax Abatement Disclosures*, which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* which is required to be implemented in fiscal year 2017.
- The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in fiscal year 2018.
- The GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* which is required to be implemented in fiscal year 2018.

Management is currently assessing the impact that the implementation of these pronouncements will have on the basic financial statements. Management's current assessment is that GASB Statements #74 & 75 will have a significant impact on the District's basic financial statements by recognizing the entire actuarially accrued liability and expense, related to the District's Other Post-Employment Benefits.

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This communication is intended solely for the information and use of management, and those charged with governance, and others within the organization, and is not intended to be and should not be used by anyone other than those specified parties.

After you have had an opportunity to consider our comments and recommendations, we shall be pleased to discuss them further with you. We would like to thank you for the cooperation and courtesy extended to us during the course of the engagement.

Very Truly Yours,

Giusti, Hingston and Company

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