

THE BOARD OF EDUCATION OF  
SOMERSET COUNTY

AUDIT COMMUNICATIONS

JUNE 30, 2013

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I. COMMUNICATIONS WITH THOSE CHARGED WITH  
GOVERNANCE UNDER SAS NO. 114

October 22, 2013

To the Board of Directors  
The Board of Education of Somerset County

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 Board of Education of Somerset County for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 1, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for selection and use of appropriate accounting policies. The significant accounting policies used by The Board of Education of Somerset County are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Board changed accounting policies related to net position by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in 2013. We noted no transactions entered into by The Board of Education of Somerset County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of depreciation expense is based upon the estimated useful life of the assets. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the "Other Post-Employment Benefit" accrual and annual required contribution which is recorded on the government-wide statements is based on an actuarial study performed by a third party. We evaluated the key factors and assumptions used to develop the accrual/expense in determining that it is reasonable in relationship to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did identify significant adjustments that were needed as a result of our testing of bank reconciliations, liabilities and other accounts. Management has corrected all such misstatements.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 22, 2013.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Board's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

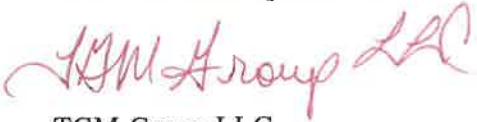
### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as The Board of Education of Somerset County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Other Information in Documents Containing Audited Financial Statements*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves

This information is intended solely for the use of the Board of Directors and management of The Board of Education of Somerset County and is not intended to be and should not be used by anyone other than these specified parties.



TGM Group LLC

## II. COMMENTS AND RECOMMENDATIONS

October 22, 2013

The Board of Education of Somerset County  
Westover, Maryland

In planning and performing our audit of the financial statements of the Board of Education of Somerset County for the year ended June 30, 2013, we considered the Board's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

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 previously reported on the Board's internal control in our report dated October 22, 2013. This letter does not affect our report dated October 22, 2013 on the financial statements of the Board of Education of Somerset County.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Board personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist in implementing the recommendations.

We wish to thank the employees of the Board of Education of Somerset County for the assistance and cooperation provided us during our engagement.

Sincerely,



Salisbury, Maryland



## **CURRENT YEAR COMMENTS**

### **PERFORM A RISK ASSESSMENT**

We noted that the Board had not yet completed a risk assessment of the organization. To address the risk of misappropriation of assets, we again recommend that the Board 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 Board's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Board. Once areas vulnerable to fraud or other risks have been identified, a review of the systems, procedures, and existing controls relating to the identified areas should be conducted. The Board should consider what additional controls need to be implemented to reduce the risk of fraud. When assessing internal control, the relationship between the nature and extent of fraud controls recommended and the cost of implementing those controls should be considered.

### **REVIEW OF SCHOOL ACTIVITY FUNDS**

During our audits, we noted the following regarding school activity accounts:

1. For two schools, bank reconciliations were performed in the middle of the month. Bank reconciliations should be done as of the end of the month and reconciled with the month end reports. Also transactions that have not cleared for more than six months should be followed up on and voided or reissued as necessary.
2. For two schools, the gate receipts were remitted to the bank several days after the event. Due to increased fraud risks related to cash, cash receipts for gate and other collections should always be remitted to the bookkeeper the next school day.
3. For several schools, sales taxes were not remitted on proceeds from fundraisers. Sales taxes should be remitted to the State by the required due date net of appropriate discounts.
4. For one school, there were several invoices selected in our testing that were not approved by the principal noted on the invoices. All invoices should be approved prior to payment.
5. For many of the schools, the opening balances in the fund balance spreadsheet were not updated to reflect the correct balance in the prior year financial statements. Various amounts entered as transfers, revenues, and expenditures in the fund balance spreadsheet also did not agree to Quicken. The fund balance report and the Quicken reports should agree with the year end audited balances.
6. For one school, a credit card account was opened without Board approval. In addition, account balances do not appear to be paid off monthly.

We also encourage finance personnel to continue to monitor schools on a frequent basis. Due to limited segregation of duties at the schools, internal controls should continue to be supplemented by having an independent person review bank statements and fund reports on a monthly basis.

**III. COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES  
IDENTIFIED IN AN AUDIT UNDER SAS NO. 115**

The Board of Education of Somerset County  
Westover, Maryland

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Somerset County as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered The Board of Education of Somerset County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Board of Education of Somerset County's internal control. Accordingly, we do not express an opinion on the effectiveness of The Board of Education of Somerset County'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 material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in The Board of Education of Somerset County's internal control to be material weaknesses:

Finding #1

Bank reconciliations were not prepared throughout the year. Consequently most of the monthly bank reconciliations were prepared after the year end and adjustments were needed to record various transactions that were not posted during the year. Failure to prepare timely bank reconciliations allowed multiple errors with recording transaction to occur and not be identified.

There were delays in monthly accounting procedures as a result of the implementation of the new accounting software as of July 1, 2012. The new system had a new accounting structure and personnel were not initially aware of how to reconcile under the new structure.

Internal controls should be in place that provide for bank reconciliations to be prepared each month and reviewed by an authorized person. Additional training is needed on how to use the bank reconciliation process in the new accounting software. Proper bank reconciliations ensure all transactions are recorded timely and accurately in the accounting records.

The Board agrees with the finding and the recommended procedures have been implemented.

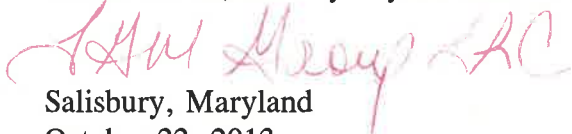
Finding #2

Various payroll and other liability accounts were not analyzed or reconciled throughout the year. Failure to analyze and adjust certain accounts allowed multiple errors with recording transaction to occur and not be identified. Consequently various account balances were incorrect throughout the year and required adjustments at year end.

Internal controls should be in place to ensure that all asset and liability accounts are analyzed each month to ensure all transactions are recorded timely and accurately.

The Board agrees with the finding and the recommended procedures have been implemented.

This communication is intended solely for the information and use of management The Board of Education of Somerset County, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in red ink, appearing to read "A. M. Gray, Jr.", is written over the typed name and date.

Salisbury, Maryland  
October 22, 2013