

**TOWN OF LONGMEADOW, MASSACHUSETTS**  
**MANAGEMENT LETTER**  
**FOR THE YEAR ENDED JUNE 30, 2010**

**TOWN OF LONGMEADOW, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2010**

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To the Selectboard and Audit Committee  
Town of Longmeadow  
Longmeadow, Massachusetts

Dear Members of the Board and Committee:

In planning and performing our audit of the basic financial statements of the Town of Longmeadow as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Longmeadow's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We have already discussed these comments and suggestions with Town personnel. We will be pleased to discuss them in further detail and to assist you in implementing the recommendations.

The Town's written response to our comments and suggestions has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the management, the Selectboard, audit committee and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

*Scanlon & Associates, LLC*

Scanlon & Associates, LLC  
February 9, 2011

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters**

### **1. Improve Documentation of Cash and Investment Reconciliations**

*Comment:*

During our audit we noted an immaterial cash variance existed on June 30, 2010 between the Treasurer's banks and the Town Accountant's general ledger. We also noted that the amount of the variance was not consistent every month throughout the fiscal year. The Town has certain procedures in place to reconcile cash and investments; however we feel that they could be improved. The Treasurer is maintaining a cashbook and performing monthly individual bank reconciliations. However, we noted that improvements could be made on the monthly reconciliation of the Treasurer's records to the Town Accountant's general ledger.

We recommend that the Town Accountant and Treasurer improve the cash and investment reconciliation process by documenting and properly identifying all reconciling items. Also, all variances should be researched and resolved on a timely basis.

*Response:* The Town Treasurer / Collector and Town Accountant will continue to utilize the Cash Reconciliation worksheets already in place. They will add to the worksheets an itemization of the reconcilable entries and provide source documentation for each entry. The Cash Reconciliation worksheets and supporting documentation will be provided to the Finance Director for final review no later than 45 days after month end.

### **2. School Lunch Vendor Invoice Documentation**

*Comment*

The School Department in fiscal year 2010 has entered into an agreement with a vendor to provide services to operate the school lunch program. A provision in the agreement indicates that all invoices submitted for reimbursement from the School must include a detailed description of the goods, services or other items.

Our review indicated that the school business office is not receiving or reviewing this type of documentation. A request to have more detail on the school lunch reimbursements should be made by School management on a periodic basis and also School management should make a review of the supporting documents that are received. We recommend that the School management review this situation and implement the necessary procedures.

*Response:* The School Department has a breakdown of services, goods and other items on file for each invoice that has been processed for payment to the vendor who operates our school lunch program. The invoices and supporting documentation are reviewed monthly prior to the invoices being authorized for payment. The breakdown will be submitted with the invoice on a monthly basis.

Moving forward, the School Department will, no less than quarterly, request and review more detailed, supporting documentation to the invoice in accordance with the Management Letter recommendation.

### **3. Accounting for Certain Public Safety Grants**

#### Comment

The Town currently accounts for certain public safety grants (i.e. fire hazmat and highway safety) in the general fund by crediting the grant receipt to the expenditure account from where the expenditures were paid. This has been a common practice among municipalities that account for smaller grant amounts. The Town in fiscal year 2010 had approximately \$25,000 of public safety grants that were credited to general fund appropriation accounts. We recommend that the Town start to account for these grants separately in special revenue funds. Given the increased accountability and transparency of federal and state funds we believe this will improve the overall integrity of grant accounting of the Town and also decrease the risk that a federal grant will not be properly identified and reported on the Schedule of Federal Awards.

Response: The Town acknowledges that all grant revenues should be recorded within the Special Revenue Funds. The Finance Director will update the Department Heads on the matter at the regularly scheduled Department Head meeting on February 7, 2011. The Town's "Grant Agreement" policy requiring the Town Accountant to receive a copy of all grant agreements will again be emphasized. The Finance Director will discuss with the Town Treasurer / Collector and Town Accountant ways in better identifying grant receipts.

### **4. Police Off Duty**

#### Comment:

The Town maintains an agency fund to account for the police off-duty details. These funds are allowed by law and are designed to act as an agent between businesses and Town public safety personnel where the businesses pay 100% of cost of detail worked plus a 10% administration fee. In fiscal year 2010 approximately \$91,800 was received for police off-duty details. At June 30, 2010 the police detail account has a cash deficit of \$25,781 and an outstanding accounts receivable balance of \$5,771 thus netting an overall deficit of approximately \$20,010. The Town should review this situation and provide for the deficit in the upcoming budget.

Response: The current deficit is mainly attributable to bad debts going back many years. A detailed list of old Accounts Receivable that was once available will be searched for. Even if found, it is still unlikely collections will be successful. The Town Treasurer / Collector will use collection rights such as MGL Ch 60 Sec 93 and Town General By-law Chapter 2 Section 319 to collect what is rightfully the Town's. The actual deficit will be determined and addressed.

## **5. GASB Statement No. 54 – New Accounting and Financial Reporting Requirement for Fund Balances**

### Comment:

The Governmental Accounting Standards Board (GASB) issued Statement No. 54 (Fund Balance Reporting and Governmental Fund Type Definitions) in February 2009, effective for financial statements for periods beginning after June 15, 2010 (FY 2011). The objective of this Statement is to enhance the usefulness of the fund balance information by providing clearer fund balance classifications that can be more consistently applied and to clarify the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that will be made in reporting fund balance information is identifying amounts that are considered nonexpendable, such as fund balances associated with inventories. This statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

Governments will also be required to classify and report amounts in the appropriate fund balances classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements will be required.

Given the significance of the Town's fund balance amounts, the new reporting requirement will have an impact on the Town's financial statements. We recommend that the Town become familiar with the new financial reporting requirement to insure that the Town will be in compliance with requirements of GASB No. 54.

Response: The Finance Director and Town Accountant will review the requirements of GASB 54. It is anticipated the Massachusetts Department of Revenue (DOR) will be issuing guidance on the matter to assist Cities and Town in compliance. Since GASB 54 provides for a different reporting system than the DOR requires the Town will comply with what it can reasonably do for the June 30, 2011 financial statements.

## **PRIOR YEAR ISSUES – NOT RECTIFIED – Other Matters**

### **6. Support Documentation for Accounting Entries**

Prior Comment:

During our audit we could not locate supporting documentation for several entries made to the general ledger. For instance, amounts set up for accrued payroll. We used alternative testing to support our opinion in these areas. To maintain a good internal control system all entries made to the general ledger should be supported by proper documentation.

Status:

Improvement was made with regards to documenting the accrued payroll journal entry. However, our review of thirty journal entries indicated that ten or one third of the journal entries did not have adequate documentation. We recommend that all journal entries made have proper support documentation.

Response: It was discovered that documentation was misfiled for approximately half of the items the auditors reviewed and claimed not to have adequate documentation for. This still left a number of entries with inadequate documentation. The Finance Director will continue with quarterly random audits of the Town Accountant's records. In addition, the Town Accountant will perform self audits of the documentation upon completion of the monthly entries to ensure appropriate documentation is available and properly filed.

### **7. Accounting/Financial Policies and Procedures Manual**

Prior Comment:

The Town does not have a current and comprehensive accounting policies and procedures manual. All governments should document their accounting policies and procedures. Although other methods might suffice, this document is traditionally in the form of an accounting policies and procedures manual. This manual should document the accounting policies and procedures which make up the Town's internal control system.

An accounting policies and procedures manual will enhance employees' understanding of their role and function in the internal control system, establish responsibilities, provide guidance for employees, improve efficiency and consistency of transaction processing, and improve compliance with established policies. It can also help to prevent deterioration of key elements in the Town's internal control system and can help to avoid the circumvention of Town policies.

We recommend the Town finance team develop and document the accounting policies and procedures manual. The accounting policies and procedures manual should be prepared by appropriate levels of management and be approved by the Board of Selectmen to emphasize its importance and authority. The documentation should describe procedures as they are intended to be performed, indicate which employees are to perform which procedures, and explain the design and purpose of control-related procedures to increase employee understanding and support controls.

Status:

The Finance Director has documented several financial policies and procedures used in the finance department. Also the Finance Director has contacted other communities and attended educational conferences addressing what practices are being used and the best approach to institute a complete manual. We encourage the Town to continue to develop and implement an entire accounting/financial policies and procedures manual.

Response: The Finance Director and the Department Heads within the department will continue to create / revise financial policies and procedures. Policies and procedures developed or rewritten over the last 12 months addressed the following: cash, investments, abatements and exemptions on real estate taxes, grant agreements, withholding licenses and permits (in accordance with By-law 2-319), manual checks, employee expense reimbursement, public meeting postings, and calculations on water & sewer interest income.

## **PRIOR YEAR ISSUES – RECTIFIED – Other Matters:**

### **8. Departmental Receivables**

Prior Comment:

During our audit we examined the process of departmental billings for services such as false alarms, off-duty police and other departmental receivables. We noted that the departments are not utilizing the current financial software (MUNIS) to prepare the commitments. We recommend that the Town have the departments start using MUNIS for its departmental billings. We believe that by using MUNIS for departmental billings this will improve operating efficiency and the internal control structure.

Status:

The departments are now utilizing MUNIS for its receivables.

### **9. School Lunch**

Prior Comment:

The school lunch fund had incurred an operating loss in fiscal year 2009 and 2008 of approximately \$61,600 and \$58,400, respectively. This will have a financial impact on the Town if this trend continues to happen and will result in an overall fund deficit if this is not funded.

We have discussed this with school and town management and they are aware of the situation. School management is looking for ways to increase revenue and cut costs. In fiscal year 2010 the school has hired an outside vendor to run the school program. Management of the Town should monitor the school lunch on a periodic basis to determine the impact of the school lunch on the certification of free cash and budgets.

Status:

In fiscal year 2010 a food service vendor is operating the school lunch program. At the end of the fiscal year ended June 30, 2010 the school lunch ended the account with a positive fund balance of \$18,777 and an operating profit of \$20,626 for the year.

### **10. State Aid to Highway – (Chapter 90)**

Prior Comment:

The Town has had the practice of accounting for state aid to highway (chapter 90) expenses and revenues as part of the general fund, as is common with other municipalities. The state aid to highway program by nature is considered a special revenue account. We recommend that now that the Town has implemented MUNIS software the Town should account for the highway grant program as part of the special revenue fund. We feel that this will improve the integrity of financial reporting.

Status:

The Town Accountant has transferred the Chapter 90 grant program out of the General Fund and is accounting for the grant in a Special Revenue Fund.

## **11. Departmental Accounting Records**

### Prior Comment:

During our audit we examined several departments' accounting records. To maintain good and proper internal control in these departments each department should maintain a cash receipt log recording all receipts collected, retain supporting documentation and perform internal reconciliations of their records. We found several departments were not performing these procedures on an effective basis. We also noted that refunds to residents were being given out from funds on hand instead of going through the Town's warrant process.

We recommend that management review this situation closely and have all departments implement the above recommended procedures. Also, we recommend that management communicate the importance of monies being turned over on a timely basis and also insure that the funds are being properly safeguarded.

### Status:

During the fiscal year the Town Accountant reviewed the departmental accounting records of six Town departments. On a periodic basis the Finance Department will randomly chose different departments to insure that the proper controls are in place.

## **12. Estimated Receipts**

### Prior Comment:

During our audit we noted that the certain estimated receipt amounts were in excess of the actual collections. If this continues to occur the Town will be financially impacted. The Town should review all the estimated receipts in order to forecast a more accurate estimate of the revenues used to set the tax rate.

As of the date of our audit Town's management is aware of the estimated receipts situation and has implemented new procedures to aggressively monitor the receipts in fiscal year 2010 and its impact on the fiscal year 2010 and 2011 budgets.

### Status:

In fiscal year 2010 and 2011 revenue estimates were lowered as a result of the current economic climate. In fiscal 2010 excise taxes and interest income ended the year in deficits. These revenue categories have been further reduced in fiscal year 2011.

### **13. Review of Payroll Transactions**

Prior Comment:

During our review we found that the human resource manager inputs hourly/salary information into the computer, sets up new employees in the computer, makes adjustments to the withholding amounts, pays the withholdings and verifies payroll.

This is a weakness in the segregation of duties with the same person performing all functions, inputting rate changes, preparing payroll and verifying payroll. Although the town accountant verified the payroll we feel and recommend that a second independent person review and approve any payroll changes and also review the payroll on a periodic basis.

Status:

The finance department has implemented changes where payroll duties are now segregated and internal review is being performed on a periodic basis.

### **14. Risk Assessment and Monitoring**

Prior Comment:

When internal controls are initially implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become ineffective due to changes in technology, operations, etc. In addition, changes in personnel and structure, as well as the addition of new programs and service, can add risks that previously did not exist. As a result, all municipalities should periodically perform a risk assessment to anticipate, 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 can be formal or informal, and should be performed by a management-level employee who has extensive knowledge of the Town's operations. Ordinarily, the management-level employee would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town's operations, its environment, and its processes. The fraud risk assessment process should consider the Town's vulnerability to misappropriation of assets. When conducting the assessment, the following questions should be considered.

- What assets are susceptible to misappropriation?
- What departments receive cash receipts?
- What departments have movable inventory?
- What operations are the most complex?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriations of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?

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. The Town should consider what additional controls (if any) need to be implemented to reduce the risk.

After the risk has been assessed and controls implemented the town should periodically monitor these controls to evaluate the operational effectiveness.

Status:

The Town has engaged a third party to assist the Town in addressing this matter. The assessment is currently being done.