

**TOWN OF NAHANT, MASSACHUSETTS**

**REPORT ON APPLYING AGREED-UPON PROCEDURES OVER  
INTERNAL CONTROL PROCEDURES RELATED TO THE  
PREPARATION, APPROVAL AND FILING OF THE  
MASSACHUSETTS DEPARTMENT OF ELEMENTARY AND  
SECONDARY EDUCATION END-OF-YEAR PUPIL AND FINANCIAL  
REPORT**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2009, 2010 AND 2011**

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## **Independent Accountants' Report on Applying Agreed-Upon Procedures**

To the Honorable Board of Selectmen and School Committee  
Town of Nahant, Massachusetts

We have performed the procedures enumerated below, which were agreed to by the Town of Nahant, Massachusetts (Town), solely to assist you evaluate the systems of internal controls related to the Town's preparation, approval and filing of the Massachusetts Department of Elementary and Secondary Education (ESE) End-of-Year Pupil and Financial Reports (EOYR) for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011. The Town is responsible for the system of internal controls surrounding its EOYR. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures, findings and recommendations are contained herein:

### **Introduction**

Our procedures were performed on the three EOYR reports filed for the fiscal years ended June 30, 2009, June 30, 2010, and June 30, 2011.

### **Procedures Performed**

We performed the following procedures:

1. We reviewed and documented the internal control procedures over the preparation; approval and filing of the EOYR (please see the documentation of the procedures on pages 2-4).
2. We reviewed the worksheets and schedules used by the School Department for preparing the EOYR.
3. We reviewed the timeliness of the filings of the EOYR for the past 3 fiscal years.
4. We reviewed the number of edits and/or changes made to the EOYR for the past 3 fiscal years.
5. We documented our findings, as well as recommendations for improvements and/or changes to the procedures in order to resolve the findings, in the form of this report to be communicated to the Board of Selectmen and School Committee.

## Internal Control Procedures in Place Related to the Preparation, Approval, and Filing of the EOYR:

- Step 1: The School Department's Administrative Assistant starts to prepare the EOYR in mid-July by logging in to the security portal through the ESE website and downloading the Town of Nahant's EOYR file. The Administrative Assistant prepares the EOYR based on the expenditures recorded in the Town's general ledger. The Administrative Assistant receives a general ledger report from the Town Accountant with the School Department general fund expenditures. However, the Administrative Assistant must first go through all the accounts in the general ledger report and manually add up certain accounts and break out other accounts to be reported on the different lines within the EOYR, since some of the accounts in the general ledger do not correlate exactly with the ESE functions and objects in the EOYR. She does this by hand writing the amounts that need to be broken out for the EOYR on the side of the general ledger report. Once the manual hand written amounts are identified on the general ledger report, the Administrative Assistant populates the general fund expenditures on Schedule 1 of the EOYR as "Expenditures by School Committee."
- Step 2: After the general fund expenditures are populated in the EOYR, the Administrative Assistant enters the municipal expenditures on Schedule 1 of the EOYR as "Expenditures from City or Town" and the special revenue and revolving fund expenditures on Schedule 1 of the EOYR as "Expenditures from Federal Grants, State Grants and Special Funds".
  - The Town Accountant prepares a spreadsheet each year that lists the municipal expenditure categories, such as employee benefits and insurance, and the amount of expenditures that are allocated to the School Department for the year. The Administrative Assistant uses this spreadsheet when populating the EOYR, and the amounts entered come directly from this file.
  - The Town Accountant also prepares a spreadsheet as a crosswalk to the general ledger each year for all the federal grants, state grants, and revolving funds. In order to do this, she exports all the special revenue fund accounts recorded in the general ledger with their balances for the fiscal year into Excel. She then classifies each of the accounts as to where they need to be reported on the EOYR (i.e., Federal ESE Grant, Other State Grant, Other Local Receipts, etc.). After identifying each expenditure type, the Town Accountant sums up all the accounts that make up each category on the EOYR and labels the subtotals so that the Administrative Assistant knows where to report all of the amounts on the EOYR. When entering the expenditure data for the federal grants, state grants, and revolving funds, the Administrative Assistant takes the amounts directly from this Excel spreadsheet.
- Step 3: Many of the revenues reported on the EOYR are populated by the ESE. The other revenues to be reported (i.e., Other State Grants, School Lunch Receipts and Other Local Receipts), however, are entered on the EOYR by the Administrative Assistant based on the Excel spreadsheet prepared by the Town Accountant. The Town Accountant identifies the revenues to be reported in conjunction with the expenditures from the special revenue funds within the same spreadsheet mentioned above. The revenue amounts reported on the EOYR are taken directly from that spreadsheet.
- Step 4: When the Town Accountant prepares the municipal expenditure file with the expenditures paid by the Town that are allocated to the School Department for Schedule 1 of the EOYR, she also includes the subsequent years' budgeted amounts to be reported on Schedule 19 of the EOYR, which are derived from the Town's certified Town Meeting budget vote. As is the case with the Schedule 1 expenditure amounts reported, the Administrative Assistant takes the amounts directly from the Town Accountant's file and records them on Schedule 19 of the EOYR.

- Step 5: Once all of the schedules in the EOYR are completed, the Administrative Assistant submits the EOYR file to the ESE electronically. The EOYR gets uploaded through the security portal on the ESE website after the data has been entered. The EOYR is not reviewed by anyone prior to the Administrative Assistant submitting it to the ESE.

Typically, the Administrative Assistant submits the EOYR in early October. The official deadline for submission is September 30.

The ESE reviews the EOYR submitted and will contact the School Department if there are any questions or problems identified.

- Step 6: Once the EOYR file is submitted to the ESE, the Administrative Assistant prints out the required Certification Statement from the ESE website. This form certifies that the information reported in the EOYR is true and accurate. The Certification Statement needs to be signed by the Superintendent, School Committee Chairperson and the Town Accountant, and then sent to the ESE.
- Step 7: The Administrative Assistant obtains the signatures of the Superintendent of Schools and the School Committee Chairperson on the Certification Statement. The Superintendent of Schools and the School Committee Chairperson do not review the EOYR prior to signing the Certification Statement.
- Step 8: The Administrative Assistant forwards the Certification Statement to the Town Accountant to sign. Prior to signing off on the Certification Statement, the Town Accountant requests a copy of the EOYR file that was submitted to the ESE, to review for accuracy. As part of her review process, the Town Accountant checks the data reported on the EOYR against the general ledger report and the special revenue files she prepared as crosswalks to the general ledger. If any discrepancies or questions are raised during her review, she brings them to the attention of the Administrative Assistant and helps her determine what corrections need to be made to the EOYR through amendments. The Town Accountant will not sign the Certification Statement until she is satisfied that the EOYR is correct.
- Step 9: The errors that are discovered by the Town Accountant during her review are corrected by the Administrative Assistant through amendments. In order to do these, the Administrative Assistant downloads the Amendment forms online at the ESE security portal, and then she enters the original amount reported and the corrected amount that should be reported. After entering the revisions to be made, the Administrative Assistant clicks "submit" and the requested amendments are uploaded to the ESE. Approximately once a week, the ESE posts the amendments that have been uploaded online to the EOYR file. The revised EOYR file is located in Nahant's "Outbox" on the ESE security portal.
- Step 10: After the amendments are filed, the Town Accountant reviews the revised report to make sure they are prepared correctly. If they are not, the Town Accountant discusses the new amendments that need to be made, and then re-reviews the EOYR after those are done. Only when the Town Accountant agrees that the information in the amended EOYR is accurate and materially correct, will she sign the Certification Statement to finally complete the EOYR process.
- Step 11: The School Department contracts with our firm to conduct an agreed-upon procedures engagement over compliance applicable to the EOYR, usually sometime in March, depending upon when all of the final amendments have been made.

- Step 12: At the conclusion of our compliance testing procedures, our firm communicates any findings of noncompliance to the Board of Selectmen and School Committee in the Report on Applying Agreed-Upon Procedures over Compliance Applicable to Massachusetts School Districts' End-of-Year Pupil and Financial Report.
- Step 13: After receiving the Report on Applying Agreed-Upon Procedures over Compliance Applicable to Massachusetts School Districts' End-of-Year Pupil and Financial Report, the School Department will file additional amendments with the ESE to correct the findings.

## **Findings and Recommendations**

The following represents our findings and recommendations based on the aforementioned procedures:

### Finding #1

As previously indicated in Step 1, the Administrative Assistant adjusts and reclassifies accounts and amounts in the general ledger manually to determine the individual amounts to be reported for the ESE functions on the EOYR. For example, one of the accounts gets broken out between the professional and clerical salaries lines within the Superintendent (1210) and Business and Finance (1410) functions on the ESE. Manually writing the amounts on the general ledger is inefficient and unreliable and could easily lead to data entry errors on the EOYR. Additionally, the manual adjustments and reclassifications are not well documented and require manual calculations.

### Recommendation #1

We recommend that the Administrative Assistant export the general ledger report with the School Department general fund expenditures into an excel spreadsheet as well as printing a copy of the ledger. Instead of writing the EOYR line numbers and amounts on the ledger report, the Administrative Assistant should add columns to the Excel file indicating the line numbers on the EOYR as well as any necessary account allocations made for the different ESE functions. Adjustments and reclassifications should be made on the Excel worksheet with references to the underlining calculations and workpapers.

Additionally, we recommend that the School Department work with the Town Accountant to create new accounts in the general ledger that will correlate with the ESE functions so that the salaries and expenditures may be charged directly to the appropriate accounts during the year. This will eliminate the need to go back and break out the expenditure allocations and will allow the Administrative Assistant to take the expenditure amounts directly from the general ledger.

### Finding #2

As indicated in Step 2, the Town Accountant prepares a special revenue funds worksheet in Excel for the federal grants, state grants, and revolving funds activity. While this worksheet is a good starting point for the Administrative Assistant when completing the "Expenditures from Federal Grants, State Grants and Special Funds" section of the EOYR, the Administrative Assistant needs to make adjustments to the Excel worksheet to report expenditures in accordance with ESE reporting requirements. The worksheet captures all the activity in the special revenue funds for the fiscal year. However, the federal grants must be reported on the EOYR based on the grant period (i.e., September 1, 2010 through August 31, 2011), not just the fiscal year. The purpose of this requirement is to have the federal grant activity reported on the

EOYR match the total revenue and expenditure amounts reported on the Final Financial Reports (FR-1) submitted to the ESE at the end of each grant period.

#### Recommendation #2

In order to facilitate the reporting of the federal grants in accordance with the ESE requirements, we recommend that the Administrative Assistant add columns to the right side of the special revenue worksheet for the grant activity related to the prior year grants in the current fiscal year when the report is being generated (i.e., fiscal year 2011 grant activity recorded in fiscal year 2012), so that the spreadsheet captures all the activity for the grant period, not just the fiscal year. Additionally, we recommend formulas be added to the worksheet to add the current year's grant activity in the subsequent fiscal year to the current year's activity, and then subtract the activity recorded in the current fiscal year for the prior year's grant. The subtotals from these formulas are the amounts that should then be reported on the EOYR. In order to easily track the grant activity and report the grants based on the grant period on the EOYR, the Town/School should create new accounts in the general ledger to account for each grant year separately (i.e., 2011 Title I Grant, 2012 Title I Grant, etc.) within the special revenue fund (Fund 10).

#### Finding #3

Included in the special revenue worksheet are references as to where the different special revenue accounts should be reported on the EOYR. In reviewing these references, we noted that some of the accounts were categorized incorrectly on the worksheet, which ultimately led to them being reported in the wrong categories on the EOYR. For example, in 2011, the Early Childhood Grant was categorized and reported as "Other State Grants" when it should have been reported as "Other Federal Grants" on the EOYR, and the Education Jobs Grant was included in the "Federal ESE Grants" on the EOYR when it should have been added with the ARRA SFSF Grant. We explained these issues to the Administrative Assistant and reported them as findings in our Report on Agreed-Upon Procedures over Compliance Applicable to Massachusetts School Districts' End-of-Year Pupil and Financial Report for the fiscal year ended June 30, 2011.

#### Recommendation #3

We recommend the School Department carefully review the groupings of its federal and state grants and other special revenue funds on the Excel worksheet to ensure they are grouped in accordance with the requirements of the EOYR. In addition we recommend that the general ledger account number and name include an EOYR Program reference to help ensure that the special revenue funds are recorded in the proper program grouping on the EOYR.

#### Finding #4

The Administrative Assistant submits the EOYR file to the ESE electronically. However, as indicated in Step 5, there are no review procedures in place with regard to the EOYR prior to it being submitted to the ESE. This is a weakness in internal controls.

In fiscal year 2011, the EOYR was submitted with the same expenditures reported on both Schedule 3 and Schedule 1, which in turn doubled those expenditures and caused the net school spending to be overstated by approximately \$800,000. The error was not detected until the ESE questioned the School Department as to why the net school spending was so high.

The School Department's rationale is that it is not necessary to review the EOYR prior to the initial filing; because the EOYR can always be amended after it is submitted. However, this has proven to be a time consuming activity and the majority of amendments filed result from the Town Accountant discovering errors on both the original filing and amended filings.

For the 2009 EOYR, the School Department filed a total 33 amendments dated January 20, 2010, March 15, 2010 and March 16, 2010. For the 2010 EOYR, the School Department filed a total of 18 amendments dated November 3, 2010 and December 20, 2010. For the 2011 EOYR, the School Department filed a total of 55 amendments dated January 18, 2012, March 13, 2012, March 14, 2012 and March 20, 2012.

#### Recommendation #4

We recommend that internal control procedures be implemented to ensure that the EOYR is reviewed by the Superintendent prior to submitting the EOYR report to the ESE and prior to sending it to the Town Accountant for review. We recommend the EOYR report be reviewed by all parties that will ultimately be required to sign the Certification Statement prior to submission of the EOYR.

#### Finding #5

As mentioned in Steps 6, 7 and 8, the School Department is required to submit a signed Certification Statement with the EOYR. This form has not been submitted by the School Department for fiscal years 2009 and 2010 primarily because the Town Accountant does not agree with all the information reported on the EOYR.

#### Recommendation #5

We recommend procedures be implemented to ensure that the required Certification Statements are submitted to the ESE with the EOYR files each year. If the School Department implements procedures to review the EOYR prior to submission (as recommended for Finding #4), the Certification Statement can be filed in a timely manner.

#### Finding #6

As previously indicated in Step 8, the Town Accountant reviews the EOYR after it has been submitted, and compares the data reported to the Town's general ledger report and the worksheets prepared as crosswalks. The majority of the amendments filed after the original submission of the EOYR for the last 3 fiscal years have been a result of her reviews. Many of the errors are due to the Administrative Assistant not understanding the EOYR reporting requirements and human errors.

#### Recommendation #6

We recommend that the School Department ensure that the person preparing the EOYR report have the knowledge, technical ability and time to prepare the EOYR.

#### Finding #7

The School Department is required to have an attestation engagement conducted each year on the EOYR based on the compliance requirements and objectives contained in the Compliance Supplement for Massachusetts School Districts and to submit a copy of the report on agreed-upon procedures to the ESE.

As indicated in Step 11, the School Department contracts with our firm each year to perform the agreed-upon procedures engagement over the compliance applicable to the EOYR, sometime in March after the amendments have been filed. This is too late because the reports on agreed-upon procedures are due to the ESE by March 31<sup>st</sup>. As a result, the School Department had to file for a 30-day extension from the ESE for the fiscal year 2011 EOYR. The fiscal year 2010 EOYR report on agreed-upon procedures was never submitted to the ESE because the Town Accountant did not agree with some of the information reported on the EOYR and would not sign the Management Representation Letter.

#### Recommendation #7

We recommend that the School Department schedule the EOYR attestation engagement earlier than March so that extension requests will not need to be filed with the ESE in the future. Additionally, if the review procedures recommended for the previous findings are implemented, the Town Accountant and School Department will be able to reconcile the EOYR with the accounting records and the Town Accountant will be able to sign the Management Representation Letter. Our firm will then be able to issue the final reports on agreed-upon procedures by the March 31<sup>st</sup> deadline in the future.

#### Finding #8

As indicated previously in Step 13, the School has the ability to file amendments with the ESE to correct any findings identified in our agreed-upon procedures report. The Administrative Assistant filed amendments for 7 of the 14 findings included in our fiscal year 2011 report. However, 3 of the 7 amendments were actually filed incorrectly. The following errors were made when filing the amendments:

- The amendment filed to correct the \$2,353 understatement of the "SFSF and Education Jobs Federal Grants" expenditures reported on Schedule 1 of the EOYR was made to the supplies and materials line item but should have been made to the salaries line item instead.
- The amendment filed to correct the \$10,402 overstatement of the "Other ESE Administered Federal Grants" expenditures reported on Schedule 1 of the EOYR only reduced the amount by \$6,904. The remaining \$3,498, which represented the MTRS payments withheld by the ESE, was incorrectly taken out of the "Employer Retirement Contributions" line item.
  - The \$3,498 was subsequently re-amended and put back in the "Employer Retirement Contributions" line item after the Town Accountant discovered that the MTRS payments were missing from the amended EOYR file. However, that remaining \$3,498 was never amended from the appropriate line item, and the "Other ESE Administered Federal Grants" expenditures are still overstated by \$3,498.
- The amendment filed to correct the \$4,530 understatement of the "Other Federal Grants" expenditures reported on Schedule 1 of the EOYR was made to the supplies and materials line item, but \$1,106 related to the Early Childhood ARRA Grant should have been made to the contracted services line item instead.

#### Recommendation #8

We recommend that internal controls be implemented to ensure that any amendments filed by the Administrative Assistant are reviewed and approved by the Superintendent for accuracy and appropriateness prior to submission to the ESE.

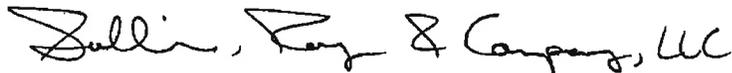
## Conclusion

In conclusion, the School Department's current system of internal control related to the preparation, approval and filing of the EOYR is not efficient or effective. For the past 3 fiscal years the School Department has filed the EOYR with significant errors and with an excessive amount of amendments. As a result, the Town Accountant has had to take on the responsibility of gathering much of the required documentation for the EOYR and for reviewing the EOYR after it has already been submitted to the ESE. It is unusual for a Town Accountant to have to be so involved with the preparation and review of EOYR.

The Town of Nahant and its School Department should revise its current system of internal controls related to the preparation, approval and filing of the EOYR based on our findings and recommendations in this report.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the system of internal controls related to the Town's preparation, approval and filing of the ESE EOYR. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Town and School Department and is not intended to be and should not be used by anyone other than those specified parties.



August 1, 2012