

**BERKSHIRE HILLS REGIONAL  
SCHOOL DISTRICT**

Management Letter

For the Year Ended June 30, 2016

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**Additional Offices:**

Nashua, NH  
Manchester, NH  
Andover, MA  
Ellsworth, ME

To the School Committee  
Berkshire Hills Regional School District

In planning and performing our audit of the basic financial statements of Berkshire Hills 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 School 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit 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.

During our audit we 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 School 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.

*Melanson Heath*

January 9, 2017

## **CURRENT YEAR ISSUES:**

### 1. IMPROVE PROCEDURES OVER TITLE I ELIGIBILITY RECORDS (COMPLIANCE FINDING)

The Federal Title I program is intended to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families. The program can be run on either a school-wide or targeted assistance basis; in the school-wide program, all students attending a Title I funded school are eligible to receive services; in the targeted assistance program, only those students that meet certain criteria are eligible to receive services.

In fiscal year 2016 the District's elementary school ran a school-wide program and the middle school ran a targeted assistance program. In our testing of student eligibility at the middle school, we noted the following issues:

- While a list of Title I eligible students was provided, it was not ranked by student need (typically done through a composite scoring methodology) to ensure that the students with the highest need are served first. Based on our inquiries, a rank order list was not considered necessary because the District was able to serve all of the students whose evaluation indicated some level of need; however, without a rank order listing it is difficult to verify whether all students served qualified for assistance.
- Of the 12 students selected for testing (from the list of 116 students identified as Title I eligible), one was found to score in the "advanced" category in both reading and math. Per the District's criteria, a student would need to score at the "warning" or "needs improvement" level in order to qualify for Title I services. Although we were later informed that the student in question did not in fact receive Title I services, we were unable to verify that through supporting documentation.

We recommend procedures be put in place to ensure that a comprehensive list of Title I eligible students, including each student's ranking or composite scores, be maintained. We further recommend the District ensure that all students on the list / identified as receiving Title I services meet the established eligibility criteria.

#### School District's Response:

The way in which our Title I funds are used at the Middle School gives us a tremendous amount of flexibility in meeting student needs. We use our funds to have two interventionists on hand to provide both direct instruction and additional support to struggling students. We are able to structure their time in a wide variety of ways. For that reason, rather than creating a set number that they can serve (say, 70 students), we determine that they will serve any and

all students who have academic need and adjust our scheduling, class sizes, and organization accordingly.

Having said that, we will make changes to our documentation procedures. In the past, a master list was generated at the Administrative level which could easily have been converted into a “rank ordered list”. However, over the past few years, as our teaching teams have become much more adept at looking at and responding to data, that information has shifted so that it is tracked at the grade-level and classroom level.

This has a major benefit in that it allows us to be more responsive to student needs. We are able to be nimble, and respond to shifts in student need as necessary. However, although we have utmost confidence in our systems and the fact that the right students are getting the right services, we recognize that we need to have a system that makes it easier to communicate that fact to the outside world. With that in mind, we will shift to recentralize that data in the future so that our procedure for assigning students is clear.

We respect and will follow the recommendation that we create a list that will generate a composite score of student need. That extra step will help us communicate the work that we are doing.

As to the student who scored in the “advanced” category, that was a reporting error. That student received no Title I services, but was misreported to the State. With the composite score list discussed above, we will be able to double check our student lists more easily and better avoid such errors in the future.

## 2. IMPROVE CONTROLS OVER JOURNAL ENTRIES

During our review of 25 journal entries posted in fiscal year 2016, we found the following issues:

- 11 of the 25 journal entries were prepared by Accountant but had no documentation that they were reviewed and/or approved by the Business Administrator.
- One of the journal entries was posted to the general ledger by the Treasurer. In order to ensure adequate segregation of duties, the Treasurer should not have posting access to the general ledger.

We recommend all journal entries prepared by the Accountant be approved before they are posted to the general ledger and that the Treasurer’s access to the general ledger be limited to read-only.

School District's Response:

The Business Administrator regularly reviews Journal Entries made by the Business Office Accountant. In the future, the Business Administrator will initial all Journal Entries to verify this review.

The Treasurer does not typically make Journal Entries, in order to comply with the principle of separation of duties. In FY16, the Business Office Accountant position was vacant for several months and the Treasurer made this entry to support the Business Administrator who was doing both jobs for most of the year. The Treasurer will not make entries in the future. Should the Treasurer identify a need for a journal entry not previously identified the Treasurer will make a recommendation to the Business Office Accountant for entry, which will additionally be reviewed by the Business Administrator.

3. CONSIDER MODIFYING SCHOLARSHIP FUND ACCOUNTING

The District currently records scholarship activity on an accrual basis whereby an expense is recorded when the student is granted an award; however, payment is only made when the criteria for the scholarship is met. Since the scholarship is only earned after the student meets the criteria, the award should not be recorded until that criteria is met.

We recommend the District establish a fund balance reserve to segregate the value of the funds awarded. This would have no income statement effect and would be closed out at the beginning or end of the following fiscal year. The expense would be recognized when the funds are disbursed.

In addition, there is a lag time between when award payments are made and when they are reimbursed by the separate scholarship account. In order to ensure funds are transferred between bank accounts in a timely way, the District should advise the scholarships' custodial bank to transfer funds to the general checking account after each award payment is made.

School District's Response:

The District, and the high school, believe it is important to record the future liability when it is generated, at the time of the scholarship award. This process enables all parties to better account for funds available in any given year. If a graduate does not meet the criteria (and request his/her funds) the amount is unencumbered and returned to the scholarship as available for award.

The District will be moving scholarship funds from Unibank to the Berkshire Taconic Community Foundation in January 2017. At that time three funds will be established: endowed scholarships, non-endowed scholarships, and a "reserve" fund that will hold funds awarded but not yet collected.

The District has a process to request funds twice a year, with the second request to ensure transfer by year-end. Requesting each time, for small amounts, is inefficient.

4. REDUCE SHORT TERM BORROWING USED FOR CASH FLOW PURPOSES

The District historically issues revenue anticipation notes that remain outstanding for most of the year in order to meet cash flow needs. The latest one was issued in August 2016 for \$2.5 million and will mature in June 2017. This is a renewal of another \$2.5 million note that was issued and matured on a similar timeline in fiscal year 2016. Having notes of this size outstanding for virtually the entire year is generally not viewed as a positive financial indicator.

One major reason the notes are needed appears to be related to the timing of quarterly member assessment revenue. Per regional agreement, assessments are due 10/1, 1/1, 4/1, 6/30. These due dates are approximately one month later than many other regional school districts, which are typically due 9/1, 12/1, 3/1 and 6/1. If the District's assessments were due on this schedule, it would go far toward reducing the need to continually short term borrow for operating and debt cash flow purposes.

We understand the District is in the process of reviewing the regional agreement for possible modification in a number of areas. We recommend the District consider modifying the timing of member assessment payments as part of this process.

School District's Response:

As the auditor has stated the District borrows due to the cash flow cycle, with bi-weekly payroll and accounts payable beginning July 1 of each fiscal year, with assessments due quarterly. As assessment revenue accounts for 75%, the District anticipates the need for annual RAN borrowing until/unless the Regional Agreement is amended and the due dates move forward.

5. PREPARE FOR NEW SINGLE AUDIT GUIDELINES OVER PROCUREMENT

In fiscal year 2016, there were new requirements related to the Single Audit Act as a result of OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (UG). Included in these new requirements were new procurement rules over purchases made with federal grant funds, which differ in certain respects from Massachusetts procurement laws (MGL Ch.30B, et al). The OMB provided a grace period of two full fiscal years after the effective date of the Uniform Guidance to allow entities to comply with the new procurement standards. Consequently, the

new procurement standards will be effective as of July 1, 2017. Under the new requirements, Federal award recipients must:

- Establish written policies and procedures for the following:
  - Procurement in compliance with new procurement standards
  - Standards of conduct covering conflicts of interest
  - Process for conducting proposal evaluations
- Maintain certain records to detail the history of procurement
- Implement oversight procedures to ensure contractors perform in accordance with terms.

Differences to MGL Ch. 30B include:

- Under the new rules, purchases of \$3,000 - \$10,000 must have evidence of obtaining/evaluating prices from more than one source; MGL Ch. 30B does not contain any requirements for purchases under \$10,000.
- There are no exemptions allowed under the new procurement standards; MGL includes exemptions for certain types of purchases such as Special Education services and supplies.
- Sole source/no competition purchases are only allowed in certain situations and are not dependent on the purchase amount; MGL sole source requirements are less specific.

We recommend the School District review the new requirements and modify their own procurement policy to ensure compliance with Uniform Guidance.

School District's Response:

The District will review its Procurement Policy and update the EDGAR Manual to comply with the new requirements.