

**The Board of Education of
Dorchester County**

AUDIT COMMUNICATIONS

For the year ended June 30, 2022

The Board of Education of Dorchester County

TABLE OF CONTENTS

	Page
Communication with Those Charged with Governance	1 – 3
On the Horizon	4
Schedule of Adjusting Journal Entries	5 – 6
Comments and Recommendations	7 – 8

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

September 27, 2022

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, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *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 May 10, 2022. 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. Effective July 1, 2021, the Board adopted new accounting guidance from the Government Accounting Standard Board (GASB) Statement No. 87, Leases. Accordingly, as discussed in Note 13, the cumulative effect of the accounting change is reported as a restatement of beginning of the year net position. 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 clearly 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 27, 2022.

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 information and 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 dark ink that reads "UHY LLP". The letters are stylized and cursive.

UHY LLP

ON THE HORIZON

Implementation of New Accounting Principles

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. 96, Subscription-Based Information Technology Arrangements

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The requirements for this statement are effective for reporting periods beginning after June 15, 2022. As the use of cloud-based data management, storage and computing have grown, more organizations are using subscription-based and time-bound information technology contracts. These contracts have traits similar to traditional leases. The objective of GASB Statement No. 96 is to improve financial reporting for subscription-based information technology arrangements (SBITA) by requiring recognition of certain assets and liabilities for subscription-based information technology arrangements. It defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding liability, provides for capitalization criteria for related outlays other than subscription payments, and requires additional note disclosures thereby enhancing the relevancy and consistency of information about governmental entity subscription-based information technology arrangements.

A SBITA is defined as a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets (the underlying information technology assets) for a period of time in an exchange or exchange-like transaction.

The related SBITA liability will be reduced as payments are made and the SBITA asset will be amortized over the subscription term. The notes to the financial statements will need to include among other things a description of the arrangements, the amount of the SBITA assets recognized, and a schedule of future payments.

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

SCHEDULE OF ADJUSTING JOURNAL ENTRIES

Client: **Dorchester County Board of Education**
 Engagement: **Dorchester County Board of Education**
 Period Ending: **6/30/2022**
 Workpaper: **AJE Report FY22 (excluding PBC entries)**

Account	Description	Debit	Credit
GENERAL FUND			
Adjusting Journal Entries JE # 1			
To record PY Encumbrances as CY expenditures. CLIENT DO NOT POST.			
102-200	CONTRACTED SERVICES	6,000.00	
102-300	SUPPLIES AND MATERI	14,687.92	
104-300	SUPPLIES AND MATERI	12,347.38	
104-300	SUPPLIES AND MATERI	65,415.00	
105-400	OTHER CHARGES	8,459.65	
110-200	CONTRACTED SERVICES	24,484.72	
110-300	SUPPLIES AND MATERI	1,400.00	
111-200	CONTRACTED SERVICES	44,640.00	
111-300	SUPPLIES AND MATERI	4,773.53	
E3040000	FREE FUND BALANCE		182,208.20
Total		<u>182,208.20</u>	<u>182,208.20</u>
Adjusting Journal Entries JE # 2			
To record on-behalf retirement contribution. CLIENT DO NOT POST			
112-500	Other Charges	3,868,502.00	
497212	On-behalf payments		3,868,502.00
Total		<u>3,868,502.00</u>	<u>3,868,502.00</u>
Adjusting Journal Entries JE # 3			
To reverse CY encumbrances. CLIENT DO NOT POST			
E3040000	FREE FUND BALANCE	11,082.52	
102-200	CONTRACTED SERVICES		6,000.00
111-200	CONTRACTED SERVICES		5,082.52
Total		<u>11,082.52</u>	<u>11,082.52</u>
Adjusting Journal Entries JE # 4			
Reclass amount from 9658 to 9668 - appeared to be posted to 9658 by mistake when prepaing SEFA.			
R4219658	RURAL	3,337.15	
R4219668	TITLE 5 - INNOVATIVE EDUC		3,337.15
Total		<u>3,337.15</u>	<u>3,337.15</u>
SCHOOL CONSTRUCTION FUND			
Adjusting Journal Entries JE # 1			
To record State on-behalf payments			
3215680000000595	STATE CAPITAL EXPENSES	1,685,216.54	
R4101001	STATE SHARE CURRENT EXP		1,685,216.54
Total		<u>1,685,216.54</u>	<u>1,685,216.54</u>
Adjusting Journal Entries JE # 2			
To set up County A/R			
A1350000	CAPITAL IMPROVE-COUNTY	50,545.78	
R4011002	CAPITAL APPROP		50,545.78
Total		<u>50,545.78</u>	<u>50,545.78</u>
Adjusting Journal Entries JE # 3			
To set up State A/R			
A1370000	CAPITAL IMPROVEMENT-STATE	86,508.00	
R4101001	STATE SHARE CURRENT EXP		86,508.00
Total		<u>86,508.00</u>	<u>86,508.00</u>

Client: **Dorchester County Board of Education**
 Engagement: **Dorchester County Board of Education**
 Period Ending: **6/30/2022**
 Workpaper: **AJE Report FY22 (excluding PBC entries)**

Account	Description	Debit	Credit
FOOD SERVICE FUND			
Adjusting Journal Entries JE # 1			
To record donated commodities			
83099-560396	Cafeteria Commodities	322,794.92	
00500-497599	donated commodities		322,794.92
Total		<u>322,794.92</u>	<u>322,794.92</u>
Adjusting Journal Entries JE # 2			
To adjust purchased inventory to actual			
A1701001	PURCHASED FOOD	3,321.47	
A1701002	CAFET SUPPLIES	2,190.63	
00500-560327	CAFETERIA FOOD		3,321.47
5213600000000326	CAFETERIA FOOD REL. SUPPL		2,190.63
Total		<u>5,512.10</u>	<u>5,512.10</u>
Adjusting Journal Entries JE # 3			
To record depreciation expense			
5213600000000590	DEPRECIATION	10,002.65	
A1751002	ACCUM DEPRECIATION		10,002.65
Total		<u>10,002.65</u>	<u>10,002.65</u>
Adjusting Journal Entries JE # 4			
To record student pre-paid account balances			
L2360000	DEFERRED REVENUE - STUDEN	1,705.61	
R4601002	A LA CARTE - LUNCH		1,705.61
Total		<u>1,705.61</u>	<u>1,705.61</u>
Adjusting Journal Entries JE # 5			
To adjust cash balances to actual			
A1011004	FOOD SERV-CASH SALES	15,932.44	
R4952CES	CASH OVER/SHORT - CES	3.40	
R4952SHE	CASH OVER/SHORT - SHE	180.12	
R4952VES	CASH OVER/SHORT - VES	63.70	
R4952CSD	CASH OVER/SHORT - CSD		2,601.14
R4952HES	CASH OVER/SHORT - HES		1,028.07
R4952MES	CASH OVER/SHORT - MES		191.46
R4952MLM	CASH OVER/SHORT - MLM		882.08
R4952NDH	CASH OVER/SHORT - NDH		1,943.28
R4952NDM	CASH OVER/SHORT - NDM		4,995.67
R4952SDS	CASH OVER/SHORT - SDS		2,977.05
R4952WES	CASH OVER/SHORT - WES		1,560.91
Total		<u>16,179.66</u>	<u>16,179.66</u>
Adjusting Journal Entries JE # 6			
To adjust donated commodities to actual			
5213600000000396	CAFETERIA COMMODITIES	6,024.93	
A1701003	DONATED FOOD		6,024.93
Total		<u>6,024.93</u>	<u>6,024.93</u>
Adjusting Journal Entries JE # 7			
To move vehicle and walk-in freezer from expense to fixed asset			
A1751000	VEHICLES	28,343.94	
A1751001	FURNITURE & EQUIP	58,172.00	
5213600000000325	CAFETERIA REPAIR PARTS		28,343.94
521360WES0000515	REPLACE EQUIP-FOOD SERVIC		58,172.00
Total		<u>86,515.94</u>	<u>86,515.94</u>

COMMENTS AND RECOMMENDATIONS

September 27, 2022

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 as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Board's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and 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 communicated to you about the Board's internal control in our letter dated September 27, 2022. This letter does not affect our report dated September 27, 2022 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 many of these comments and suggestions with various 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 you in implementing the recommendations.

This information is intended solely for the information and use of the Board 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.

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 dark ink that reads "UHY LLP". The letters are stylized and cursive, with the "U" and "H" being particularly prominent.

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

UHY 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 where the Internal Deposit Form was dated several weeks prior to when the actual deposit was made to the bank.

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 that deposits be made daily but if that is not possible then deposits should occur on a weekly basis.

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. UHY also noted one instance where sales tax was paid/reimbursed. UHY also noted one instance where the account charged did not appear reasonable.

Schools should ensure all checks written have adequate support. The Board is exempt from paying sales tax, therefore, sales tax should not be paid on purchases or reimbursed to employees who paid sales tax on purchases. School bookkeepers should ensure appropriate accounts are being charged when writing checks.