

Minutes for Audit Committee Meeting of January 31, 2008
Held at the Fire Station Meeting Room
Adopted February 28, 2008

Members Present: Ernest Welker (Chair), Larry Eagan, Glenn Rosenberg, Paul Smith
Invited Others: Finance Director Paul Pasterczyk and Tom Scanlon and Greg Winters of Scanlon & Associates(SA), the Town's Independent Auditor(IA); and Ray McCarthy and Bruce LeShine, applicants for appointment to the Audit Committee
Others: Joe Occhiuti

The Chair called the meeting to order at 7:00 p.m.

Ernie turned the chair over to Glenn for the main agenda topic, discussion of Scanlon & Associates (SA) audit for the fiscal year ended June 30, 2007. Glenn named the three documents that were earlier distributed electronically: the final Report on the Examination of Basic Financial Statements, the final Schedule of Expenditures of Federal Awards and Independent Auditors' Reports Required Under Single Audit Act Amendments of 1996, and a draft Management Letter (ML) without Town Responses to the IA's findings and recommendations therein. At the meeting, Mr. Pasterczyk distributed hard copies of the ML with Town Responses included.

Glenn asked Tom Scanlon to begin by discussing the Single Audit. Tom gave some history of the required report. A key point is that the IA is required to audit only 50% of the total amount of Federal Awards (grants) expended in a fiscal year unless problems are found, in which case all such expenditures must be audited. For Longmeadow, the total of Federal Awards expended in the audited year was \$941,457. Of that \$687,114 was expended from a single Special Education award. Scanlon audited the expenditures for that one award and found them in order, and to be consistent with what is reported in the Town's financial statements.

Government Auditing Standards now require the IA to give an opinion on the sufficiency of the Award recipient's compliance with generally accepted auditing standards. On this SA's report says, "Our consideration of internal control over compliance was for the limited purpose described ... and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal controls over compliance that we consider to be material weakness, as defined above."

Attention then turned to the draft Management Letter:

As part of an audit, the IA reviews the Town's accounting procedures and internal control structures in order to be able to formulate an opinion on the reliability of the reported financial statements. The review is not intended to identify all weaknesses in internal controls. The ML has two main sections, Current Year Findings and Prior Year Findings. Each finding consists of a comment identifying a problem and the IA's recommendation for rectifying it followed by the Town's response to those. Generally, weaknesses are discovered when the IA conducts a more extensive check of one or a few departments, the School Department was selected for this audit. Discussion proceeded in the order of the findings, with Scanlon talking about the findings and comments and Paul Pasterczyk talking about the Town's response.

Current Year Findings

Finding 2007-1 Accounting/Financial Policies and Procedures Manual

IA Comment [selected quotes]: "The Town does not have a current and comprehensive accounting policies and procedures manual. ... We recommend the Town finance team develop and document the accounting policies and procedures manual. [It] should be prepared by appropriate levels of management and be approved by the Selectboard to emphasize its importance and authority."

Town draft Response

The Department has some written policies and procedures, but not fully and not compiled into a single manual. "The Finance Department will gather and review what already exists, address areas where it is deficient and coordinate the documents into a working manual." When pressed for a completion date, Paul P. said July 1.

Meeting discussion: Scanlon said that the AICPA (accounting body of CPA's) has put greater emphasis on procedures and internal controls since the major accounting abuses by private corporations in the late 1990s and early this decade. He offered the opinion that not one of the 351 Mass. cities and towns has sufficient procedures and controls. Glenn asked, why not? Scanlon replied they are always a day late and dollar short, i.e., not enough budget or time to do it. He said the Town has staff on board that knows what needs to be done, but there is no documentation of it. He was asked, On a scale of 1 to 10, 10 being full compliance, where's Longmeadow? "I'd say 8," replied Scanlon, "A good manual and procedures would bring that rating up."

Finding 2007-2 Functional Lines Items of School Budget

IA Comment [selected quotes]: "Currently the school department budget is maintained by several control lines that are major categories and not by functional line items. When control items are used in the school budget the School Committee does not have an accurate or complete picture of the budget. ... For effective internal control the budget should be presented by functional line items. ... With functional line items, the School Committee can set limits on how much is to be expended so they have complete control over the budget. ... It is recommended that the School Committee develop its budget by functional line items and not by control lines."

Town draft Response [provided by Tom Mazza, School Business Director]

"Discussion is needed with the School Committee's Finance Subcommittee regarding this finding before a response can be provided."

Meeting discussion: Paul P. said Mr. Mazza disagrees with the recommendation. Glenn asked why. Paul P. said because it's a lot of work and the School Committee wants to keep things as they are. "If this is what the School Committee wants," said Scanlon, "show it to me in writing, and I can't do anything about it."

Finding 2007-3 Athletic Revolving

IA Comment [selected quotes]: "The procedure for accounting for athletic revolving receipts is antiquated. ... It is recommended that the records substantiating the receipts and expenditures be modernized utilizing computers." The IA also called for 1) much more detailed reporting and control of revenues for each event, with next day deposit of funds and 2) and expenditures paid by check and processed through the warrant system.

Town draft Response [provided by Tom Mazza, School Business Director]

Essentially the response was that the Athletic Director already has made the changes recommended regarding revenue, expenses, and profit and loss reporting at the conclusion of each game. Further, "A spreadsheet will be developed to track the information listed on the profit and loss statement by sport. Deposits of game receipts will be made as soon as possible." The Town is already handling MIAA tournaments it hosts in the way recommended.

Meeting discussion: When a question was raised about the discrepancy between the IA's finding regarding MIAA events and the School's response, Paul P. said that the Treasurer is already looking into it. A question was raised about who is responsible for School procedures, Paul P. said Tom Mazza oversees these activities. Concerned that the IA's findings be rectified or otherwise settled to the IA's satisfaction, Ernie asked Tom Scanlon, "You'll follow up on these School Department findings in next year's audit, right?" Yes was the response.

Finding 2007-4 Internal Control – Treasurer’s Office

IA Comment [selected quotes]: “Presently there is a cash drawer that various persons use when receipts are collected. To achieve effective control in this area we recommend that each person handling cash have their own cash drawer and be responsible for their drawer and the balancing of the drawer. At the end of the day someone who does not otherwise handle the receipts should verify the cash drawer and compare the cash collected in the drawers to the receipts collected to ensure that all funds have been collected and accounted for.”

Town draft Response “Clerical staff handles the bulk of transactions at the counter. The cash drawer is verified twice daily by both the Treasurer/Collector and the Asst. Treasurer/Collector. In the absence of either, a clerical staff will do the second verification. The Town agrees that a separate drawer for each person handling cash is a solution. While office / counter design and space is limited, the Town will explore the installation of such.”

Meeting discussion: Scanlon’s attention was drawn to this matter when late last year the cash drawer was found to be short by \$100 one day and \$50 another day soon after. No one knows why. The IA’s recommendations would not guarantee against shortages, but would help to discover them earlier and better trace them. Glenn asked if the AC can have a firm date on implementation. Paul said he hopes to have it done in 60 days. Ernie asked Paul P. if he would add completion dates to all Town Responses that call for Town actions. Paul P. asked Scanlon if he has time to do that. Scanlon said Paul could have until the 15th of February to get his final responses in.

Finding 2007-5 School Revolving Account – Fees

IA Comment [selected quotes]: “We found that parking fees and busing fees are being deposited into [a pupil fees] account. ... If there is vote establishing this fund these fees must be kept separate. ... According to the Massachusetts General Laws revolving accounts can only be expended for their specified purpose. ... We recommend that the above situation be rectified in order for the revolving accounts to be accordance with the Massachusetts General Laws.”

Town draft Response [provided by Tom Mazza] “The School Committee will take the necessary votes to establish the two funds. Currently the School Department only uses the revenue from these fees for the specified purpose of the fee in accordance with the Massachusetts General Laws.”

Meeting discussion: Committee members were surprised at the amounts of these fees: busing about \$100k and parking about \$40k.

Prior Year Findings

Finding 2007-6 Fraud Risk Assessment - Implement Regular Department Internal Audits

IA Prior Comment [selected quotes]: “[A]ll municipalities should periodically 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. The Town, like most Massachusetts municipal organizations, does not adequately perform this assessment. ... The fraud risk assessment ... should be performed by a management-level employee who has extensive knowledge of the Town’s operations. ... Once the areas vulnerable to fraud have been identified, a review of the Town’s systems, procedures, and existing controls related to these areas should be conducted. ... Additionally the Town does not perform regular departmental internal audits. ... We recommend the Town look into the costs of hiring an individual, such as a retired certified public accountant ... to perform periodic internal audits of the Town’s departmental records.”

Status "The Town has not implemented our recommendation."

Town draft Response "One of the first steps will be to address Current Year Finding 2007-1. ...Periodic tests will be performed on completed documents. Input from the Audit Committee will be sought for the development of the risk assessment."

Meeting discussion: Paul P. reported that the part-time person contemplated for this assignment is a retired actuary and is expected to be on the job within 90 days.

Finding 2007-7: GASB Statement No. 45, Financial Reporting For Post-employment Benefits Other Than Pension Plans (OPEB)

IA Prior Comment [selected quotes]: "Generally, the statement requires the Town to calculate the amount of the annual post employment benefit costs, such as healthcare benefits and other types of post employment healthcare benefits, such as life insurance. Once determined, the cost will then be presented and recognized on the financial statements of the Town. ... [T]he implementation date for the Town is June 30, 2009."

Town draft Response "The Town and the Segal Co. are negotiating legal language within the contract. If we are unable to have a signed contract by February 29, 2008 we will begin negotiations with the second lowest responsive and responsible to our procurement for actuarial services."

Meeting discussion: In answer to a question, Paul P. reported that contract language is also an issue with the neighboring entities that joined with the Town in requesting proposals for services and selected Segal. In fact, he said, they will take their cue from what Longmeadow does. There were remarks about the long delay due to this issue.

Finding 2007-8: Infrastructure

IA Prior Comment: "The Town has complied with the financial reporting model that is required at the present time. The one remaining requirement that will be required for fiscal years beginning after June 15, 2006, is the retroactive reporting of infrastructure assets for the governmental type activities. This requirement requires the reporting of roads, bridges, dams, etc. that were acquired, significantly reconstructed, or that received significant improvement from June 30, 1980."

Town draft Response "The Town will work with the independent auditor to address the finding. Completion will be targeted for September 30, 2008."

No discussion

Finding 2007-9: Inventories

IA Prior Comment: "Currently, the Town does not maintain an inventory of small items that do not qualify for fixed assets. We recommended for the Town to control and protect its assets an inventory of the items mentioned above be established for each Town department. The inventory should be maintained on a perpetual basis. At a minimum the place where the equipment is located should be indicated."

Town draft Response "The Town does have a small item inventory that needs to be brought up to date. Previously used documents will be reviewed and updated as needed. The Town Accountant will be assigned the task of coordinating the information flow from all departments in order to have a current inventory for the fiscal year ending June 30, 2008. The Town will explore the capabilities within our current Munis financial software for the maintenance of the inventory."

Meeting discussion: Scanlon said the inventory is not maintained on an ongoing basis (items are not being inventoried at time of purchase) but rather is updated at yearend. He said that when they audit departments (selected ones for each audit), they look to see with their own eyes a sample of items shown as purchased during the audit year. They have not found problems. He added that although the purchase order system is working properly, what is being done is not as effective as a perpetual inventory, but better than nothing.

Noting that this year's ML does not show prior-year findings that have been rectified, as in past years, Ernie commented that he assumes then that he (Scanlon) was satisfied with Paul P.'s assurance the \$500 purchase order threshold for encumbering captured the great bulk of purchases and that to require more would be cost ineffective. Scanlon agreed with Paul P..

Ernie also asked about the overall status of the MUNIS implementation, in particular about the efforts to adequately train employees in it. Scanlon remarked that he observed much progress. Paul P. said that the new Town Accountant is quite familiar with MUNIS and has been effective in training others, so budget set aside for outside training did not have to be used. He mentioned that Sandy did some well-received training at the School Dept., with follow-ups expected. He also said that this has helped build a more effective relationship between Finance and Tom Mazza.

Regarding the Abrahams Report recommendations, Ernie asked about the status of the one item his notes show as not had having been addressed as of Feb.2007, specifically, some indirect cost allocations between School and Town had not been agreed upon. Paul P. reported that he and Mr. Mazza have agreed on procedures for the allocation. He said the actual allocations would be determined and an agreement signed by June 30 and thus is a non-issue for FY08 reporting.

Scanlon then briefly reviewed some items in the basic financial statements. None of those items raised substantive discussion.

Ernie asked Scanlon if he was aware of the controversy regarding Town investments and the Town's Investment Policy Statement (IPS). Tom said he was. Ernie then directed attention to the Notes to the Financial Statements and particularly Section 3, Detailed Notes, sub-section A, Cash, Investments and Cash in Custody of Others, one sub-part being Investment Policies. He asked why even though a table of Town Investments in this sub-part shows an investment in corporate bonds and the IPS doesn't allow such, no mention is made of this. Tom said he did not interpret the IPS as prohibiting it. He said IPS section G.1. Allowable Investment or Deposits is less than perfectly clear. He referred to item 7) there, "Registered investment companies (mutual funds) invest only in securities described above" and said that "above" could refer to IPS section G (listed above G.1), which says all investments must be made in securities or deposits authorized by the relevant Mass law, which includes the corporate bond. He further said that the Town's holding of corporate bonds was in the name of the securities company (a registered securities company) that the Town's investment adviser deals with and thus was allowable by item 7). Hence, Scanlon saw no need to mention the corporate bonds.

The AC having been involved in the development of the IPS, Ernie said he and others on the AC at the time, did not intend G.1 to have that meaning, but since the IA (as well as the Treasurer) could interpret it differently and mentioned in the Note some risks not covered by the IPS, Ernie said he believed a citizen task force appointed by the Town Manager might be best suited to take on the job of developing and recommending a new revised IPS.

After Glenn thanked the Scanlon representatives for their time and cooperation, they exited the meeting. Ernie resumed the chair.

Minutes of the December 19, 2007 meeting were approved.

Ernie mentioned that two reports are due soon, a report to the Select Board and a report for inclusion in the Annual Town Report (due by Feb. 15). He will prepare drafts and circulate them to members for their input and final approval.

Paul Pasterczyk said he was unsure of what is to be done about the IPS. Ernie said he will send a note to the Finance Committee suggesting that this be addressed.

Date of next meeting: February 28, 2008, place and time to be determined. Paul Smith will report on his research into budget formats. Finance Committee members will be invited to attend.

Meeting adjourned 9:21 p.m.

Respectfully submitted,
Larry Eagan, Secretary
Ernest Welker, Chair