TOWN OF LONGMEADOW, MASSACHUSETTS

MANAGEMENT LETTER

FOR THE YEAR ENDED JUNE 30, 2008

To the Selectboard
Town of Longmeadow
Longmeadow, Massachusetts

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, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Longmeadow's internal control as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on internal control.

During our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and recommendations concerning those matters. This letter does not affect our report dated January 16, 2009, on the basic financial statements.

The accompanying comments and recommendations are intended solely for the information and use of management, the Selectboard and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next engagement. 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.

Thomas J Scanlon
Certified Public Accountant

South Deerfield, Massachusetts
January 16, 2009

CURRENT YEAR FINDINGS:

Finding 2008-1: Department of Public Works Collections (Other Matter)

Comment
Our review of the billing and collection process of the water and sewer at the Department of Public Works (DPW) indicated some weaknesses in operations.

At the present time the Collector's office collects water and sewer user charges however the DPW collects other types of fees such as sewer entrance fees, cross connections and various other receipts. A weakness exists whereby although copies are kept of the receipt turnovers there is no backup to indicate what the receipts represent. It is recommended that the department maintains a cashbook which clearly indicates the type of receipts collected and reconcile the amounts collected to the turnover given to the treasurer and to the accountant's records.

A second weakness indicated that funds are not always safeguarded at the DPW office. The funds should be safeguarded at all times and remitted to the treasurer's office as soon as possible.

Response:
The DPW is now keeping copies of checks and related documentation as backup to their receipt turnovers. Funds received are being kept in a file cabinet and are secured nightly. Deposits will be made once a week minimally. Deposits will immediately be made should cash / checks on hand reach $100. A journal of deposits is being kept for summarization and reconciliation purposes.

Finding 2008-2: Review of Payroll Transactions (Other Matter)

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.

Response:
Currently department heads initiate employee forms that include wage rates. The human resources department verifies rates related to wage scales and enters the data into the payroll system. The Town will initiate immediately that another signature (HR or Accounting) be put on the employee forms verifying the accuracy of the rate entered in the payroll system.

Finding 2008-3: Encumbrance Closing Procedures (Other Matter)

Comment
At the end of the fiscal year when the computerized general ledger was closed the encumbrance control account on the computerized balance sheet generated was not in agreement with the list of encumbrances provided by the finance department.

The balance sheet manually prepared for the fiscal year end for free cash was in agreement with the list of the encumbrances.

The problem with the encumbrances represented in the general ledger appears to be the computer software program. It appears that during the closing process open purchase orders and encumbrances without purchase orders are not handled properly and additional procedures have to be done to bring the ledger into agreement.

It is recommended that entries that are made to the general ledger be monitored and reviewed to insure accuracy when encumbrances are being posted and closed at the end of the year. The encumbrances that are indicated in the computerized ledger must be accurate and represent true encumbrances at the end of the year.

Response:
The detailed listing of encumbrances at year end was accurate. The control account did not match after the computerized year end close out. The Town Accountant has been in contact with the software vendor to review proper year end close out procedures. A closer monitoring will take place during the FY 2009 closing process.

PRIOR YEAR FINDINGS – PARTIALLY RECTIFIED:

The following findings are either partially rectified or in progress of being implemented.

Finding 2007-1: Accounting/Financial Policies and Procedures Manual (Other Matter)

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 recommended that 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 Selectboard 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 Town Finance Department does have policy and procedure documents however the task is ongoing. Departments are obtaining policies from outside sources and modifying the policies themselves.

Response:
The Town Finance Department does have current policy and procedure documents however the process of developing a comprehensive document is ongoing.

Finding 2007-9: Inventories (Other Matter)

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

We recommended for the Town to control and protect its assets an inventory of the items mentioned above 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.

Status:
The Town has partially implemented this recommendation by requiring departments to produce information lists.

Response:
The Town has a partial inventory of small items that do not qualify as fixed assets. Over the next 120 days, School and Town business officials have agreed to jointly evaluate the current system and review options as to whether the Town maintains the inventory on spreadsheets, utilize our current financial software (Munis) or other alternative methods. The group will review / update policies concerning the small item inventory and determine an “action plan” for implementation.

PRIOR YEAR FINDINGS – NOT RECTIFIED:

The following prior year's findings have not been rectified:

Finding 2007-6: Fraud Risk Assessment - Implement Regular Department Internal Audits (Other Matter)

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. As a result, all municipalities should periodically perform a risk assessment to 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 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.

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 of fraud.

Additionally the Town does not perform regular departmental internal audits. Internal audits compliment the independent audit and will provide important oversight over departmental accounting records throughout the year.

We recommended the Town look into the costs of hiring an individual, such as a retired certified public accountant to 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.

Status:
The Town has not implemented our recommendation.

Response:
The Town has been unable to fund such a position. Existing personnel are committed to ongoing high priority operational responsibilities. This task will be addressed as funding and time permits.

PRIOR YEAR FINDINGS – RECTIFIED:

Finding 2007-2: Functional Lines Items of School Budget (Other Matter)

Prior Comment:
Currently the school department budget is maintained by several control lines that are major categories and not by functional line items. When control items are used in the school budget the School Committee does not have an accurate or complete picture of the budget.

For effective internal control the budget should be presented by "functional line items." These line items should be broken out in detail and also by location, such as by the individual schools. With functional line items, the school committee can set limits on how much is to be expended so they have complete control over the budget. Once these functional line items become overdrawn the school committee should approve transfers within line items to eliminate the overdrawn accounts.

It was recommended that the School Committee develop its budget by functional line items and not by control lines. This recommendation is also consistent with the school report prepared by the Abrahams Group.

Status:
The school department budget is now set up by functional line items under the new MUNIS accounting software and is additionally broken down by each school.

Finding 2007-3: Athletic Revolving (Other Matter)

Prior Comment:
The procedure for accounting on the athletic revolving receipts is antiquated. Although records exist on the athletic revolving account substantiating the receipts which are prepared manually.

It was recommended that the records substantiating the receipts and expenditures be modernized utilizing computers.

Ticket sale reports should be completed after each game, which includes accounting for the first and last numbers of tickets sold to compare to the actual deposit to the bank. A complete profit and loss statement should be prepared for each game showing the total revenues and the total expenses. Money collected from the games should be deposited to the bank on the next business day. Money that cannot be turned over the next day, such as on a weekend, should be safeguarded.

In many schools the MIAA conducts tournament games using the school's facilities. Currently the common practice for MIIA is to take their share of the receipts out of the funds collected and net of expenses, leaving the Town with the net proceeds.
This practice does not constitute good internal control. All MIAA receipts should be deposited in total with the Town and the amounts due to the MIAA should be processed

through the warrant system and a check issued to the MIAA consistent with other Town expenditures and in accordance with the Massachusetts general laws.

Status:
Procedures have been implemented to complete game reports after each event for which admissions have been charged. The reports indicate the number of tickets sold by each cost level and the costs associated with the event indicating a net profit or loss on each event.

Finding 2007-4: Internal Control – Treasurer's Office (Other Matter)

Prior Comment:
Our review of the treasurer/collector's office indicated that there was a lack of segregation of personnel duties within the cash drawer area. Presently there is a cash drawer that various persons use when receipts are collected.

To achieve effective control in this area we recommended that each person handling cash have their own cash drawer and be responsible for their drawer and the balancing of the drawer. At the end of the day someone who does not otherwise handle the receipts should verify the cash drawer and compare the cash collected in the drawers to the receipts collected to ensure that all funds have been collected and accounted for.

Status
The treasurer/collector's office is no longer sharing cash drawers. Each staff member now has a cash drawer.

Finding 2007-5: School Revolving Account - Fees (Other Matter)

Prior Comment:
Our review of the school revolving accounts indicated that there is a revolving account for fees. We found that parking fees and busing fees are being deposited into this account.

We could not find any documentation where the School Committee or the Town had established this revolving account. If there is a vote establishing this fund these fees must be kept separate. Parking fees have to be expended for the policing and maintenance of the parking area as required by the Massachusetts General Laws. Busing fees should only be expended for bus purposes. According to the Massachusetts General Laws revolving accounts can only be expended for their specified purpose.

We recommended that the above situation be rectified in order for the revolving accounts to be accordance with the Massachusetts General Laws.

Status:
The School Committee changed the fee schedule whereby students are charged a flat fee for transportation. The fees are recorded in a revolving account and expenditures from the fund are used for bus transportation or maintenance costs of the parking lot.

Finding 2007-7: GASB Statement No. 45, Financial Reporting For Post-employment Benefits Other Than Pension Plans (Other Matter)

Prior Comment:
GASB issued a statement on post employment benefit plans that will affect the Town in the future. As a result of this issuance, the Town will be required to implement this new GASB.

Generally, the statement requires the Town to calculate the amount of the annual post employment benefit costs, such as healthcare benefits and other types of post employment benefits, such as life insurance. Once determined, the cost will then be presented and recognized on the financial statements of the Town, similar to the requirement for compensated absences.

The method of calculation will be determined by the number of plan members. For plans with more than 200 members, an actuarial valuation should be performed at least biennially and for plans with fewer than 200 members, an actuarial valuation should be performed at least triennially. For plans that have less than 100 members, the Town has the option to calculate the liability by an alternative measurement method, in lieu of an actuarial valuation.

The effective dates for implementation of this statement will parallel GASB Statement No. 34. Since the Town is a Phase 2 community, the implementation date for the Town is June 30, 2009.

We recommend that the Town keep abreast with this future requirement. In this way, the Town will be familiar with the statement and have little difficulty with implementation when the time comes.

Additionally, there will be more GASB Statements in the future that will affect the Town. We recommend the Town stay current with these statements to ease the implementation process.

Status:
The study has been completed.

Finding 2007-8: Infrastructure (Other Matter)

Prior Comment:
The Town has complied with the financial reporting model that is required at the present time. The one remaining requirement that will be required for fiscal years beginning after June 15, 2006, is the retroactive reporting of infrastructure assets for the governmental type activities. This requirement requires the reporting of roads, bridges, dams, etc. that were acquired, significantly reconstructed, or that received significant improvement from June 30, 1980.

Status:
The Town has now implemented this requirement.