

**TOWN OF EAST LONGMEADOW, MASSACHUSETTS**

**MANAGEMENT LETTER**

**FOR THE YEAR ENDED JUNE 30, 2014**

TOWN OF EAST LONGMEADOW, MASSACHUSETTS

Management Letter

Year Ended June 30, 2014

	<u>Page</u>
TABLE OF CONTENTS .....	2
INTRODUCTORY LETTER .....	3
<b>INFORMATIONAL ITEMS</b>	
A. New OMB Circular .....	4
B. GASB No. 68 – Accounting and Financial Reporting for Pensions .....	4
<b>CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters</b>	
1. Deficit Accounts .....	5
2. Personnel Files .....	5
3. Transfer of Funds in Bank Accounts .....	5
4. Water and Sewer Debt .....	6
5. Water and Sewer Accounts Receivable .....	6
6. Department Receipt Procedures .....	7
7. Departmental Turnover Sheets .....	7
8. General Ledger Account Maintenance .....	8
9. Consider Adopting a Reserve Fund for Compensated Absences .....	8
10. Landfill Post-Closure Costs .....	8
11. Establish Internal Audit Function .....	9
12. Risk Assessment and Monitoring .....	9

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, 2014, 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  
South Deerfield, Massachusetts

June 25, 2015

## CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Informational Items

### A. New OMB Circular

Comment:

In December 2013 the Office of Management and Budget (OMB) released new guidance on administrative requirements, cost principles and audit requirements for federal awards, which has been so called the "Super Circular" or "Omni Circular". This new guidance supersedes and streamlines requirements contained in OMB Circulars A-21, A-50, A-87, A-89, A-102, A-110, A-122 and A-133 by consolidating the requirements of those eight documents into one. The new guidance affects entities receiving and administering federal awards as well as auditors responsible for auditing federal award programs. The goal of this reform is to provide guidance that ease the administrative burden of federal awards, strengthen oversight over federal funds to reduce risks of waste, fraud and abuse and eliminate duplicate and conflicting guidance between circulars. The new guidance will be in effect for all federal awards or funding to non-federal entities on or after December 26, 2014 and will apply to non-federal entity audits for fiscal years beginning on or after that date (fiscal year 2016).

We recommend Town personnel that administer and account for federal awards familiarize themselves with this new guidance.

### B. Government Accounting Standards Board (GASB) Statement – GASB no. 68

Comment:

The GASB has issued new pronouncements that will significantly affect financial accounting and reporting requirements for Pensions. One of the pronouncements that will affect the Town is summarized as follows:

- 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 this GASB statement on the Town's financial accounting and reporting we recommend that the Town familiarize and educate themselves with the statement.

## 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, 2014. A summary is as follows:

School Grants	(a)	(48,759)
Public Safety Grants	(a)	(30,035)
Police Off-Duty Detail	(a)	(51,562)
Chapter 90	(a)	(26,597)
Other	(a)	(3,092)

(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. Personnel Files

Comment:

During our audit we found that some personnel files did not contain adequate documentation (i.e. pay rates, W-4 forms, etc.). Maintaining proper personnel files is an important element of internal control over payroll. Complete and current personnel files should be established and maintained for each employee. Files should include the following information, but not limited to:

- Employment history
- Authorized pay rate/salary
- Employment contracts
- Authorized and current payroll deductions
- Current federal and state payroll forms
- Vacation and sick data
- Management authorization of all personnel changes

We recommend that Management review their personnel files to ensure adequate information is being kept.

### 3. Transfer of Funds in Bank Accounts

Comment:

As a result of the Town having various special accounts that earn interest (i.e. CPA 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.

#### 4. Water and Sewer Debt

Comment:

The Town maintains separate funds to account for water and sewer operations. One aspect of maintaining separate funds is that any debt obligations related to water and sewer are charged to the respectful fund. During our audit we found that the debt principal and interest payments budgeted and charged to the water and sewer funds did not reconcile to the current debt amortization schedules. We noted a variance of approximately \$70,400 for water and \$34,100 for sewer in fiscal year 2014. During our audit we reviewed this matter with the Town Accountant and subsequent to our fieldwork procedures were implemented to ensure the proper amount of debt obligation is budgeted and charged to the water and sewer funds.

#### 5. 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 the same amount an adjustment can be made to the general ledger.

A summary of the variance between the water and sewer subsidiary ledgers as of June 30, 2014 is as follows:

<u>Account</u>	<u>General Ledger Balance June 30, 2014</u>	<u>Accounts Receivable Subsidiary Balance June 30, 2014</u>	<u>Variance</u>	<u>Change in Variance from FY 2013 to FY 2014</u>
Water User Charges	\$ 301,157	\$ 320,041	\$ (18,884)	\$ (19,906)
Sewer User Charges	\$ 284,425	\$ 278,326	\$ 6,099	\$ (13,676)

## 6. Departmental Receipt Procedures

### Comment:

Various departments of the Town receive cash and check payments from customers in the normal course of operations. Cash transactions, by nature, have a higher degree of inherent control risk and require the establishment of additional preventive controls to safeguard against loss. The Town should establish and disseminate uniform policies and procedures for the handling of receipts by all departments. Issues to be considered include:

- Maintaining receipt logs with reference to source documentation.
- Maintaining pre-numbered receipt books.
- Maintaining an audit trail over remittances to the Treasurer's Office.
- Establishing policies for frequency of remittance.
- Establishing policies for breakdown of cash and checks on a standardized turnover sheet.
- Account reconciliations between the Treasurer's and Accountant's office with Town Departments.
- Security of receipts on hand during Town business hours and overnight.

We recommend that the Town review and modify, if necessary, the uniform policies and procedures over the receipt function pertaining to various departmental receipts. The Town should monitor departmental compliance with established procedures on a periodic and continual basis. All department heads should review established procedures and document their understanding of the relevant cash receipt control activities.

## 7. Departmental Turnover Sheets

### Comment:

During our audit we noted the Town should improve on departmental turnover sheets and procedures. A document should be created utilizing computerized spreadsheet software for each town department that collects and turns over monies. 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.

## **8. General Ledger Account Maintenance**

### 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.

Subsequent to the fiscal year-end the new Town Accountant has begun to review the chart of accounts and is currently in the process of making changes.

## **9. 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, 2014 the Town's Liability for compensated absences (sick, vacation, etc.) is approximately \$612,000.

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

## **10. Landfill Post-Closure Care Costs**

### 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.

## 11. Establish Internal Audit Function

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.

## 12. Risk Assessment and Monitoring

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.

