

Minutes of Longmeadow Audit Committee
Meeting of April 5, 2007
Adopted April 13, 2007

Members present: Paul Adornato (Chair), Peter Landon, Glenn Rosenberg, Ernest Welker
Member absent: Larry Eagan,
Others: Finance Director (FD) Paul Pasterczyk, Mr. Thomas Scanlon and Mr. Thomas Scanlon, Jr. of Scanlon & Associates (**S&A**), CPA, the Town's independent auditor (**IA**).

Chairman Adornato called the meeting to order at 7:07 p.m.

In the interest of enabling invited guests to depart as soon as practicable, the Chair chose to open the meeting with the main agenda item, namely, consideration of the Town's responses to recommendations made by the IA in its draft Management Letter (ML) related to its audit for the Fiscal Year ending June 30, 2006. (That draft, absent the Town's responses, was the main agenda item at the AC's meeting of March 1, 2007.) The Chair proposed that the discussion proceed with S&A commenting on the Town's responses to its recommendations in the order they appear in the ML, with discussion to follow after each such comment. Via member comments, the Committee clarified that its major concern is to get satisfactory resolution of the IA's specific recommendations so that they do not continue to appear in the ML in future years, so for each Town response, the Committee asked S&A to declare if the response was (1) a satisfactory resolution or not, (2) if not, why not, and (3) for such cases, what other Town action would be required to rectify the issue. Mr. Scanlon agreed to proceed on this basis.

Five unrectified prior-year findings and recommendations were repeated in this draft ML.

1. Student Activity Funds

Recommendation

It is again recommended the Town treasurer take the appropriate steps to receive the student activity funds into the Town treasury to insure compliance with the regulations established by Section 47 of Chapter 71 of the Massachusetts General Laws.

Town's Response

As of December 2006 all Student Activity Funds were Transferred into the Town Treasury and are in compliance With MGL Ch 71 section 47.

S&A commented that they will test the handling of student activity funds as part of its FY '07 audit to see if the procedures referred in the response are in fact sufficient. The ML for that audit will reflect S&A's findings.

2. Financial Reporting – Full Purchase Order System and Requisition System

Recommendation

In our opinion the Town should adopt the full encumbrance method, which would include a full purchase order system and requisition system.

Town's Response

It is the Town's position that the added administrative burden / cost will have little or no benefit at this time. Town

Departments are encouraged at fiscal year end to fully Utilize the Purchase Order and Requisition System from \$0 to assure budgetary control.

There was considerable discussion about this recommendation and response. It centered on (a) new AICPA reporting requirement (at this level of detail) regarding the sufficiency of internal controls and what they require of independent auditors, (b) the cost-benefit tradeoff for their implementation, and (c) the time frame reporting entities may be permitted to come into compliance. Tom Scanlon asked PP for statistics that would give an indication of the importance of under \$500 purchase orders, which are the ones that are not immediately encumbered. Based on these indications, S&A may or may not modify its recommendation.

3. Fraud Risk Assessment
Implement Regular Department Internal Audits

Recommendation

We recommend the Town look into the costs of hiring an individual, such as a retired certified public accountant or implement a procedure internally to perform periodic internal audits of the Town's departmental records. This will result in improved oversight and should reduce the risk of errors and irregularities from occurring and going undetected.

Town's Response

The Town is willing to explore the recommendation. Additionally, the Town will review the responsibilities of a current vacant part time position in the Accounting Office in an effort towards risk assessment. Priorities, time and funding will play a key role.

In response to an AC inquiry about how much advise S&A might be able to give the Town regarding specific internal controls and priorities, Tom said that AICPA SAS 112 (dealing with internal controls) prohibits serving auditors from that degree of involvement in designing internal controls, because they present conflict of interest possibilities. He did say that there are five major areas for which internal controls are generally most important (1) the revenue cycles, (2) the expenditure cycle, (3) payroll, (4) purchasing and accounts payable, and (5) inventory and assets. In response to an AC request that S&A not restrict the part-time position to someone with a CPA, Tom agreed the person would not need to be a CPA and would modify final language to permit others suitably qualified.

4. Infrastructure

S&A was satisfied with the Town's response that it has begun a review of its records and is currently compiling an inventory of its infrastructure capital assets, as recommended. S&A will revisit this matter as part of its audit for FY '07.

- 5, GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension Plans

S&A was satisfied with the Town's response that it is in the process of preparing procurement documents for the required actuarial study, with an estimated completion date of fall 2007, and will look for its completion.

Three of the five current-year recommendations and Town responses elicited little discussion. Mr. Scanlon said the proposed Town actions on those items would be examined in next year's audit to see that they were implemented in ways that rectify the problems. The three had to do with (1) lax practices regarding receipts by the Fire Department, (2) lax practices regarding revolving account receipts at the School Dept, and (3) two remaining problems identified in the Abrahams Group's School Department Report, which the Audit Committee had earlier reported to the Select Board and School Committee.

The two IA Recommendations and Town Responses substantively discussed were:

1. Inventories

Recommendation

With the computer system in place it is recommended that the Town control and protect its small assets. An inventory of the small items should 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's Response

Most Departments with significant inventory value do maintain an internal inventory. The Finance Director will keep the issue in mind as it further implements the MUNIS financial software. In the interim all Departments will be encouraged to have such an inventory in place.

One AC member opened discussion by pointing out that non-profit entities confronted with this type of ML item are required to respond with specific corrective plans, with timetables, and wondered about the acceptability of a vague response like the Town's response here. That prompted a wide range of discussion similar to that surrounding item 2 above (in section on unrectified prior-year findings and recommendations) on full purchase-order and requisition system in that rectification involves trade-off decisions regarding the use of the Town's limited resources (budget decisions) and cost-benefit judgments from the Town's perspective and auditing and reporting mandates from the IA's perspective. Tom Scanlon, Jr. said that the MUNIS software system (see next item) offers an optional module (at a \$5,000 cost) that greatly eases the burden of maintaining full inventory systems (along with full purchase order and requisitions systems). Tom, Jr. remarked that the MUNIS system has a steep and long "learning curve" for the system to be effectively implemented. This turned attention to the next item.

2. Interaction of Computerized Systems in Departments

Recommendation

Once a year has passed with the new computer system and the various problems that can occur with a new computer system are ironed out, it is recommended that the Town fully utilize the MUNIS system. All departments should use the system so that the goal of full interaction is accomplished between Town departments.

Town's Response

The Town will try to fully maximize the capabilities of the

MUNIS financial software.

Discussion on this item illuminated its importance as a prerequisite to implementing more effective practices and internal controls broadly throughout town departments and functions.

Tom Scanlon remarked that the Select Board and town management should give high priority to completing the implementation of the newly installed MUNIS software system and likewise to adding and implementing modules that would allow internal controls (full inventorying and full purchasing and requisition controls, among them) to be improved at a more manageable dollar cost and staffing need, once fully implemented, notwithstanding that the implementation may require additional staff and a training burden for current staff for a time. S&A said they would consider (in consultation with the FD) revised language that would give recognition to these practical challenges to rectifying weaknesses associated with various recommendations tied to weaknesses of internal controls while yet emphasizing the need to make notable progress toward the goal.

Scanlon & Associates representatives left the meeting at this point (8:35 p.m.), and the Committee took up other agenda items.

A. Minutes of the March 1, 2007 meeting were introduced for discussion. There being none, a motion was made and seconded to adopt the proposed minutes as previously disturbed via email. They motion passed unanimously.

B. In an email to AC Secretary Ernest Welker, Town Manager Robin Crosbie asked for the AC's position on Gov. Patrick's proposed legislation that would force "underperforming" local pension systems to deposit their funds in the State's investment pool and proposed that the AC discuss this with the FD at this meeting. FD Paul Pasterczyk was asked if he had any information about the Hampden County Regional Retirement Board's position on it, and he said only what he read in the newspaper. Asked what he thought of the proposal, PP said that if it would increase (net of expenses) the investment return on the HCRRS investments, even if "only" 1 percentage point, it would be worthwhile, but he also said that if it would mean the complete loss of local administrative control he would be less comfortable about it.

Some comments were made and raised about the types of investments and overall risk of the State's pool vs. that of the HCRRS. It quickly became apparent that more information would be needed than was then known to the AC before an informed position could be formed. One member raised the possibility that the HCRRB might be collecting the needed information for formulating its own position and thus could be available to us for the asking. Chairman Adornato asked the FD to contact the HCRRB, tell them of the AC's concern and need, and find out what might be available. The Chair asked the Secretary to send the next day an email to Robin Crosbie informing her of the Committee's discussion and action at this point.

C. Having been provided information by the FD that the gross-up percentage used by the Town to estimate the total cost of employees from the base compensation amounts is about 50 percent, a member expressed surprise because the private sector typically uses something in the range of 22 to 30 percent and asked for comment on the 50 percent. The FD quickly said that the pension percentage is about 18% now, having risen from 14-15% over the past few years, and the health insurance percentage is about 16-20%, so those two items alone add up to 34-38% or so. The balance of the 50% he said are the cost of the other benefits, like life insurance, vacation accrual, sick accrual, personal accrual, Workmen's compensation insurance, and the Town's match of the employee's Medicare tax.

Mr. Pasterczyk departed the meeting at about 8:50 p.m.

D. The division of AC and Finance Committee (FC) responsibilities and the desirability of improved communication and cooperation was discussed. The AC was pleased to see in the FC's FY 2008 Budget

Report that it had picked up on the compensation matter and will be looking to the DPW to justify next year its conversion of two part-time contract tradesmen to full-time employee status. The Committee asked Chairman Adornato to again contact the FC's Chairperson to explore lead responsibility for oversight and investigation of employee benefit plans and costs, including in response to the type of pension question raised by the Town Manager.

E. The matter of developing the AC's Quarterly Report to Select Board for 3QFY2007 was briefly discussed and was left unsettled. Since much of the AC's work that quarter involved the IA's audit, and since the final audit will be available by mid-April, the Committee's thought is to draft a report after the AC reviews the final audit.

F. AC membership was discussed, the Secretary having circulated an email about: the upcoming expiration on June 30 of the terms of Paul Adornato and Pete Landon, Town Meeting Warrant Article 18 that would provide for two Associate Members, and the need for all candidates to submit application for appointment to the Select Board before the SB schedules its June interviewing date. Both Mr. Adornato and Mr. Landon were uncertain if they would seek re-appointment to the AC.

G. The Committee voted to empower Mr. Adornato to present orally at the Annual Town Meeting the AC's endorsement of Warrant Article 18 regarding the appointment of Associate Members and of Article 20 regarding amending the Town Charter to give the Select Board, with the advice of the Audit Committee, authority for hiring the Town's independent auditor.

A date for the next meeting was not set, it being dependent on availability of the IA's final Audit Report.

The meeting was adjourned at 9:25 p.m.

Respectfully submitted,
Ernest Welker, Secretary