

***NORTH MIDDLESEX REGIONAL SCHOOL DISTRICT***

***MANAGEMENT LETTER***

***JUNE 30, 2019***



100 Quannapowitt Parkway  
Suite 101  
Wakefield, MA 01880  
T. 781-914-1700  
F. 781-914-1701  
[www.powersandsullivan.com](http://www.powersandsullivan.com)

To the Honorable School Committee  
North Middlesex Regional School District:

In planning and performing our audit of the financial statements of the North Middlesex 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 matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding 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.

This communication is intended solely for the information and use of the management of the North Middlesex Regional School District and is not intended to be and should not be used by anyone other than these specified parties.

September 9, 2019

**NORTH MIDDLESEX REGIONAL SCHOOL DISTRICT**

**MANAGEMENT LETTER**

**JUNE 30, 2019**

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## ***Previous Year's Comments***

## **Fraud Risk Assessment**

### Prior Year Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the District perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the District's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the District that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the District, its environment, and its processes. The fraud risk assessment process should consider the District's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the District are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or vendors and cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

### Recommendation

We recommended that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation

### Status

The District is still in the process of developing a fraud risk assessment program.

## **Personnel Earnings Records**

### Prior Year Comment

As part of our payroll transaction testing, we were unable to verify eighteen employee's pay rates out of a sample of twenty-five because the employee files did not contain earnings records documenting the employee's pay rate, pay grade or pay step, as applicable. We further noted annual letters are not sent by the District which require the employee's signature of acceptance of the pay rate. The Commonwealth of Massachusetts "Municipal Records Retention Manual" states that these records should be maintained as a permanent record of the District.

### Recommendation

We recommend that the District implement policies and procedures to ensure that all employee files include personnel earnings records as stated in the Municipal Records Retention Manual. Additionally, we recommend annual letters stating pay rate and position be sent by the District and that copies signed by the employee be retained in their personnel file.

### Status

The District is still in the process of reviewing current procedures with the new Human Resource Director and hopes to have a process in place for the coming fiscal year. The District intends on completing the annual letters before the end of fiscal year 2020.