

Minutes of Longmeadow Audit Committee
Meeting of January 4, 2007
Accepted January 23, 2007

Members present: Paul Adornato (Chair), Peter Landon, Ernest Welker, Larry Eagan (at 4:07 p.m.), Glenn Rosenberg (at 4:25 p.m.)

Invited Guests: Paul Pasterczyk, Town Finance Director; Thomas Scanlon and Greg Winters of Thomas J. Scanlon & Associates, Longmeadow's independent auditor.

Chairman Adornato called the meeting to order at 3:35 p.m.

The Secretary reported that with the holidays and business demands he failed to compose the minutes of the December 20, 2006 and offered apologies.

Mr. Adornato welcomed and thanked the guests for attending. He referred to an earlier telephone conversation with Mr. Scanlon about the AC's desire to meet with him to get a report on the audit plan and its status for the FY2006 (12 months ended June 30, 2006) audit, to further discuss internal controls, to discuss the degree to which his work covers the School Department and touches on matters raised in the Abrahams Group's September 2004 report on the Longmeadow Public Schools, and to discuss other matters of interest.

The Chair invited Mr. Scanlon to begin the discussion with a presentation of the audit plan for FY2006. Both Scanlon & Associate representatives contributed to the discussion on this topic. They said that they audit the "entire revenue cycle" for each department and then for the town overall. During this process they look into how things are done, not just the numbers. They described their practice of selecting each year a few departments for more-detailed examination, rotating among the departments from year to year (but not on a fixed schedule). For this audit, the departments selected include: Town Clerk, Building, Police, Fire, Recycling (under Town Clerk) and the DPW office, plus the Recreation Day Care operation (because it takes in some \$300,000 of revenue). They also talked about some of their procedures to test for both accuracy in reporting and possible weaknesses in department and town procedures, but Mr. Scanlon specifically mentioned that a standard audit includes only tests for material weaknesses, not for fraud and not for all possible internal-control risks.

They estimated their on-premises work would be done around the middle of January and a complete draft audit report, including a draft Management Letter (ML) for discussion, by the middle of February. Mr. Scanlon noted that the practice is to give town management an opportunity to suggest revisions to any concerns or recommendations raised in the draft ML. The auditor then makes a judgment on the basis of the arguments and evidence raised by management to revise parts of the ML or not. He said the financials are not subject to change. Mr. Adornato asked Mr. Scanlon to provide the AC with the draft documents at the same time they would be presented to management, and he said he would do so. The estimated time for delivery of the final audit report was given as mid-March.

Mr. Landon remarked that the new contract for independent auditor services (for the three FYs '07-'09) calls for delivery of the final audit report by the end of the calendar year in which the audited FY ends. Mr. Scanlon lightly responded by reminding the AC that the December delivery date is conditional on the town meeting contracted dates for delivering to the auditor the required financial data. At that point, Mr. Pasterczyk said he expected the town would meet the contracted due dates.

There was brief discussion about making the auditor's report more accessible to citizens, perhaps by putting it on the town's website. Mr. Scanlon opined that the entire report probably would be too long to put on the website but the financial portion is not too long.

The Chair sought assurance from Mr. Scanlon that this year's ML would include recommendations made in earlier MLs that have not been satisfactorily dealt with, including those related to the School Department. Mr. Scanlon gave that assurance. The Chair asked if that included matters in the Abrahams Group's report. Mr. Scanlon nodded yes.

Mr. Rosenberg asked if the audit includes grants. Scanlon representatives discussed the degree to which their audit work covers grants. Summarizing: it includes Federal grants (mostly school related, but this year including a FEMA grant of more than \$265,000) for compliance with purposes stated in the grant documents, but it does not include searches for fraud and does not include grants from the state.

Regarding discussion about the heightened interest in internal controls: Mr. Scanlon made reference to the AICPA's Statement on Auditing Standards (SAS) 112, "Communicating Internal Control Related Matters Identified in an Audit," issued May 2006. He commented that SAS 112 requires auditors to bring discussion of weaknesses in internal controls into the financials section of the audit from the ML section, where it more clearly implies that the quality of an entity's internal controls has implications for the quality of its financial condition and, if seriously weak, could require the auditor to issue an adverse opinion on the entity's financial condition. He also commented that SAS 112 specifies to a greater degree what control deficiencies are considered significant and/or material and thus leaves auditors less room for personal judgment as to whether evidence and arguments presented by management in defense of its internal controls is acceptable or not. Mr. Scanlon said it was important for town's to get improved internal controls in place before audits under SAS 112 are required, which is audits of FY 2009 financials.

Mr. Welker reminded Mr. Scanlon of an exchange during the AC's interview for independent auditor services in which he said that internal controls are of utmost importance and Mr. Welker asked if he really meant that. Mr. Scanlon said he did. Mr. Welker offered his personal opinion that if internal controls are so important, then Mr. Scanlon should be more forceful in recommending that they be improved. The thrust of Mr. Scanlon's reply was that municipalities as a whole are notoriously weak on internal controls; that he knew current staff had full workloads and thus could not do it; that to do the job right would cost \$500,000; and that much improvement could be made with a dedicated part-time person like a retired accountant who might be a volunteer or employee not qualified to receive benefits. In discussion on this point, Mr. Scanlon recommended that the Select Board make any such selection and appointment, so that although this internal auditor would work with and under management, that person would make reports to the Select Board.

Mr. Landon asked if a "whistleblower" process is considered an internal control under SAS 112. Scanlon representatives said it is considered under fraud, not SAS 112.

Mr. Adornato asked Mr. Scanlon if the Town was free to use for any purpose interest earnings on a temporary \$3.5 million reserve created from a re-negotiated loan with the School Building Authority or if such interest should be applied to quicker reduction of loan principal. Mr. Adornato explained that since citizens had authorized an override for debt funding for school buildings and not for expenditures on other things, he believed any available monies connected to that debt should be used to reduce principal and not expended outside of the project. Mr. Scanlon replied that under normal practice (Bureau of Accounts, MA Dept. of Revenue) such interest earnings go into the municipality's general fund and can be expended for any purpose. But, he added, MA law permits a community to direct that interest earnings go into the reserve for paying down the debt via passage of an article to that effect presented to the citizens at a town meeting. Mr. Scanlon opined that for Longmeadow it would be the Finance Committee's responsibility to propose such an article to the Select Board. In answer to a question, he agreed that such an article could also be introduced via citizen petition.

Scanlon representatives departed at 5:05. (Mr. Pasterczyk had departed at 4:40.)

After brief discussion, the committee decided it needed a meeting to consider what had transpired at its two most recent meetings and to map out next steps. The next meeting was set for January 23, 2007 at 7:00 p.m. at a location to be determined by the Secretary.

The meeting was adjourned at 5:10 p.m.

Respectfully submitted,
Ernest Welker, Secretary