

THE BOARD OF EDUCATION OF  
SOMERSET COUNTY

AUDIT COMMUNICATIONS

JUNE 30, 2012

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

September 28, 2012

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, 2012. 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. No new accounting policies were adopted and the application of existing policies was not changed during 2012. 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. The actuarial study done July 1, 2010 used investment returns of 6%, which will need to be re-evaluated in the FY 2013 study based on current economic conditions.

### *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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *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 September 28, 2012.

### *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

September 28, 2012

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, 2012, 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 September 28, 2012. This letter does not affect our report dated September 28, 2012 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**

### New Accounting Standards

Several years ago the Auditing Standards Board (ASB) began the Clarity Project to make U.S. Generally Accepted Auditing Standards (GAAS) easier to read, understand, and apply. The mechanism the ASB decided to use for this project was a format based on the International Standards on Auditing (ISAs). While redrafting existing Statements on Auditing Standards (SASs) for clarity, the Clarity Project also converged U.S. GAAS with International audit standards.

As part of the Clarity Project, the ASB planned to issue many of the clarified standards in a single SAS and to codify the standards in AU sections. This resulted in the issuance of SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, in October of 2011. SAS No. 122 is a major milestone in the ASB's Clarity Project as it represents the virtual culmination of the ASB's Clarity Project as it supersedes all outstanding SASs issued through SAS No. 121, with the exception of SAS Nos. 51, 59, 65 and 87. It is effective for audits of financial statements for periods ending on or after December 15, 2012. Early adoption of the requirements of SAS No. 122 is not permitted.

The clarified SAS specifies more clearly the objectives of the auditor and the requirements with which the auditor has to comply when conducting an audit in accordance with GAAS. Most requirements were not substantially changed by the Clarity Project. The clarified standards do include some additional requirements, such as changes in the wording of auditor's reports and more specific procedures to detect illegal acts.

The Clarity Project will have a minimal effect on the 2013 audit of your Organization.

### 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.

## FUND BALANCE

The general fund balance at year end was \$457,050 with \$449,199 programmed into the fiscal year 2013. This leaves \$7,851 available for fiscal year 2014. With such a small fund balance available for future years, any additional fund balance will need to be generated from future expenditure budget savings or excess revenues. We encourage the Board to monitor its budget categories frequently throughout the year to look for possible savings opportunities.

## REVIEW OF SCHOOL ACTIVITY FUNDS

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

1. For one school, bank reconciliations were performed in the middle of the month rather than the last day of the month. Bank reconciliations should be done as of the end of the month and reconciled with the month end reports.
2. For one high school, the gate receipts were remitted to the bank over a week after the event. Due to increased fraud risks related to cash, gate receipts should always be remitted to the bookkeeper the next school day.
3. For one school, sales tax amounts had not been remitted timely.
4. For many of the schools, the opening balances in the fund balance spreadsheet were not updated to reflect the the prior year financial statements ending balances. 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.

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