

TOWN OF EAST LONGMEADOW, MASSACHUSETTS

MANAGEMENT LETTER

FOR THE YEAR ENDED JUNE 30, 2013

TOWN OF EAST LONGMEADOW, MASSACHUSETTS

Management Letter

Year Ended June 30, 2013

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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, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of East Longmeadow's internal 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.

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

May 16, 2014

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Deficit Accounts

Comment:

During our audit we noted several accounts that were in deficit at June 30, 2013. A summary is as follows:

School Grants	(a)	(45,617)
Capital Projects	(a)	(527,658)
Public Safety Grants	(a)	(46,443)
Police Off-Duty Detail	(a)	(34,334)
Payroll Withholdings	(a)	(2,297)
October Storm	(a)	(19,547)
Other	(a)	(840)

(a) - DOR Reduction to Free Cash Certification

The Town should implement procedures to review all deficit accounts to determine why they are in deficit and how the deficit will be provided for or eliminated.

2. Consider Adopting a Reserve Fund for Compensated Absences

Comment:

The State Legislature voted Chapter 66 of the acts of 2012, which is now Chapter 40 section 13D, and provides a City, Town or School District that adopts the above section to establish a reserve fund for the future payment of accrued liabilities for compensated absences due any employee or fulltime officer upon termination of employment. As of June 30, 2013 the Town's Liability for compensated absences (sick, vacation, etc.) is approximately \$661,000.

We recommend that the Town review Chapter 40, section 13D and consider accepting the provisions of this new law.

3. Future Government Accounting Standards Board (GASB) Statements – GASB no. 65 and 68

Comment:

The GASB has issued new pronouncements that will significantly affect financial accounting and reporting requirements. Two of the pronouncements that will affect the Town are summarized as follows:

- GASB Statement No. 65 *“Items previously reported as Assets and Liabilities”* is required to be implemented in fiscal year 2014. This statement established accounting and financial reporting standards that reclassify and recognizes, as deferred outflows and deferred inflows of resources, certain items that were previously reported as assets and liabilities.
- GASB Statement No. 68 *“Accounting and financial reporting for pensions”* is required to be implemented in fiscal year 2015. This statement will significantly change the reporting and accounting of the pension liability and expense. The primary objective of the statement is to improve accounting and financial reporting by state and local governments for pensions. Changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Current actuarial methods and assumptions may continue to be used to determine funding amounts. Governments will be required to recognize in their financial statements a net pension liability (asset) determined annually as of the end of the fiscal year. GASB statement no. 68 is a financial reporting standard and does not require funding of any net pension obligation.

Given the significant impact of these two GASB statements on the Town’s financial accounting and reporting we recommend that the Town familiarize and educate themselves with the statements.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Tax Recapitulation Sheet and Budget

Prior Year Comment:

In reviewing the subsequent year tax recapitulation sheet (fiscal year 2013) we noted that the Town utilized water and sewer funds to fund the debt appropriation twice, once as an estimated local receipt and another as an available fund voted at Town Meeting (\$1,199,843). This has an effect of lowering the tax rate and thus creating excess levy capacity. The Town in fiscal year 2013 had excess levy capacity of \$2,026,862 as signed off on form LA-5 of the tax recapitulation sheet. Upon inquiry to Town management and financial personnel it was the Town's intention to have this approximate amount of levy capacity. By utilizing the water and sewer funds twice on the tax recapitulation sheet it gave the Town the excess levy capacity it intended. However, we feel that the Town should have voted this amount from free cash at a Town meeting to reduce the tax rate to achieve its intended tax rate and excess levy capacity. We further recommend that the Town's financial personnel completely understand the setting of the Town's budget, completing the tax recapitulation sheet and its impact on the tax rate.

Status:

The Town financial personnel have reviewed the above situation and understand the impact on the use of water and sewer funds as available funds. The Town has implemented procedures to review the tax recapitulation to ensure the situation does not happen in the future.

2. Improve Documentation of Individual Bank Account Reconciliations

Prior Year 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 (2011 and 2012). However, we found that the individual bank account reconciliations for the payroll and vendor accounts were not accurately reconciled. A variance of approximately \$6,300 exists with the reconciling items noted and the support documentation.

Status:

During our current audit we found the variance between the individual bank reconciliations and cashbook for the vendor and payroll accounts is approximately \$5,100 at June 30, 2013, an immaterial change from the prior year. We recommend an adjustment be made to eliminate this variance. Furthermore, we noted various reconciling items utilized as part of the individual bank statement reconciliation that need to be reviewed and resolved. We communicated these items during our fieldwork with personnel in the Treasurer's office.

3. Timely GAAP Financial Statements

Prior Year Comment:

In order for the Town to maintain a current bond rating and unqualified audit opinion the Town must produce timely financial statements in accordance with generally accepted accounting principles (GAAP). At the time of fieldwork the Town did not calculate its OPEB obligation and cost in accordance with GASB statement no. 45. 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's last actuarial evaluation was dated January 1, 2010 and was used for June 30, 2010 and 2011 financial statements. The Town needed to have an actuarial valuation for fiscal year 2012 and 2013 financial statements. This valuation was completed on August 30, 2013.

We recommend that the Town be familiar with GASB statements and prepare timely financial statement in accordance with GAAP.

Status:

The Town Accountant has taken our recommendation under advisement and understands GASB statement 45.

4. Reserve for Debt

Prior Year Comment:

The Town has established two reserve accounts, as required by law, for future debt payments that are associated with debt exclusions. During our audit we found that the full amounts of the accounts balances are not being amortized properly to reduce the debt exclusion amounts. We communicated this to the Town during our fieldwork and it was the intention to correct this situation starting in fiscal year 2014.

Status:

The Town Accountant has made the necessary adjustments in fiscal year 2014 and the correct amortizations will be used for future budgets.

5. Reconciliation of Health Insurance Withholding Account

Prior Year 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.

Status:

In fiscal year 2013 the same condition exists.

6. Water and Sewer Accounts Receivable

Prior Year 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 the same amount an adjustment can be made to the general ledger.

Status:

In fiscal year 2013 the Town Accountant's office established procedures to reconcile the water and sewer subsidiary receivables to the general ledger. During our audit we reviewed the reconciliation process over the water and sewer receivable and noted that the procedures were not effective and improvements can be made. We reviewed the area of improvement with Town personnel at the time of our fieldwork. A summary of the variance between the water and sewer subsidiary ledgers is as follows:

<u>Account</u>	<u>General Ledger Balance June 30, 2013</u>	<u>Accounts Receivable Subsidiary Balance June 30, 2013</u>	<u>Variance</u>	<u>Change in Variance from FY 2012 to FY 2013</u>
Water User Charges	\$ 403,995	\$ 442,785	\$ (38,790)	\$ 16,841
Sewer User Charges	\$ 343,620	\$ 351,197	(7,577)	10,618

We recommend the Town Accountant's office perform effective procedures to reconcile the water and sewer subsidiary accounts receivable to the general ledger. Any variances should be researched and resolved,

7. 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.

Status:

The Town has educated themselves of the law and has established procedures to bill other communities for retirees after January 1, 2011. During our audit we made some recommendations to personnel to improve the efficiency of the billing to other governmental units.

8. 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 Position 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.

9. 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 one 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.

10. 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, 2013. 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 the end of fiscal year 2015.

11. 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 Town at its annual Town Meeting in May of 2014 voted to establish water and sewer enterprise funds. Also, the Town at the time of fieldwork was in the process of establishing an agreement for indirect costs associated with the water and sewer funds.

12. 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 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 the Department of Revenue and insure that the Town is in compliance.

In fiscal year 2009 and 2010 some improvements were 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.

13. 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.

14. 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.