

THE BOARD OF EDUCATION OF
DORCHESTER COUNTY

AUDIT COMMUNICATIONS

June 30, 2020

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I. COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Craig A. Walter
Mark A. Welsh



September 28, 2020

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of The Board of Education of Dorchester County for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, 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 April 30, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Board of Education of Dorchester County are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by The Board of Education of Dorchester 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 lives of capital assets. We evaluated the key factors and assumptions used to develop

the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability is based upon an actuarial study performed by a third party. We evaluated the key factors and assumptions used to develop the pension liability and pension expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net OPEB liability is based on an actuarial study performed by a third party. We evaluated the key factors and assumptions used to develop the net OPEB liability and annual OPEB expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of pension plans in Note 7 to the financial statements describes the Board's pension plans, pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources related to pensions as well as the significant assumptions used in the actuarial valuation.

The disclosure of post-employment health care benefits in Note 9 to the financial statements describes the Board's defined benefit healthcare plan, net OPEB liability, OPEB expense, deferred outflows of resources, and deferred inflows of resources related to other post-employment benefits as well as the significant assumptions used in the actuarial valuation.

The financial statement disclosures are neutral, consistent, and clear.

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. The attached schedule summarizes the adjusting journal entries recorded as part of our audit procedures.

Disagreements with Management

For purposes of this letter, a disagreement with management is 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, 2020.

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 Dorchester 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 Matters

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison schedule, schedule of proportionate share of net pension liability, schedule of board contributions – pension plan, and schedule of total OPEB liability and related ratios; which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the additional supplementary information, which accompanies the financial statements but are not RSI. With respect to this supplementary information, 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.

Restriction on Use

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

Very truly yours,

A handwritten signature in black ink that reads "TGM Group LLC". The signature is written in a cursive, stylized font.

TGM Group LLC

II. ON THE HORIZON

Recently Issued GASB Pronouncements

The following recently issued governmental accounting standards may have a material impact on the Board's financial statements in the near future. We would be happy to further discuss these items with members of the Board and management at their convenience.

Governmental Accounting Standards Board Statement No. 84, Fiduciary Activities

In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, *Fiduciary Activities*. The requirements for this statement are effective for reporting periods beginning after December 15, 2019. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement establishes criteria for identifying fiduciary activities. The focus of the criteria generally is on (1) whether a governmental entity is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a controlling fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity that meets the criteria should be reported in a fiduciary fund in the basic financial statements.

Governmental Accounting Standards Board Statement No. 87, Leases

In June 2017, GASB issued Statement No. 87, *Leases*. The requirements for this statement are effective for reporting periods beginning after June 15, 2021. The objective of this Statement is to improve financial reporting for leases. This Statement increases the usefulness of governmental entity financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governmental entity leasing activities.

For lessees, the liability will be reduced as payments are made and the asset will be amortized over the shorter of the lease term or the useful life of the underlying asset. The notes to the financial statements for lessees will need to include a description of the leasing arrangements, the amount of the lease assets recognized, and a schedule of future lease payments. For lessors, the lease receivable will be reduced and an inflow of resources (revenue) from the deferred inflow of resources recognized in a systematic and rational manner over the term of the lease. The notes to the financial statements for lessors should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

At the beginning of the period of implementation, leases should be recognized and measured using the facts and circumstances that exist at that time. Short-term leases with contracts of 12 months or less, including options to extend, are excluded.

III. SCHEDULE OF ADJUSTING JOURNAL ENTRIES

Client: **Dorchester County Board Of Education**
Engagement: **Dorchester County Board of Education**
Period Ending: **6/30/2020**
Workpaper:

Account	Description	Debit	Credit
<u>GENERAL FUND</u>			
Adjusting Journal Entries JE # 1			
To record PY Encumbrances as CY expenditures. CLIENT DO NOT			
102-200	CONTRACTED SERVICES	64,450.00	
E3040000	FREE FUND BALANCE		64,450.00
Total		<u>64,450.00</u>	<u>64,450.00</u>
Adjusting Journal Entries JE #2			
To record on-behalf retirement contribution. CLIENT DO NOT POS			
112-500	Other Charges	3,872,850.00	
497212	On-behalf payments		3,872,850.00
Total		<u>3,872,850.00</u>	<u>3,872,850.00</u>
Adjusting Journal Entries JE # 3			
To reverse CY encumbrances. CLIENT DO NOT POST			
E3040000	FREE FUND BALANCE	841,114.03	
101-300	SUPPLIES AND MATERI		2,531.64
102-300	SUPPLIES AND MATERI		3,270.00
104-300	SUPPLIES AND MATERI		307,235.00
105-200	CONTRACTED SERVICES		382,899.39
107-300	SUPPLIES AND MATERI		4,302.00
109-100	SALARIES AND WAGES		97,365.00
110-200	CONTRACTED SERVICES		2,115.00
111-200	CONTRACTED SERVICES		41,396.00
Total		<u>841,114.03</u>	<u>841,114.03</u>
<u>SCHOOL CONSTRUCTION FUNE</u>			
Adjusting Journal Entries JE # 4			
To record State on-behalf payments			
321568000000059E	STATE CAPITAL EXPENSES	2,628,628.00	
R4101001	STATE SHARE CURRENT EXP		2,628,628.00
Total		<u>2,628,628.00</u>	<u>2,628,628.00</u>
Adjusting Journal Entries JE # 5			
To record County A/R			
A1350000	CAPITAL IMPROVE-COUNTY	574,406.25	
R4011002	CAPITAL APPROP		574,406.25
Total		<u>574,406.25</u>	<u>574,406.25</u>
Adjusting Journal Entries JE # 6			
To set up A/R from State			
A1370000	CAPITAL IMPROVEMENT-STATE	285,308.00	
R4101001	STATE SHARE CURRENT EXP		285,308.00
Total		<u>285,308.00</u>	<u>285,308.00</u>

Client: **Dorchester County Board Of Education**
 Engagement: **Dorchester County Board of Education**
 Period Ending: **6/30/2020**
 Workpaper:

Account	Description	Debit	Credit
<u>FOOD SERVICE FUND</u>			
Adjusting Journal Entries JE # 7			
To record donated commodities:			
83099-560396	Cafeteria Commodities	220,813.33	
00500-497599	donated commodities		220,813.33
Total		<u>220,813.33</u>	<u>220,813.33</u>
Adjusting Journal Entries JE # 1			
To adjust purchased inventory to actual			
A1701001	PURCHASED FOOD	6,993.83	
A1701002	CAFET SUPPLIES	5,031.30	
00500-560327	CAFETERIA FOOD		6,993.83
521360000000032€	CAFETERIA FOOD REL. SUPPL		5,031.30
Total		<u>12,025.13</u>	<u>12,025.13</u>
Adjusting Journal Entries JE # 9			
To record depreciation expense			
521360000000059C	DEPRECIATION	3,120.00	
A1751002	ACCUM DEPRECIATION		3,120.00
Total		<u>3,120.00</u>	<u>3,120.00</u>
Adjusting Journal Entries JE # 10			
To record student pre-paid account balances			
R4601002	A LA CARTE - LUNCH	2,167.91	
L2360000	DEFERRED REVENUE - STUDEN		2,167.91
Total		<u>2,167.91</u>	<u>2,167.91</u>
Adjusting Journal Entries JE # 11			
To adjust cash balances to actual			
A1011004	FOOD SERV-CASH SALES	13,424.90	
R4952CES	CASH OVER/SHORT - CES	165.63	
R4952CSD	CASH OVER/SHORT - CSD		3,245.78
R4952HES	CASH OVER/SHORT - HES		1,515.22
R4952MES	CASH OVER/SHORT - MES		40.13
R4952MLM	CASH OVER/SHORT - MLM		468.69
R4952NDH	CASH OVER/SHORT - NDH		3,364.70
R4952NDM	CASH OVER/SHORT - NDM		801.06
R4952SDS	CASH OVER/SHORT - SDS		2,314.38
R4952SHE	CASH OVER/SHORT - SHE		19.56
R4952VES	CASH OVER/SHORT - VES		43.05
R4952WES	CASH OVER/SHORT - WES		1,777.96
Total		<u>13,590.53</u>	<u>13,590.53</u>
Adjusting Journal Entries JE # 12			
To adjust opening balance - FY18 AJE #9 not posted by client			
A1751001	FURNITURE & EQUIP	34,272.00	
E3040000	FREE FUND BALANCE		34,272.00
Total		<u>34,272.00</u>	<u>34,272.00</u>

Client: *Dorchester County Board Of Education*
Engagement: *Dorchester County Board of Education*
Period Ending: *6/30/2020*
Workpaper:

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 13			
To reclass prior year summer food receivable			
A1260000	STATE FUNDS - CAFET	8,162.97	
A1211000	FED FUNDS FROM STATE-CAFE		8,162.97
Total		<u>8,162.97</u>	<u>8,162.97</u>
Adjusting Journal Entries JE # 14			
To adjust donated commodities			
A1701003	DONATED FOOD	5,643.54	
5213600000000396	CAFETERIA COMMODITIES		5,643.54
Total		<u>5,643.54</u>	<u>5,643.54</u>
Adjusting Journal Entries JE # 15			
To record unearned revenue for unused commodities.			
5213600000000396	CAFETERIA COMMODITIES	10,274.52	
L2350000	DEFERRED REV-DONATED COMM		10,274.52
Total		<u>10,274.52</u>	<u>10,274.52</u>

IV. COMMENTS AND RECOMMENDATIONS

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Craig A. Walter
Mark A. Welsh



September 28, 2020

The Board of Education of Dorchester County
Cambridge, Maryland

In planning and performing our audit of the financial statements of the Board of Education of Dorchester County for the year ended June 30, 2020, 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, 2020. This letter does not affect our report dated September 28, 2020 on the financial statements of the Board of Education of Dorchester 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 Dorchester County for the assistance and cooperation provided us during our engagement.

Sincerely,

A handwritten signature in black ink that reads "TGM Group LLC". The signature is written in a cursive, stylized font.

Salisbury, Maryland

CURRENT YEAR COMMENTS

Review of School Activity Funds

The Board has designated accounting personnel to monitor financial activity at each individual school. 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 each month. We continue to encourage the Board to monitor and review the financial activity at the schools as frequently as possible.

Cash Receipts

TGM noted for a few schools, the Internal Deposit Form/Inter-Office Deposit Form was not being used at all or not being completed properly. According to the Board's school accounting manual, a list of funds collected must be completed by all staff collecting funds. The list should include how much was collected, who the funds were collected from, when the funds were collected, why the funds were collected, and if the funds were cash or check. Also, we noted some cases that the deposit was missing proper supporting documentation (i.e., copies of receipts or checks, if applicable). Schools should ensure that all deposits have adequate support. In addition, we noted that some Internal Deposit Form/Inter-Office Deposit Forms were not completed by the appropriate staff. We recommend the form be signed by the staff completing the form as well as the bookkeeper once it has been reviewed prior to depositing the funds. We also recommend the form include a column with the individual check dates as well to ensure timely depositing of funds.

Cash Disbursements

During our sample cash disbursement testing, we noted the invoice or supporting documentation was missing in some cases. This included a completed Schedule C/Check Voucher or receipt/invoice from the payee. TGM also noted a few instances where there was not proper approval for the disbursement.

Schools should ensure all checks written have adequate support as well as proper approval/actual signature from the principal and the appropriate signatures on the check.