



WACHUSETT REGIONAL SCHOOL DISTRICT

Management Letter
For the Year Ended June 30, 2021

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To the School Committee
Wachusett Regional School District

In planning and performing our audit of the basic financial statements of the Wachusett Regional School District (the District) as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

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 a 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Significant deficiencies are noted in the table of contents and comment headings.

During our audit we also became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

The District's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance, including those overseeing the financial reporting process, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

A handwritten signature in black ink that reads "Melanson". The signature is written in a cursive, flowing style.

Greenfield, Massachusetts

March 9, 2023

CURRENT YEAR ISSUES:

1. Improve Controls over Cash Reconciliation Procedures (Significant Deficiency)

Performing timely cash reconciliations and reviewing all reconciling items are critical procedures to ensure the District's cash balances are properly reported and controlled. When these reconciliations are not being performed, there is an increased risk that errors or irregularities could occur and go undetected. While cash was reconciled timely during fiscal year 2021, cash has not been reconciled since September 2021.

We also found that cash reconciliations are not formally signed by the preparer or reviewer and the balances are not traceable to the cashbook.

We recommend the District implement measures to ensure that timely, accurate, and independent reconciliation of cash balances occurs monthly throughout the year. These reconciliations should be documented and formally signed by the preparer and a reviewer in order to improve documentation and oversight, and to reduce risk.

District Response:

The District engaged with CliftonLarsonAllen, LLC (CLA) to identify differences between bank balances to the general ledger for fiscal year 2022. CLA has completed their analysis and provided a cashbook and list of general ledger reconciling items. Work has been started to bring fiscal year 2022 up-to-date and it is anticipated that it will be completed within a short timeframe. CLA has also agreed to aid the District in the reconciliation process for fiscal year 2023 and we anticipate we will be up to date with cash reconciliations prior to the end of the fiscal year.

2. Improve Controls over Budget Votes

When comparing budgeted revenue to actual receipts during fiscal year 2021, we noted that actual member assessment revenue receipts were less than the budgeted amount by approximately \$220,000. Upon inquiry, the District was unable to find the School Committee vote approving the reduction in fiscal year 2021 member assessments and therefore we are unable to determine if the budget was not properly amended, or if the District did not invoice for all member assessments.

We recommend the District create a process to maintain documentation for all School Committee votes that impact the budget to ensure they were properly authorized and if a budget vote is made, it should immediately be reflected in the District's budgeted amounts in the general ledger.

District Response:

The District will maintain proper documentation for amended budgets going forward. Any changes made to the budget will be updated in the general ledger following approval of the School Committee.

3. Other Issues

The following section of the management letter identified other recommendations for improvements which are reported in a summarized manner.

Add Additional Signor to District's Bank Accounts

The District also only has one authorized signor on each of their bank accounts. We recommend the District have at least two authorized signors on each bank account.

District Response:

The School Committee is putting forth a motion to approve and update Policy DP4610A to add a signatory to the bank accounts on February 13, 2023. The policy has been amended and approved.

Update Federal Grants Manual

While reviewing the District's EDGAR (policy and procedure) manual, we found that some of the procurement dollar thresholds were outdated. We recommend the District consider removing specific dollar amounts from the manual and simply reference the federal terminology related to procurement dollar thresholds (i.e., "micro-purchase" rather than \$3,500). If dollar thresholds continue to be used, the District should update them to the current thresholds and monitor them in the future to ensure they remain valid.

District Response:

The Federal Grant Internal Control Manual was updated and submitted to the Massachusetts Department of Elementary and Secondary Education (DESE) for compliance on January 13, 2023. DESE's Audit & Compliance Unit reviewed the submitted procurement policies and procedures to verify they are in compliance with state, local, and federal procurement regulations.

Establish an Internal Audit Function

The District should consider establishing an internal audit function for departmental receipts to properly monitor operations and assess the risk of misstatement in District

departments caused by errors, irregularities or omissions. This will result in improved oversight and could reduce the risk of errors or irregularities from occurring and going undetected.

District Response:

The District is in the process of reviewing this finding.

Periodically Send Letters to Local Banks

Occasionally, quasi-governmental or nonprofit entities (school scholarship or volunteer organizations) will use a district's identification number (EIN) to establish bank accounts without the knowledge or approval of the District. The existence of these accounts increases the risk that inappropriate activity is being conducted under the District's EIN umbrella. While we are not aware of any such accounts, we recommend the District take steps to determine if these types of accounts exist. We therefore recommend the Treasurer periodically request local banks to report all bank accounts established using the District's EIN. Any accounts unduly authorized should be reviewed for inappropriate transactions and either formally authorized or closed.

District Response:

The District will recommend to the Treasurer conduct a request of the local banks to determine if any accounts were established with the District's EIN. The District is currently operating with an interim Treasurer. Once a permanent Treasurer is appointed the requests will be made to the banks by the end of the 2023 calendar year.

PRIOR YEAR ISSUES:

4. Improve Controls over the Vendor Disbursement Process

During our review of the vendor disbursement process in fiscal year 2021, we continue to note the following areas where improvements can be made:

- Sixteen of the forty invoices reviewed did not have documented approval on the invoice. A majority of the invoices were for typical monthly bills such as electric and telephone.

We recommend that all invoices be approved by an authorized individual, who is not involved in the purchasing process, prior to payment, and that approval be documented.

- A report detailing changes to the vendor master file is not being generated and reviewed periodically by the appropriate supervisory personnel.

We recommend that a process be established to review changes to the vendor master file on a periodic basis to limit the risk of fictitious or unauthorized vendors being established which would facilitate unauthorized cash disbursements.

- Employee user control access to the various modules the accounting system is not reviewed periodically to ensure that appropriate levels of access are granted.

A process should be established to review employee access in the accounting system to ensure employees only have access to necessary modules.

District Response:

The District is in the process of reviewing this finding.

5. Improve Controls over the Payroll Disbursement Process

During our review of the payroll disbursement process in fiscal year 2021, we continue to note the following areas where improvements can be made:

- Payroll checks are being distributed by the payroll clerk.

We recommend that payroll checks be distributed by someone other than the payroll clerk to ensure no unauthorized or duplicate disbursements are being made and that payroll is being disbursed to authorized parties.

- Payroll registers are not reviewed by an independent individual to ensure terminated employees are not paid after their departure.

We recommend a process be established to review payroll registers to ensure terminated employee are not being paid after their departure.

- An approved rate agreement could not be located for five of the forty employees tested during the audit.

We recommend that approved rate agreements be maintained for all employees.

District Response:

With the change in leadership in the Business Office and Human Resources Department in the last few months, planning has begun, and changes have been made already to implement and update procedures and processes to address these areas and other areas of concern.

6. Consider Reauthorizing OPEB Trust Fund and Adopt an OPEB Declaration of Trust

The District established the OPEB Trust Fund in fiscal year 2015. At that time, the only legislation available to establish such a fund was Massachusetts General Laws (MGL) Chapter 32B Section 20, which offered very little guidance in terms of asset management, fiduciary responsibility, and allowable expenses. Legislation was passed (MGL Chapter 218 Section 15) that significantly expanded and clarified the responsibilities of governmental entities in maintaining OPEB trust funds, including providing investment options and a custodial management framework.

While previously established OPEB trust funds may continue to exist, in order to operate under the provisions of the new law, the statute must be accepted by the governing body. We recommend the District review the new legislation and consider reauthorizing the OPEB Trust Fund by formally accepting the updated MGL Chapter 32B, Section 20 (passed under Chapter 218 Section 15 of the Acts of 2016), which significantly expanded and clarified the responsibilities of governmental entities in maintaining OPEB trust funds, including clarifying the criteria for accessing the fund's assets, providing investment options, and a custodial management framework.

The updated legislation noted above requires that the governing body of the government designate a trustee or board of trustees, which shall have general supervision of the management and investment of the OPEB Trust Fund, and that the trustee or board of trustees adopt a "declaration of trust" document defining the duties and obligations of the trustee or board of trustees. The declaration of trust and any later amendments must be filed with the chief executive officer and clerk of the government.

We also recommend the District adopt an OPEB Declaration of Trust to formally document the duties and responsibilities of the OPEB Trust Fund trustees.

District Response:

The District is in the process of reviewing this finding.

7. Review Open Bank Accounts

As noted in the year prior, the District maintains approximately 65 bank accounts. While some activities are required to be maintained in separate accounts in order to separately track funds or allocate interest, most are not. The maintenance, monitoring, and reconciling of so many accounts is a tedious and time-consuming process.

We recommend the District consider closing accounts that are not required to be maintained separately and consolidate like accounts into one. Reducing the number of

open bank accounts would increase efficiencies and would reduce the amount of time needed to reconcile and maintain so many accounts.

District Response:

Since August 2022, two bank accounts were closed. The District is currently operating with an interim Treasurer. Once a permanent Treasurer is appointed, a recommendation will be made to continue closing unnecessary accounts and consolidation accounts for the start of fiscal year 2024, if possible.