

**MARTHA'S VINEYARD REGIONAL
HIGH SCHOOL DISTRICT**

MANAGEMENT LETTER

JUNE 30, 2013



Certified Public Accountants

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To the Honorable School Committee
Martha's Vineyard Regional High School District

In planning and performing our audit of the financial statements of the Martha's Vineyard Regional School District (District) as of and for the year ended June 30, 2013, 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.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We also want to make you aware of a recently issued accounting standard that will significantly impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated January 20, 2014, on the financial statements of the District.

This communication is intended solely for the information and use of management, the School Committee and others within the organization and should not be used by anyone other than these specified parties.

Sullivan, Rogers & Company, LLC

January 20, 2014

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Comments and Recommendations

School Cafeteria Revolving Fund

Comment

At June 30, 2013, the District's general ledger reports a School Cafeteria revolving fund deficit of approximately \$37,000. The fund deficit could be an indication that one or more of the following problems exist:

- School cafeteria fees are not adequately designed to cover the expenses of the program
- School cafeteria receipts are not being deposited and posted to the general ledger timely or otherwise
- There are errors in recording revenues and/or expenditures to the general ledger

The current condition negatively impacts cash flows and investment income.

Recommendation

We recommend the District investigate and identify the cause of the deficit and resolve the deficit in an appropriate manner. Corrective action may require adjustments to the school cafeteria fee structure and/or reclassifications of expenditures to the District's operating fund. Corrective action may also require the deficit to be funded by available funds.

Processing Vendor Bills

Comment

The District's vendor bills are paid haphazardly during the year through batches processed on the accounting information system. The current process allows for multiple warrants to be open at one time and results in a numbering system that is scattered and disorganized. The current process also creates difficulties for managing open batches during the year and determining the appropriate cut-off at year-end.

The current process is administratively burdensome and susceptible to accounting errors.

Recommendation

We recommend management design and implement a standard warrant schedule to pay all vendor bills at a specific time (e.g., on the 15th and last day of each month). Such a system would standardize and streamline the process.

Pension Accounting and Financial Reporting

Comment

In June of 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which revises and establishes new financial reporting requirements for governments that provide pension benefits to its employees and retirees.

The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the District will be required to recognize its long-term obligation for pension benefits as a liability in its government-wide financial statements. The implementation of this Statement will also:

- More comprehensively measure the annual costs of pension benefits
- Place conditions on the use of the discount rate used to measure the projected benefit payments to their actuarial present value
- Require the use of the “entry age” actuarial cost allocation method, with each period’s service cost determined by a level percentage of pay (referred to as attribution method)
- Expand pension related note disclosures
- Expand pension related required supplementary information disclosures

The requirements of this Statement will improve the decision-usefulness of pension information in governmental financial statements and will enhance the comparability of pension information between governmental entities.

Given the significance of the pension fund liability, the financial reporting impact under the new standard will significantly affect the District’s financial statements.

It should be noted that the implementation of GASB Statement No. 68 is strictly a financial reporting standard and does not constitute a state or federal mandate regarding the funding of the net pension obligation.

The District’s required implementation date of GASB Statement No. 68 is fiscal year 2015.

Recommendation

We recommend management continue to familiarize itself with GASB Statement No. 68 to prepare for its implementation.