

TOWN OF EAST LONGMEADOW, MASSACHUSETTS
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2016

TOWN OF EAST LONGMEADOW, MASSACHUSETTS

Management Letter

Year Ended June 30, 2016

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To the Honorable Town Council
Town of East Longmeadow
East Longmeadow, Massachusetts

Dear Members of the Council:

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, 2016, 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 Town Council, 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 and Associates, LLC

Scanlon & Associates, LLC
South Deerfield, Massachusetts

February 1, 2017

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Informational Items

A. Documentation of Internal Controls in Accordance with Uniform Guidance

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 referred to as 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 concise circular. The new guidance will be in effect for all federal awards, or funding to non-federal entities, received on or after December 26, 2014, and will be applicable to non-federal entity audits for fiscal years beginning on or after that date (fiscal year 2016). As part of the new guidance, OMB has raised the monetary threshold for “single audits” from \$500,000 to \$750,000 of Federal funds expended in a fiscal year. The Town historically has been above the new threshold and should anticipate continuing to obtain a “single audit”.

Included in the new guidance is the requirement that the Town’s internal control structure be in compliance with a recognized internal control framework such as the “Standards for Internal Control in the Federal Governments”, as issued by the Comptroller General of the United States (the Green Book), or the “Internal Control Integrated Framework”, as issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO internal control framework is generally accepted as a best practice within a government environment. The COSO internal control framework incorporates five inter-related components of internal control which apply to staff at all organizational levels. Internal control components are supported by seventeen principles. Each principle has important characteristics, called attributes which explain the principles in greater detail. The entire framework can be found online at the COSO website (www.coso.org/IC.htm).

One of the goals of the new Uniform Guidance is to elevate internal control to an accountability measure. The overarching principal is that internal controls provide reasonable assurance, that a Federal grant recipient will achieve its objectives through:

- Effective and efficient operations
- Reliable reporting
- Compliance with applicable laws and regulations

The Town has incorporated many elements of the COSO framework into its existing internal control structure. However, in order to be in compliance with the new Uniform Guidance, management should evaluate, assess and document the government’s internal structure and incorporate elements of the COSO Framework, where needed.

We recommend the Town familiarize themselves with the COSO internal control framework and begin documenting their internal control system over federal awards.

B. Future GASB Statements - OPEB

Comment:

The GASB has issued new pronouncements that will significantly impact the accounting and financial reporting requirements for Other Post-employment Benefits (OPEB). The new standards issued are as follows:

- GASB Statement No. 74 – *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*. This statement is required to be implemented in fiscal year 2017
- GASB Statement No. 75 – *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. This statement is required to be implemented in fiscal year 2018

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

CURRENT YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Use of Town's Tax ID Number

Comment:

Periodically the Town should review the use of the Town's tax ID number with local area banking institutions. This is an effective procedure to ensure departments, boards or committees of the Town are not utilizing bank accounts that are not in custody of the Town Treasury and not being accounted for within the Town's general ledger.

2. Expenditures

Comment:

During our review of various Town expenditures we found several invoices that were dated in excess of thirty days from the warrant date of payment. It is not sound financial practice for departments to hold invoices in excess of thirty days before processing them for payment on a warrant. Holding invoices in excess of thirty days increase the risk of errors or misstatements, intentional or unintentional, in financial reporting.

We recommend that communication be made to all Town departments that invoices should be submitted in a timely manner for payment.

3. Review Revenue Subsidiary Ledger Accounts

Comment:

During our audit we noted revenue subsidiary ledger accounts in certain funds contained multiple revenue sources. For instance, in the water and sewer funds the revenue account "interest" contained both investment income and interest charged on late payments of user charges. We reviewed this matter and other instances where we felt the need for separate revenue accounts with personnel at time of fieldwork.

We recommend the Town review the revenue subsidiary chart of accounts to determine if further segregation of current revenue accounts is needed to account for significant revenue streams amongst the funds. We believe this will enhance the Town's financial reporting.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS – Other Matters

1. Establish Finance Director Position

Comment:

The Town currently operates with a General Fund budget in excess of 50 million dollars. The structure of the Town's Finance Department consists of the Town Accountant, Town Treasurer, Tax Collector and Board of Assessors. The structure of the current financial operations of the Town is consistent with smaller to medium sized municipalities within the Commonwealth.

The Financing Department as a whole is responsible for performing diverse and complex financial and accounting transactions for the Town.

The Town should consider structuring a Finance Department headed by a Finance Director. The Finance Director could also serve as the Town's Chief Financial Officer, who is responsible for establishing and maintaining sound financial policies and controls. This individual could also help work with the various Town boards and departments to create a cohesive financial control environment.

We recommend that the Town consider establishing the position of a Finance Director.

Status- Fiscal Year 2016 Audit:

The Town has adopted a new charter as of July 1, 2016. As part of the new charter the Town has established a department of Municipal Finance which would be under the direction of the Town manager. The Town Manager would appoint a Director of Municipal Finance. As of the date of our fieldwork a Director of Municipal Finance has not been appointed.

2. Review Links and Code Setup in Town's Financial Software – Tax Collector

Prior Year Comment:

During our audit we found an account in the Tax Collector subsidiary ledger that payments were received and no interest was charged for late payment on the betterment portion of the accounts receivable. Upon further review we noted that the betterment receivable account was not set up to accrue interest on outstanding amounts. We recommend the Town perform a comprehensive review of its financial software setup to ensure that links and codes are proper.

Status- Fiscal Year 2016 Audit:

The Town Accountant has reviewed the links and code setup in the Tax Collector subsidiary ledger and also the Town's general ledger to ensure they are proper.

3. Establish Bank Accounts for Water and Sewer Enterprise Funds

Prior Year Comment:

The Town voted to establish two enterprise funds to account for its water and sewer operations starting in fiscal year 2016. One aspect of adopting enterprise funds is that each fund should have a separate bank account and retain its own investment income. During our audit fieldwork we reviewed certain subsequent transactions. We noted that the Treasurer has not established separate bank accounts for the water and sewer enterprise funds at the time of our fieldwork.

We recommend that the Treasurer establish separate bank accounts for the water and sewer enterprise funds. Once established, proper transfers should be made on a monthly basis to ensure the proper balances are being maintained and reconciled to general ledger.

Status- Fiscal Year 2016 Audit:

In fiscal year 2016 the Treasurer has established separate bank accounts for the water and sewer funds. We recommend the Town to continue to monitor the banks accounts to ensure transfers are being made timely and properly.

4. Board of Selectmen Meeting Minutes

Prior Year Comment:

As part of our audit we read various committee and boards minutes. We noted that the Board of Selectmen minutes were not up to date. At the time of our fieldwork in September 2015 Selectmen meeting minutes were available up through January 2015. Massachusetts General Laws states, in part, that every board shall maintain accurate records setting forth the action taken at each meeting and a summary of all matters voted shall be made available with reasonable promptness after each meeting. It is important that the town develop procedures to ensure that records of meetings are appropriately available.

Status- Fiscal Year 2016 Audit:

Improvements have been made with regard to Board of Selectmen minutes. They were available up through June 30, 2016 at time of fieldwork. As of July 1, 2016 the new charter eliminated the Board of Selectmen and established a Town Council.

5. Personnel Files

Prior Year 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.

Status- Fiscal Year 2016 Audit:

The Town has taken our recommendation under advisement and is currently in the process of reviewing personnel files. The Town has established a checklist to be utilized in reviewing personnel files to ensure all documents are being retained.

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 and 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 over time 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:

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

A summary of the variance between the water and sewer subsidiary ledgers as of June 30, 2015 is as follows:

Account	General Ledger Balance June 30, 2015	Accounts Receivable Subsidiary Balance June 30, 2015	Variance	Change in Variance from FY 2014 to FY 2015
Water User Charges	\$ 407,730	\$ 434,344	\$ (26,614)	\$ 7,730
Sewer User Charges	\$ 307,643	\$ 308,978	\$ (1,335)	\$ 7,434

Status- Fiscal Year 2016 Audit:

The Town has made some improvements in this area; however the variance has not remained consistent from year to year. We recommend that procedures be implemented to identify and resolve all variances and resolve in a timely manner. When the variance has remained the same amount over time an adjustment can be made to the general ledger.

7. Departmental Receipt Procedures

Prior Year 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.

Status- Fiscal Year 2016 Audit:

The Town has taken our recommendation under advisement and is currently in the process of reviewing departmental receipt procedures.

8. Departmental Turnover Sheets

Prior Year 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 the treasurer's office, one to the town accountant and one retained by 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 to post revenues more efficiently.

Status- Fiscal Year 2016 Audit:

As of June 30, 2016 the situation remains the same. However the Town has taken our recommendation under advisement and is currently in the process of reviewing departmental receipt procedures.

9. 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 Governmental 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- Fiscal Year 2016 Audit:

The Town has taken our comment under advisement and is currently in the process of reviewing post-closure care costs.

10. Establish Internal Audit Function

Prior Year 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- Fiscal Year 2016 Audit:

The Town has taken our comment under advisement.

11. 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- Fiscal Year 2016 Audit:

The Town has taken our comment under advisement. The Town Accountant has started to identify certain risk areas and has begun to review procedures in those areas.