

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

REPORTS ON FEDERAL AWARD PROGRAMS

FISCAL YEAR ENDED JUNE 30, 2012

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable School Committee
Manchester Essex Regional School District
Manchester-By-The-Sea, Massachusetts 01944

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Manchester Essex Regional School District, as of and for the year ended June 30, 2012, which collectively comprise the Manchester Essex Regional School District's basic financial statements and have issued our report thereon dated March 22, 2013. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Manchester Essex Regional School District's internal control over financial reporting 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 Manchester Essex Regional School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Manchester Essex Regional 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 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Manchester Essex Regional School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Manchester Essex Regional School Districts in a separate letter dated March 22, 2013.

This report is intended solely for the information and use of management, the School Committee, others within the entity, and federal awarding agencies and pass-through entities 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". The signature is written in a cursive, flowing style.

March 22, 2013



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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable School Committee
Manchester Essex Regional School District
Manchester-By-The-Sea, Massachusetts 01944

Compliance

We have audited the compliance of the Manchester Essex Regional School District, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Manchester Essex Regional School District's major federal programs for the fiscal year ended June 30, 2012. The Manchester Essex Regional School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Manchester Essex Regional School District's management. Our responsibility is to express an opinion on the Manchester Essex Regional School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Manchester Essex Regional School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Manchester Essex Regional School District's compliance with those requirements.

In our opinion, the Manchester Essex Regional School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2012-1.

Internal Control Over Compliance

Management of the Manchester Essex Regional School District, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Manchester Essex Regional School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Manchester Essex Regional School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Manchester Essex Regional School District, as of and for the year ended June 30, 2012, and have issued our report thereon dated March 22, 2013 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management of the Manchester Essex Regional School District, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Powers & Sullivan, LLC". The signature is written in a cursive, flowing style.

March 22, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditure</u>
U.S. DEPARTMENT OF AGRICULTURE:		
<u>Passed through State Department</u>		
<u>of Elementary and Secondary Education:</u>		
Non-Cash Assistance (Commodities):		
National School Lunch Program	10.555	\$ 31,878
Cash Assistance:		
School Breakfast Program	10.553	967
National School Lunch Program	10.555	<u>67,252</u>
TOTAL AGRICULTURE		<u>100,097</u>
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through State Department</u>		
<u>of Elementary and Secondary Education:</u>		
Title I Grants to Local Educational Agencies	84.010	91,550
Special Education Grants to States (IDEA, Part B)	84.027	389,300
Special Education Grants to States (IDEA, Part B, 611)	84.027A	9,206
Improving Teacher Quality State Grants	84.367	27,051
ARRA - Title I Grants to Local Educational Agencies	84.389	1,776
ARRA - Race to the Top Incentive Grants, Recovery Act	84.395	7,484
<u>Passed through State Department</u>		
<u>of Early Education and Care:</u>		
Special Education Preschool Grants	84.173	<u>8,438</u>
TOTAL EDUCATION		<u>534,805</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:		
<u>Passed through State Department</u>		
<u>of Elementary and Secondary Education:</u>		
Learn and Serve America School and Community Based Programs	94.004	<u>1,492</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		
<u>Passed through Massachusetts Emergency Management Agency:</u>		
Presidentially Declared Disasters	97.036	<u>4,915</u>
TOTAL		\$ 641,309

See notes to schedule of expenditures of federal awards.

Note 1 - Definition of Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the Manchester Essex Regional School District. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

Note 2 - Significant Accounting Policies

The accounting and reporting policies of the Manchester Essex Regional School District are set forth below:

- **Basis of Presentation** - The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting. Accordingly, grant revenues are recognized when received and expenditures when paid.
- **Cash Assistance - School Breakfast and Lunch Program** - Program expenditures represent federal reimbursement for meals provided during the fiscal year.
- **Non-Cash Assistance (Commodities) - School Lunch Program** - Program expenditures represent the value of donated foods received during the fiscal year.

Note 3 - Program Clusters

In accordance with Subpart A §.105 of OMB Circular No. A-133, *Audits of States, Local Governments and Non Profit Organizations*, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	
School Breakfast Program	10.553
National School Lunch Program	10.555
Title I, Part A Cluster	
Title I Grants to Local Educational Agencies	84.010
ARRA - Title I Grants to Local Educational Agencies	84.389
Special Education Cluster	
Special Education Grants to States (IDEA, Part B)	84.027
Special Education Grants to States (IDEA, Part B, 611)	84.027A
Special Education Preschool Grants	84.173

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Manchester Essex Regional School District.
2. No significant deficiencies relating to the audit of the basic financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of non compliance material to the financial statements of the Manchester Essex Regional School District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements that could have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-13.
5. The auditors' report on compliance for the major federal award programs for the Manchester Essex Regional School District expresses an unqualified opinion.
5. There is one audit finding relative to the major federal award programs for the Manchester Essex Regional School District which is described in Note C on the following page.
6. The programs tested as major programs include:

<u>Program Title</u>	<u>CFDA Number</u>
Special Education Grants to States (IDEA, Part B)	84.027
Special Education Grants to States (IDEA, Part B, 611)	84.027A
Special Education Preschool Grants	84.173

7. The threshold for distinguishing Types A and B programs was \$300,000.
8. The Manchester Essex Regional School District was not determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

None.

C. Findings and Questioned Costs

Passed through Massachusetts Department of Elementary and Secondary Education:

Special Education Grants to States (IDEA, Part B)

CFDA No. 84.027

Special Education Preschool Grants (IDEA, Preschool)

CFDA No. 84.173

2012-1: *Condition and Criteria:* OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments" requires grantees to maintain documentation of employee time and effort that has been charged to federal awards. If 100% of an employee's salary is charged to a federal award, a grant recipient is required to maintain semi-annual certifications stating that 100% of the employee's time was spent working on grant activities. If less than 100% of an employee's salary is charged to a federal award, a grant recipient is required to maintain monthly personnel activity reports documenting 100% of the employee's time. The District has not maintained such documentation.

Cause: The District did not fully maintain semi-annual certifications or personnel activity reports for employee salaries charged to the Special Education grants. Semi-annual certifications were completed only once during the 2011-2012 school year. These certifications were also not approved by an administrator.

Questioned Cost: Unknown.

Perspective Information: All of the employees tested did not have completed semi-annual certifications.

Effect: The District is not in compliance with the grant requirements.

Auditors' Recommendation: We recommend that the District implement procedures to comply with OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments".

Management Response: Management has implemented the proper procedures to eliminate this finding in fiscal 2013.

D. Summary Schedule of Prior Audit Findings

None.