

**TOWN OF LONGMEADOW, MASSACHUSETTS**  
**MANAGEMENT LETTER**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**TOWN OF LONGMEADOW, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2009**

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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, 2009, 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 December 17, 2009, on the basic financial statements.

The accompanying comments and recommendations are intended solely for the information and use of management, the Selectboard and the Audit Committee 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.

*Scanlon & Associates, LLC*

Scanlon & Associates, LLC  
December 31, 2009

## **CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

### **Departmental Receivables**

#### 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.

#### Response:

Commitments of departmental receivables will be done utilizing the Munis software and will originate at the departmental level. Personnel from the Treasurer/Collector's Office will provide training on the Munis departmental billing applications to the Police, Fire, DPW and any other department needing such training. The initial training will take place by the end of January, 2010 with a complete transition to independent departmental commitment processing by March 31, 2010

### **School Lunch**

#### Comment:

The school lunch fund has 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.

#### Response:

Management of the Town is very much aware of the declining fund balance trend within the School Lunch Fund. The School Committee voted to "privatize" the operations of the School Lunch program beginning in the 2009 / 2010 School year. School personnel meet regularly with the contracted operator of the program. Financial data flows through the Town's financial systems and financial oversight is provided by the Finance Director. The School Director of Business Services and the Finance Director will periodically discuss the financial status of the program in order to avoid any negative impact the School Lunch operations will have on the Town's "free cash".

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

### 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.

### Response:

The Town Accountant will transfer the FY 2010 activity in the State Aid to Highways / Chapter 90 program out of the General Fund and into a Special Revenue Fund so as to reflect the Chapter 90 program as a Special Revenue Fund on the Town's balance sheet as of June 30, 2010 and thereafter

## **Departmental Accounting Records**

### Comment:

During our audit we examined several department's 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.

### Response:

The Finance Director will prepare a master policy on departmental cash/check handling. The policy will minimally include subcategories covering license and permit stock, receipts, receipt logs, physical security, turnovers to the Town Treasurer, reconciliation and record retention. The policy will be drafted by February 1, 2010 and presented to Department Heads for comment on February 8, 2010. The policy will be adopted and implemented within 30 days thereafter. Any departmental deviations must be substantiated in writing and approved by the Town Manager and Finance Director.

## **Estimated Receipts**

### 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 it's impact on the fiscal year 2010 and 2011 budgets.

Response:

Town Management was well aware of receipt deficiencies in FY 2009. These deficiencies were a result of national economic conditions that were unforeseen at the time the estimates were prepared. Within the first five business days of every month the Finance Director prepares monthly receipt reports for the month just ended. By January 5, 2010, the Select Board, Town Manager and the Finance Committee received FY 2010 data through December 31, 2009 with comments on the status of individual revenue categories having a significant financial impact on the Town operations. Revenue estimates will be adjusted in accordance with historic trends as well as anticipated economic conditions.

**Support Documentation for Accounting Entries**

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.

Response:

The Town Accountant has been made aware of the finding and will ensure that supporting documentation is maintained. It is the Town Accountant's common practice to have documentation in order.

**PRIOR YEAR ISSUES – NOT RECTIFIED**

**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:

During our audit we examined the payroll cycle. We found that several school employees were overpaid during fiscal year 2009. The Town was aware of the overpaid employees and is in the process of recovering the funds. We also found that the employees current approved pay rates were not consistently retained in their personnel files. We recommend that the management review this situation and implement new procedures to insure employees be paid at the correct rate.

Response:

To address the segregation of duties issue, the Human Resource Manager has delegated payroll input to other Human Resources personnel. Also, the Human Resources Manager will approve all rate changes; however they now will be input into the payroll system by other Human Resources personnel. Documents for pay rate changes were developed approximately 18 months ago and stricter enforcement of the required paperwork (non-school) will happen immediately.

The volume of School employees and intricacies of the School collective bargaining agreements pose additional challenges. The Town's Finance Director and Human Resource Manager will work with the School Director of Business Services to develop additional safeguards to assure the accuracy of school pay rates. By June 30, 2010 there will be an approval process in place which adequately controls the School pay rate approval process.

### **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 Town has had preliminary discussions on producing such a manual. As of date of our audit a manual in its entirety does not exist. Per review with departments each individual department has its own operating manual of policies and procedures. The town should start a process where management reviews these manuals to determine if best practices are being used. Once they are all reviewed an entire manual could be put together. We acknowledge that this process will take a significant amount of time.

Response:

The Finance Director will work with the IT Manager to systematically store both the departmental and uniform policies and procedures on the Town's computer network for departmental access. The centralized policies and procedures will be available no later than March 31, 2010 on the Town's shared drive and a hard copy maintained in the offices of the

Town Accountant and the Finance Director. After April 1, 2010 the Finance Director will work with Town Management to address the policies and procedures of critical need.

## **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:

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.

### Response:

The Town is currently looking to engage a third party to assist the Town in addressing this matter. The party would have to possess expertise in governmental operations.

## **PRIOR YEAR ISSUES – RECTIFIED**

### **Department of Public Works Collections**

#### 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.

#### Status:

In fiscal year 2009 the DPW has made procedural changes. 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 are 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.

### **Encumbrance Closing Procedures**

#### Prior 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.

#### Status:

The Town has rectified the situation.