

TOWN OF EAST LONGMEADOW, MASSACHUSETTS

MANAGEMENT LETTER

FOR THE YEAR ENDED JUNE 30, 2011

TOWN OF EAST LONGMEADOW, MASSACHUSETTS

Management Letter

Year Ended June 30, 2011

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To the Board of Selectmen
Town of East Longmeadow
East Longmeadow, Massachusetts

Dear Members of the Board:

In planning and performing our audit of the basic financial statements of the Town of East Longmeadow as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of East 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 charges 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.

This communication is intended solely for the information and use of the management, the Board of Selectmen, others within the entity and the Commonwealth of Massachusetts Department of Revenue and is not intended to be and should not be used by anyone other than these specified parties.

Scanlon & Associates, LLC
Scanlon & Associates, LLC
South Deerfield, Massachusetts

March 5, 2012

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

1. Reconciliation of Health Insurance Withholding Account

Comment:

During our audit we noted that there are several health insurance withholding accounts utilized on the general ledger. We also noted that the health insurance withholding account balances are not being properly reconciled. We recommend that these accounts be accounted for accurately and consistently. A proper and timely reconciliation of the health insurance withholdings would minimize and control potential discrepancies from occurring.

2. Improve Documentation of Individual Bank Account Reconciliations

Comment:

In fiscal year 2010 the Town implemented new procedures to reconcile the Treasurer's cashbook to the general ledger on a monthly basis. These new procedures have been effective as the Town personnel were able to maintain the same variance of approximately \$2,800 for the past two fiscal years. However, we found that the individual bank account reconciliations for the payroll and vendor accounts were not accurately reconciled. A variance of approximately \$5,300 exists with the reconciling items noted and the support documentation.

3. Proration of Retiree Health Insurance Premiums Between Employers

Comment:

The State Legislature amended chapter 32B when it enacted the fiscal year 2011 State budget. It inserted section 9 A1/2 which allows governmental units to prorate costs for retirees (after January 1, 2011) health insurance premiums to other governmental units. During our fieldwork we inquired to management on this matter and they were aware of the new amendment to chapter 32B. Because of the complexities and financial impact of the new law we recommend to all our governmental clients to review and monitor the controls and procedures in place to insure compliance.

4. Water and Sewer Accounts Receivable

Comment:

During our audit we noted that the accounts receivable subsidiary records for water and sewer were not effectively reconciled to the general ledger. Effective internal controls require timely and proper reconciliation of the accounts receivable subsidiary records to the general ledger. Failure to perform these tasks timely and properly increases the risk of misstatement due to error or fraud, prohibits the safeguarding of assets and does not provide for accurate a timely financial reporting.

We recommend that procedures be implemented to reconcile the water and sewer accounts receivable subsidiary records to the general ledger on a monthly basis. All variances should be investigated and resolved in a timely manner. When the variance has remained at a consistent at the same amount and adjustment can be made to the general ledger.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

OTHER ITEMS:

5. Accounts Receivable Reconciliations

Prior Year Comment:

During our prior years audits the Town had a control deficiency that was classified as a material weakness and significant deficiency over the accounts receivable reconciliation process. In fiscal year 2010 the Town has implemented new procedures to reconcile the accounts receivable to the general ledger. These new procedures have been effective, however we have proposed several adjustments that we identified during our audit to the accounts receivable and noted that a significant variance still exists for the sewer usage accounts receivable of approximately \$22,731. We have communicated these adjustments to the Town's personnel. We recommend that they review these adjustments to determine why they resulted and also determine if changes need to be made to their reconciliation procedures.

Status:

The Town has established procedures to reconcile various tax account receivables. However, as noted above the water and sewer account receivable reconciliations need improvement.

6. Establish Debt Ledger

Prior Year Comment:

The town accountant has accounted for the Town's debt activity on a computerized spreadsheet separate from the Town's financial software. Although, the debt activity has been accurately accounted for utilizing these spreadsheets, we recommend that the town accountant establish the debt ledger as part of the Town's general ledger that utilizes the MUNIS financial software.

Status:

Starting in fiscal year 2012 the Town Accountant will establish a debt ledger utilizing the Town's financial software.

7. Landfill Post-Closure Care Costs

Prior Year Comment:

The Town has sanitary landfill sites that have been inactive for several years. State and Federal laws and regulations require that the Town perform certain maintenance and monitoring functions of the landfill site for thirty (30) years after closure. Governmental Accounting and Reporting Standards covering landfill operations are provided in Government Accounting Standards Board (GASB) Statement Number 18, Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs. This Standard requires that the Town estimate and record a liability for the landfill post-closure care costs. We noted that the Town has not determined a reasonable estimate of the post-closure care costs.

We recommend that the Town, with the help of an environmental engineer, determine the nature and scope of landfill post-closure care costs to be performed. A liability of the future costs should be recorded in the Statement of Net Assets of the Town's basic fiscal year-end financial statements.

Status:

The Town Accountant is reviewing this matter and has taken our recommendation under advisement.

8. Departmental Turnover Sheets

Prior Year Comment:

During our audit we noted the Town should improve on departmental turnover sheets and procedures. The Town for each department that collects and turn over monies, a document should be created utilizing computerized spreadsheet software. This document should list all revenues collected by that department, brief description of source, date and revenue account codes. The documents would be a three-form turnover system where once copy goes to treasurer's office, one to the town accountant and retains one for the department. The treasurer and department signs their copies to acknowledge the amount of receipts are accurate. The department would sign the town accountant copy. This would establish a control, which would assist the treasurer's office to verify the monies turned over and post revenues more efficiently.

Status:

As of the date of our audit the situation remains the same. However, the Town has taken our recommendation under advisement and is in the process of reviewing turnover sheet procedures with Town departments.

9. New Accounting and Financial Reporting Requirement for Fund Balances – GASB No. 54

Prior Year Comment:

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. 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.

The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010 (FY 2011). 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.

Status

The Town has implemented GASB Statement No. 54 in fiscal year 2011.

10. GASB Statement No. 45 – Other Post Employment Benefits (OPEB)

Prior Year Comment:

The Town has met the requirements for implementation of GASB Statement No. 45, Accounting and Financial Reporting for Post Employment Benefits Other than Pensions. Now it is necessary for the Town to understand the requirement necessary to stay in compliance with the statements. For financial reporting purposes an actuarial valuation is required at least biennially for OPEB plans with a total membership (active, retired, employees terminated who earned accumulated benefits but are not receiving them) of 200 or more.

The Town last actuarial evaluation was dated January 1, 2008 and used for June 30, 2009 financial statements. The Town will need to have the information updated for the financial statement disclosures for fiscal year 2010 using the information and calculations from this actuarial report. The Town will need a full actuarial study completed for fiscal year 2011 (July 1, 2010). The Town should also perform a reconciliation of financial transactions of the Town's health and life insurance costs for post employment benefits to the amounts used in the actuarial report.

Status:

The Town has had a full actuarial study completed for FY 2011.

11. General Ledger Account Maintenance

Prior Year Comment:

The Town over the past several fiscal years has been utilizing the MUNIS financial software. As a result of using MUNIS software new procedures and accounts have been put into place that has made reconciliations with departments more effective and efficient. As a result of these new procedures there are accounts on the general ledger that are no longer needed. We recommend that the town accountant review the chart of accounts to determine if accounts can be eliminated or can be combined.

Status:

The same condition exists at June 30, 2011. However, the Town Accountant has reviewed the chart of accounts and has begun to make a list of accounts that can be combined and eliminated. It is anticipated that this process be completed by fall of 2012.

12. Adopt Water and Sewer Enterprise Funds

Prior Year Comment:

The Town currently accounts and operates the water and sewer activities as a special revenue funds. This is a financially prudent practice. However, we recommend that the Town consider adopting enterprise funds to account for the water and sewer operations (MGL Chapter 44, sec 53 F ½). In this way the Town can establish a clear legal authority to account for water and sewer operations outside of the General Fund. Information on enterprise funds may be found on the Division of Local Services website. We recommend that the Town research and review educational material on enterprise funds before making this decision.

Also, presently the sewer and water enterprise funds do not budget for indirect costs. Both the sewer and water funds should reimburse the Town for shared administrative costs and other expenses that are being paid for out of general funds. We noted the sewer and water enterprise funds are operating at a surplus and thus would be able to reimburse the Town for these shared costs.

We recommend the Town establish an agreed upon policy to allocate indirect costs from the Sewer and Water Enterprise funds. These indirect costs would then reimburse the Town for the shared administrative costs and other expenses.

Status:

The same condition exists at June 30, 2011. The Town has taken this recommendation under advisement.

13. Police Off Duty

Prior Year 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. At June 30, 2009 the police detail account has a cash deficit of approximately \$16,770. At June 30th the police department did not have a list of outstanding accounts receivable balances. When requested by us, the system generated a list at June 30th but it was not accurate as it was represented of the date ran September 24, 2009. We applied alternate testing and verified the activity of the revolving account.

A list should be generated at the police department on a monthly basis and always on June 30th. The police department should reconcile the list on a periodic basis with the Town Accountant's general ledger.

In fiscal year 2009 approximately \$206,000 was received for police off-duty details. Because this is a substantial amount a receivable should be established on the general ledger of the Town.

We recommended that a receivable account should be established on the general ledger of the Town to properly account for the off duty police activity and accounts receivable lists at the police department be reconciled on a monthly basis.

As of June 30, 2010 the account has a cash deficit balance of approximately \$8,400 and a receivable has not been established on the general ledger. However, an outstanding list was obtained for June 30, 2010, which has a balance of approximately \$12,950, which would result of the account having a positive account balance of approximately \$4,550 from an accrual standpoint. We recommend that the Town establish a receivable on the general ledger and reconcile the list to the departmental detail on a periodic basis.

Status:

In fiscal year 2011 the Town reviewed the processes and procedures utilized for police off-duty activity. However, the situation remains the same that no receivable is set up on the general ledger and there is a lack of reconciliation of police departmental records to the town accountant's general ledger.

14. Community Preservation Fund

Prior Year Comment:

The community preservation act is a fairly new and complicated program and with the downturn in the economy the use of available funds for appropriation by municipalities has increased, which has municipalities looking to use community preservation funds more and more. We recommend Cities and Towns to establish sound procedures to review and research community preservation projects before the projects are voted.

During our audit we noted that the general ledger did account for the CPA funds as required by the guidelines issued by the Department of Revenue. During our fieldwork we had several discussions with management and made adjustments to the CPA accounts. The Town should review the guidelines issued by Department of Revenue and insure that the Town is in compliance.

In fiscal year 2009 and 2010 some improvements was made. However, the Town is not in compliance with guidelines issued by DOR in several areas of the community preservation act. During our fieldwork we have communicated these matters to the Town Accountant. We recommend that the Town review the guidelines and insure that The Town is in compliance.

Status:

The town accountant has implemented an excel spreadsheet to account for the different reserve and project accounts. This spreadsheet is reconciled to the general ledger on a periodic basis. We recommend that the town accountant incorporate the accounting used on the excel spreadsheet into the MUNIS financial software.

15. Establish Internal Audit Function

Prior Comment:

Currently, the town does not perform regular departmental internal audits. Massachusetts General Laws provide powers and duties to the Town Accountant to perform internal audit functions, including examining records of all departments responsible for receiving and expending funds. Internal audits compliment the independent audit and will provide important oversight over departmental accounting records throughout the year.

We recommend the accountant 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.

Status:

The condition remains the same. We encourage the Town to implement this practice.

16. Transfer of Funds in Bank Accounts

Prior Year Comment:

As a result of the Town having various special accounts that earn interest (i.e. trust funds, school lunch, enterprise funds), actual cash transfers are necessary between funds, for such items as Town meeting votes or actual expenditures that are paid out of the general cash but not paid out of the specific bank account. By not transferring funds, this causes accounting problems and also results in the specific funds not receiving the correct amount of interest. Further, any transfers that are made should be documented in detail.

Status:

The Treasurers office had made improvements, however variances still exist between the individual bank accounts balances and the fund account balances. During our fieldwork we have communicated these accounts to personnel.

17. Inventories

Prior Year Comment:

Currently, the Town does not maintain an inventory of small items that do not qualify for fixed assets.

In order for the Town to control and protect its assets we recommend 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.

Status:

The same condition exists.

18. Risk Assessment and Monitoring

Prior Year 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:

As of the date of our audit the Town has not implemented procedures to monitor and assess their internal controls on a periodic basis. We encourage the Town to adopt this practice and also to further strengthen the control this process should be documented.