

TOWN OF LONGMEADOW, MASSACHUSETTS

MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2015



Lynch, Malloy, Marini, LLP

Certified Public Accountants & Advisors

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To the Honorable Select Board and Management
Town of Longmeadow
Longmeadow, Massachusetts

In planning and performing our audit of the financial statements of the Town of Longmeadow, Massachusetts (the Town) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the 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 *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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We are submitting, for your consideration, comments and recommendations which are not considered to be significant deficiencies but are intended to improve operations and internal accounting control.

The comments and recommendations presented herein are intended to improve the system of internal accounting control or result in other operating efficiencies. We have discussed these comments and recommendations with Town management and personnel as to the factual accuracy to obtain their concurrence before the development of our recommendations for improvement. The Town of Longmeadow, Massachusetts' responses to the comments and suggestions are included herein. The Town's responses have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

This communication is critical by nature because its purpose is to identify areas where improvements can be made. Accordingly, we have not commented on positive attributes of the Town's financial management systems. It is also important to understand that is generally not practical to achieve ideal internal control in the complex governmental accounting environment and we recognize that practical considerations are an important factor in changing administrative practices and internal control. The Town should weigh the advantages and disadvantages of the suggested changes over the present practices and procedures.

We would like to acknowledge the courtesy and assistance extended to us by Town management and personnel during our engagement.

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

Lynch, Malloy, Marini, LLP

Norwell, Massachusetts
May 2, 2016

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PRIOR YEAR COMMENTS

As part of the audit of the Town's financial statements for the year ended June 30, 2014, the previous auditors had several comments and suggestions, in their report dated February 5, 2015. As a result of our current year audit, we reviewed management's responses to those recommendations and considered those recommendations and responses in our current year audit. The comments and recommendations associated with our current year audit are detailed below.

CURRENT YEAR COMMENTS

In connection with our audit procedures for the current fiscal year ended June 30, 2015, we make the following comments, suggestions and recommendations for consideration to the Town's internal control and accounting procedures.

Accounting for capital assets

The Town maintains capital assets within the MUNIS computerized financial management/accounting system, as well as within a decentralized, detailed Excel spreadsheet in order to provide the necessary capital asset reporting information required for financial reporting purposes. Based upon our conversation with management, the intention was for capital assets to ultimately be accounted for solely within the MUNIS system on an ongoing basis. At June 30, 2015, the information within MUNIS was not reconciled and updated for fiscal year 2015 capital asset activity. Personnel subsequently updated the decentralized capital asset spreadsheet for fiscal year 2015 activity. We have been informed MUNIS reporting will be updated in the current year. We recommend the Town ensure methodologies for maintaining capital asset information for financial reporting purposes (MUNIS or decentralized) be maintained and reviewed on a routine basis to ensure completeness and accuracy. Generally, in our opinion it is important to identify capital asset additions at the time of acquisition, and disposal. Additionally, the potential existence of idle or impaired assets should also be evaluated annually. Accordingly, procedures should include an annual review with department heads reporting/documentation with appropriate department heads as to all additions/disposals/idle, impaired assets to ensure completeness and accuracy.

Town Management Response:

A reconciliation of the former and current fixed asset accounting records will be performed. While told of a completed reconciliation, the new Town Accountant (the former resigned in June 2015) could not locate one in the office files. Attempts to communicate with the former Town Accountant have been unsuccessful. A complete/documented reconciliation will be done by 6/30/2016 and forwarded to the Finance Director and independent auditor.

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Approval of school department payroll and bills

We noted school department payroll and vendor vouchers are not being approved by the Superintendent of Schools. Moreover, school department payroll is being processed without any approval by the School Committee. Per our discussion with personnel, this seems to have been historical practice. Pursuant to Massachusetts General Law (MGL) the school committee remains the head of the school department for purposes of approving bills and payrolls; however, with the passage of the 1993 Education reform Act, in those instances where Superintendents and principals have authority to incur particular expenses or appoint employees, pursuant to certain Department of Revenue interpretations, both individuals are required to approve those bills and swear to those payrolls. Massachusetts General Law (MGL) Chapter 41, Section 41, allows for "payroll to be sworn/attested to by one appointed member", with subsequent ratification by the full school committee. In our opinion, review and approval of the School Business Manager is a "good business practice" indicating invoices have been reviewed in conjunction with town purchasing procedures and School department budgetary provisions; however, statutorily, the business manager position has no approval authority.

We recommend the Town review current practices to ensure that appropriate approvals of all payrolls and bills are obtained, and documented by all supervisory personnel and officials prior to being processed.

Town Management Response:

The School Committee will review their procedures regarding authorization of payroll and accounts payable documents and make necessary changes to comply with the law.

Evaluate allocation of Net Pension Liability

In fiscal year 2015, Government Accounting Standards (GASB) required the implementation of Statement #68, Accounting for Pensions, which in summary, required municipal entities to report the liability associated with providing pension benefits in the full accrual financial statements. The Town's calculated proportionate share of the net pension liability associated with participation in the Hampden County Regional Retirement System at June 30, 2015 was approximately \$36.9 million. For fiscal year 2015, the Town has reported this entire liability within the governmental activities on the Statement of Net Position. This has been specifically disclosed within the Town's financial statements. In future years, we recommend the Town evaluate allocating this net pension liability between the governmental activities and the business-type activities (enterprise funds) on a full accrual basis. The Town should evaluate possible methodologies, including allocation by covered payroll, or communicating directly with the Retirement System and actuaries for other acceptable methods of allocation.

Town Management Response:

An agreed upon methodology for allocation of the Town's pension liability and the appropriate calculation will be made.

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Evaluate additional approvals, authorizations

During our current year audit, we noted the Town has many adopted policies, procedures and practices that are similar to many Massachusetts municipalities. We recommend the Town evaluate the following additional approvals and/or authorizations and documentary enhancements to the extent feasible.

- We recommend blank check stock be maintained with the Treasurer, and further recommend consider utilizing pre-numbered checks.
- We recommend all monthly activity associated with the third party ambulance billing/collection provider be formally reviewed and "attested to" by appropriate fire department personnel, prior to being provided to the accounting department for posting.
- We recommend all utility billing commitments be formally reviewed and "attested to" by appropriate supervisory personnel/management prior to be billed.
- We recommend the Town evaluate additional controls over activity posting to the accounting ledger/collection accounts, prior to appropriate documentation being received and reviewed (i.e. commitments/abatements, etc.).
- We recommend school department gate receipts "athletics accounting form" be enhanced to include specific line for more clearly document of any overages/shortages, rather than miscellaneous amounts being written in open spaces on the form.

Town Management Response:

- 1) Procedures on blank check stock will not change. Treasurer has ability to monitor check prints and Munis ID's those issuing checks.
- 2) Attestations will be built into procedures.
- 3) Direct posting to GL by non-accounting personnel will be eliminated.
- 4) An over/under line will be added to gate receipt reconciliation form.

Review and clarify language in Town Charter regarding warrant approval

Based upon our review of the Town Charter, the Town Manager in his absence may appoint the Finance Director as interim Town Manager to perform all duties. However, the Town Charter section 7-8 surrounding financial disbursements, seems to indicate in the absence of the Town Manager, the Select Board is to approve warrants. When appointed as interim Town Manager, the Finance Director approved the warrant. In our opinion, the language as indicated in the charter seems somewhat contradictory. We recommend the Town consider review with legal counsel to ensure all interpretations are in accordance with intent.

Town Management Response:

The Town Manager has requested an opinion on the matter from Town Counsel.

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Student Activity funds

We noted formalized reconciliation of school department student activity accounts are not provided to the Treasurer and Town Accountant. The Massachusetts Department of Elementary and Secondary Education (DESE) reaffirmed municipal entities' responsibilities under MGL Chapter 71 Section 47, regarding the accounting for student activity funds. In part, the statute indicates an audit of the student activity accounts be performed (once every three years by a certified public accountant; and that reconciliations also be sent to the Town Treasurer and Town Accountant). We recommend management review the newly issued "agreed-upon procedures and audit guidelines" in conjunction with other Town policies and procedures to ensure the Town's compliance. We have been informed school department personnel are currently in the process of reviewing current practices in accordance with this guidance.

Town Management Response:

- 1) Review and modify immediate school student activity fund policies to comply with latest requirements.
- 2) Perform audit of student activity funds.

Information technology inventory and disaster recovery plan

We recommend the Town more formally document when the annual inventory of IT equipment is completed. Based upon our conversations with personnel, this information is updated on a regular basis when it is performed. In our opinion, while monitoring of such items should be a continual process, personnel should evaluate that documentation related thereto should be sufficient to ensure the date completed, by whom, supervisory review, etc to ensure specific activity (timing of acquisitions, disposals, etc) can more easily be accounted for with subsequent inventory counts. Additionally, we recommend the Town implement a formal disaster recovery plan which details disaster recovery policies and procedures. We have been informed personnel are in the process of developing a formal plan currently.

Town Management Response:

- 1) Review current inventorying procedures and implement automated inventorying system for compatible devices. Develop documentation for inventorying procedures. Audit existing inventory data.
- 2) Review current disaster recovery plan documentation and develop a more formal and complete plan. Develop alongside Compact Communities grant award to purchase additional equipment and enter into a partnership with East Longmeadow for offsite replication.

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Informational:

Uniform Administrative Requirements, Cost principles, & Audit Requirements for Federal Awards

OMB has increased the threshold for the Single Audit for fiscal year 2016 to aggregate federal expenditures of \$750,000 or more. In addition, OMB has new regulations, referred to as the Uniform Guidance, which supersedes previously issued circulars. In addition to the increased expenditure threshold, the new circular highlights the importance and requirement for grantees to formalize the internal control structure (policies and procedures) surrounding the administration of federal grants. The key components (control environment, risk assessment, control activities, information and communication, monitoring) are clearly detailed and recommended to be followed in the Federal "Green Book".

Other Post Employment Benefits:

Government Accounting Standards Board, Statement #75 Financial Reporting for Postemployment Benefit Plans Other Than Pensions, is required to be implemented in fiscal year 2018. This new standard replaces the current reporting requirements of GASB Statement #45. Most notably, the new standard will require the unfunded liability to be reported on the Town's Statement of Net Position (Balance Sheet) rather than only a note disclosure. This is similar to the net pension liability which was implemented in the current year with GASB Statement #68. This will have a material effect upon the financial reporting (net position) of the Town.

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