

**TOWN OF LONGMEADOW, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2014**

**TOWN OF LONGMEADOW, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2014**

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**TOWN OF LONGMEADOW, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2014**

To the Honorable Board of Selectmen and the Audit Committee  
Town of Longmeadow  
Longmeadow, Massachusetts

In planning and performing our audit of the financial statements of the Town of Longmeadow in Longmeadow, Massachusetts 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 Longmeadow's internal accounting 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, detect or 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 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.

The Town's written response to our comments and suggestions has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Board of Selectmen, others within the organization, and other regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Scanlon & Associates, LLC  
South Deerfield, Massachusetts

February 5, 2015

**TOWN OF LONGMEADOW, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2014**

**INFORMATIONAL ITEMS**

**A. GASB No. 68 – Accounting and Financial Reporting for Pensions**

The Government Accounting Standards Board (GASB) has issued Statement Number 68, *Accounting and Financial Reporting for Pensions*. Statement Number 68 replaces the requirements of Statement Number 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement Number 50, *Pension Disclosures*. Statement Number 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and Required Supplementary Information (RSI).

***Recommendation***

The requirements of GASB Number 68 are effective for the Town's Fiscal Year 2015 year-end financial statements. We recommend that the Town become familiar with the new financial reporting requirement and work with the Hampden County Retirement System to obtain the required financial statement and disclosure information in a timely manner.

**B. New OMB Circular**

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).

***Recommendation***

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

**TOWN OF LONGMEADOW, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2014**

**CURRENT YEAR COMMENTS AND RECOMMENDATIONS – OTHER MATTERS**

**1. Reconciliation of Flexible Spending Account**

The Town offers a flexible spending plan for health costs as part of the employee benefit package. The Town Accountant has established a separate account on the general ledger and the Town Treasurer has established a separate bank account to account for the activity. During our fieldwork we tested the activity associated with the flexible spending account and noted that reconciliation was not being accurately performed. At June 30, 2014 the general ledger account has a balance of \$13,517 and the bank statement has a balance of \$7,131.

***Recommendation***

We recommend that the Town implement procedures to reconcile the flexible spending account activity.

**Management's Response**

On July 1, 2014 the Town changed its Flexible Spending Administrator (FSA) and a Town bank account is no longer needed. The Town Accountant will record all disbursement made to the new FSA carrier and reconcile monthly the Town's records to the FSA reports.

**2. Payroll**

As part of our audit fieldwork we reviewed and tested the payroll cycle. We noted the following during our testing:

- We noted several instances where employees did not sign their respective time sheets. One of the key controls in the payroll process is having the employee sign the timesheet as an acknowledgement they have worked the hours indicated.

***Recommendation***

We recommend that the Town review this matter and implement the necessary procedures to ensure that this control is being done.

- Hourly employees for the school department are being paid on a basis of a salaried employee. For instance at the beginning of the fiscal year an hourly employee's anticipated yearly compensation is calculated and that amount is divided by the number of pay periods for the ensuing fiscal year to establish a pay period amount. The hourly employee is paid this amount for each pay period of the fiscal year. If an employee works less than required hours in a given pay period it is adjusted at some point in future payroll periods during the fiscal year. This has been a consistent past practice by the Town.

***Recommendation***

We recommend that the Town review the above situation and consider implementing changes to the way school department hourly employees are paid.

**TOWN OF LONGMEADOW, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2014**

**Management's Response**

First, the Town will ensure that all employees paid on an hourly basis will provide a signed time sheet from which the Town's payroll will be processed. In regard to certain School employees it is noted that compensation is dictated by collective bargaining agreements (CBAs). The School Assistant Superintendent for Finance & Administration will confer with labor counsel to ensure that language contained in the CBAs complies with Federal and State labor laws. Changes in the way union employees are paid may require the School Committee to impact bargain the change.

**3. Unrealized Gains and Losses on Investments**

One of the requirements of GASB Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, is that governmental entities record their investments at their fair value as opposed to their historical cost. While GASB Statement Number 31 is a governmental accounting requirement, some municipalities in Massachusetts continue to record their investments at their historical carrying value for their free cash/internal financial statements and an adjustment is made to record the market value in the audited financial statements.

In July 2010, the Department of Revenue (DOR) issued a letter to all Massachusetts municipalities setting forth the DOR's requirements for the certification of free cash and the presentation of financial information. This letter clearly indicated that investment funds must be reported at fair value in accordance with GASB Number 31.

Currently the Town records its investments at historical cost and not at market value. We have made an adjustment to the Town's financials of approximately \$28,142 to reflect the unrealized gain at June 30, 2014. The adjustment mainly relates to the Town's special revenue and trust funds.

***Recommendation***

We recommend that at each year end, at a minimum, the Town analyze the difference between the recorded value of its investments and the fair value of its investments as reported by the financial institutions managing these investments. The difference between the recorded value in the Town's accounting system and the reported fair value should be recorded as an unrealized gain or loss in the Town's accounting records. This unrealized gain or loss could have a significant impact on the Town's financial statements.

**Management's Response**

The Town Treasurer will provide the Town Accountant fiscal year gains / losses on investments for inclusion on the fiscal year-end financial statements.

**TOWN OF LONGMEADOW, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2014**

**4. Capital Leases**

During our audit fieldwork we found a capital lease for the purchase of technology equipment for the school department that was entered into in fiscal year 2013. The lease value of the equipment was approximately \$473,000. This capital lease, along with the asset, should have been recorded on the fiscal year 2013 financial statements as a liability and consequently we have proposed a re-statement of the financial statement for the fiscal year 2014.

***Recommendation***

We recommend the Town establish procedures to ensure that all capital lease obligations are properly recorded on the Town's financial statements.

**Management's Response**

The Town Accountant will research what constitutes a capital lease. The Finance Director and Town Accountant will prepare a written policy on such requesting that capital leases specifically be brought to the Town Accountant's attention. The policy will be distributed to all departments in time to identify any new capital leases for the FY 2015 financial statements.

**5. Capital Asset Accounting**

Generally accepted accounting principles, specifically GASB Statement Number 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* requires that the Town record the carrying value of its capital assets in the Statement of Net position and depreciate these assets over their estimated useful lives in the Statement of Changes in Net Position.

The Town has implemented the MUNIS fixed asset inventory system and also maintains detailed capital asset spreadsheets utilizing Excel to be in compliance with GASB 34. The Excel spreadsheet amounts were used to prepare the financial statements for fiscal year 2014. During our fieldwork we noted variances existed between the Excel spreadsheets and the MUNIS fixed asset ledger.

***Recommendation***

We recommend that Town perform a reconciliation between the Excel spreadsheets and the MUNIS fixed asset ledger with the overall goal to eventually solely utilize the MUNIS ledger to account for the Town's capital assets.

**Management's Response**

The Town will perform a reconciliation of the previously utilized Excel spreadsheet and the MUNIS fixed asset ledger by fiscal year end. The MUNIS fixed asset ledger will be used for capital asset accounting from this point forward.

**TOWN OF LONGMEADOW, MASSACHUSETTS**

**Management Letter**

**Year Ended June 30, 2014**

**PRIOR YEAR COMMENTS AND RECOMMENDATIONS – OTHER MATTERS**

**1. Athletic Gate Receipts**

The Athletic Department generally charges admission fees for all varsity football games, and boys and girls basketball games. Admission fees are also generated for evening soccer and field hockey games played on the Stadium Field. The ticket prices are \$5 for adults and \$3 for senior citizens and students. Ticket prices are increased to \$8 for adults, \$6 for students and \$4 for seniors/children for the home Thanksgiving Day football game. Based upon our inquiries and observation of the Longmeadow High School athletic gate receipts for the fall of 2013, we noted the following:

**A. Timely Deposits**

Deposits were not made on a timely basis. The Town has a cash procedure document which states that "Turnovers to the Treasurer should be made when total receipts reach \$250 in cash." We noted that there were only three deposits totaling \$22,762.50 made in the fall of 2013. Funds were retained in the Central Office safe for periods up to one month prior to deposit. This practice increases the risk of a loss or theft of gate receipt cash while the funds are not deposited.

***Recommendation***

We recommend that Athletic Gate Receipts be deposited to the bank within two days of the athletic event.

**Status – FY 2014 audit**

The School Business Office has improved the timeliness of deposits. We tested 2 deposits for September 2014 and noted that they were completed within two days of the event. It was further communicated to us during fieldwork that School department personnel are monitoring the timeliness of deposits.

**B. Pre-Numbered Tickets**

We noted that in the fall of Fiscal Year 2014, the Athletic Department did not always use pre-numbered tickets as a means of admission to paid athletic events. Ideally, pre-numbered tickets of different colors for adults and students/senior citizens should be used as proof of attendance. The beginning and ending ticket numbers can be used to verify cash collected at each game.

***Recommendation***

We recommend that pre-numbered tickets be used at each home game. The beginning and ending ticket numbers for each type of attendee should be denoted and if possible, stapled to the event worksheet and forwarded to the Central Office. We also suggest that an individual not involved in the sales of tickets or counting of cash be responsible for maintaining control of the unused tickets before and after each athletic event.



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**Year Ended June 30, 2014**

**Status – FY 2014 audit**

The School department has implemented procedural changes for the accounting of athletic gate receipts; amongst the changes is the use of pre-numbered tickets. During our fieldwork we reviewed several athletic events to determine if the use of pre-numbered tickets was being done. We found that there was no accurate reconciliation of the ticket numbers sold to the monies collected. Our test of recalculation of the tickets sold compared to actual receipts collected indicated consistently that actual receipts were short compared to tickets sold. The consistency in the comparison was by one ticket (\$8). We inquired to school personnel on this matter and there was no logical explanation provided. We concluded that accurate and effective reconciliations of the pre-numbered tickets were not taking place. We recommend that accurate and effective reconciliation be performed for athletic gate receipts.

**C. Petty Cash Funds**

The Athletic Department is given a bank of cash totaling \$1,500 at the beginning of the fall season to make change at athletic events. The Town maintains good control over the distribution and collection of these petty cash funds. The cash received for the gate receipt activity is kept in a locked cash drawer in the Athletic Director's locked file cabinet. It is an acceptable practice to retain a reasonable amount of cash to make change at athletic events provided the cash is adequately secured and properly accounted for.

***Recommendation***

We recommend that the School Committee stipulate the amount of cash to be retained in the Athletic Department cash drawer.

**Status – FY 2014 audit**

The School Committee has an approved petty cash account policy that states the maximum petty cash balances shall be established by the Business Manager and any increase in the set maximums must be approved by the Business Manager.

**D. Ticket Sales Worksheets**

The ticket sales worksheet should be appropriately signed as an attestation of the funds collected at each gate. The individual selling tickets and collecting cash at each gate should be responsible for accounting for the tickets sold and cash collected. The Athletic Director or designee should count the cash at each gate in the presence of the ticket taker/seller acknowledging the receipt of funds. The signature line should be used to appropriately accept responsibility for the activity at each gate.

***Recommendation***

We recommend that the Athletic Department retain all ticket sales worksheets by fiscal year as proof of proper turnover to the Treasurer and for later internal or external audit verification.

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**Management Letter**

**Year Ended June 30, 2014**

**Status – FY 2014 audit**

The School Department is retaining the ticket sale worksheets. However, we found that signatures from the ticket taker/seller were not consistently completed. An indication that a control is being performed is the presence of a signature on respective forms or documents. We recommend that worksheets be signed where indicated.

**2. Approval of Payroll Warrants**

Control activities, including payroll warrant approvals, are considered one of the inter-related components of internal control. Payroll disbursements are considered a significant transaction class as a result of the volume of activity and relative materiality of the total transactions processed. In Fiscal Year 2013, payroll warrants were not approved by the Town Manager and Town Accountant.

The individuals responsible for approving the payroll warrant should review a payroll detail report of transactions prior to rendering signature approval. The approval of transactions in detail will help control financial reporting and ensure that all payroll disbursement activity is properly authorized in accordance with management's expectations.

***Recommendation***

We recommend that detail payroll transactions and payroll summary totals be provided to those charged with approval authority prior to the distribution of payroll payments.

**Status – FY 2014 audit**

Signed payroll sheets are currently being produced and signed by the Town Manager and Town Accountant as prescribed in the Town Charter and Statutes.

**3. Journal Entry Procedures**

The Town Accountant can produce and post journal entries to the general and subsidiary ledgers. The preparation and approval functions for non-recurring journal entries should be segregated.

Also, we noted that many non-recurring journal entries were not supported by appropriate documentation. Adequate documentation serves as an accounting record, facilitates subsequent review procedures and provides additional insight for other users of financial information.

***Recommendation***

We recommend that the Director of Finance approve all non-recurring journal entries. We also recommend that whenever possible, appropriate and adequate documentation be retained sequentially as a permanent record.

**Status – FY 2014 audit**

The Finance Director has implemented procedures to review all non-recurring journal entries to ensure accuracy and proper support documentation is retained. During our audit we tested journal entries and found proper support documentation is being retained and is appropriate.

**TOWN OF LONGMEADOW, MASSACHUSETTS**

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**Year Ended June 30, 2014**

**4. Recreation Revolving Fund**

The Town has a Parks and Recreation Revolving Fund accounted for in accordance with Massachusetts General Law (MGL) Chapter 44 Section 53D. The Parks and Recreation Revolving Account deficit balances at the end of the prior three fiscal years were as follows:

June 30, 2013	\$ (21,763)
June 30, 2012	(45,990)
June 30, 2011	(40,051)

MGL related to revolving funds states in part, "Expenditures may be made from such revolving fund without further appropriation; provided, however, that the expenditures shall not be made or liabilities incurred from any such revolving fund in excess of the balance of the fund."

***Recommendation***

Management should consider reviewing the fee-based structure of the recreation program. Fees for services should be established to cover all reasonable and allocable costs of providing recreation programs.

**Status – FY 2014 audit**

The Town Manager and Finance Director have implemented procedures to review with the Recreation Director her monthly report and financial data. Individual categories within the reports showing deficit amounts are questioned regularly as to the reasons. At the end of fiscal year 2014 the fund had a deficit balance of \$45,105. This deficit was a reduction to the Town's free cash certification amount. We recommend the Town to continue to monitor the fund and perform internal audits. Furthermore, the Town should at some point provide for the deficit.