

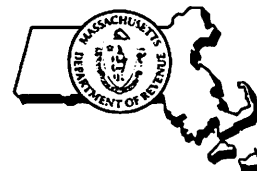


Town of Longmeadow Reconciliation of Receivables Review

*Prepared by the Municipal Data Management and Technical Assistance Bureau
May 2000*

Massachusetts Department of Revenue Division of Local Services

Frederick A. Laskey, Commissioner Joseph J. Chessey, Jr., Deputy Commissioner



May 19, 2000

Board of Selectmen
Town of Longmeadow
20 Williams Street
Longmeadow, Massachusetts 01106

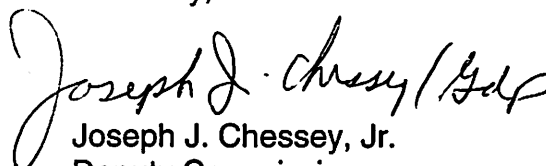
Dear Members of the Board:

It is with pleasure that I transmit to you the enclosed report, "Town of Longmeadow, Reconciliation of Receivables Review".

It is our hope that the information presented in this report will assist the town of Longmeadow in meeting its financial planning needs. If you have any questions or comments regarding our findings and recommendations, please feel free to contact Rick Kingsley, Chief of the Municipal Data Management and Technical Assistance Bureau, at (617) 626-2376.

In closing, we would like to thank you and the other officials in Longmeadow for your cooperation. I am pleased that the Division of Local Services has had the opportunity to assist the town as part of the Department of Revenue's ongoing commitment to improve financial management in cities and towns across the Commonwealth.

Sincerely,


Joseph J. Chessey, Jr.
Deputy Commissioner

JJC:mjo
Enclosure

cc: Louise Lines, Treasurer/Collector/Clerk
Paul Pasterczyk, Accountant

INTRODUCTION

By letter dated November 22, 1999, the Longmeadow board of selectmen, treasurer/collector/clerk and town accountant requested the assistance of the Department of Revenue's Division of Local Services (DLS). The town requested assistance because they are unable to reconcile the accountant's and treasurer/collector's receivables and they are concerned about fulfilling the Bureau of Accounts' (BOA) new reporting requirements with regards to the certification of free cash.

In August 1999, BOA issued letters to accountants, collectors and treasurers regarding annual reporting requirements to BOA. In these letters, BOA included a new reporting requirement that is the first step of a multi-year program regarding the reconciliation of accounts receivable for free cash certification. This new reporting requirement was reiterated in a Division of Local Services' Bulletin issued in January 2000.

According to town officials, the treasurer and the accountant reconcile cash monthly with some small variances; however, they do not reconcile receivables. From time to time, the two offices have researched and reconciled individual accounts, but nothing has been done to establish a routine reconciliation of all receivables. In an effort to fulfill the new reporting requirement, the town of Longmeadow attempted for the first time to reconcile all of its receivables, resulting in a number of variances. Subsequent attempts to reconcile the records of the two offices have been difficult and unsuccessful. Therefore, the town requested assistance from DLS.

On February 18, 2000, DLS personnel met with town officials and discussed the reconciliation problem. Based on these discussions, DLS agreed to review the town's reconciliation procedures and problems. This review involved interviewing personnel in the offices of the assessors, information technology (IT), treasurer/collector/clerk and accountant regarding the commitment, billing, collections, reporting and reconciliation procedures. In addition, we interviewed the town administrator and the town's audit firm. Based on four separate visits to the town, DLS has identified the following findings and recommendations for the community to consider.

EXECUTIVE SUMMARY

Prepared by the accountant, the town's balance sheet (assets, liabilities and fund equity as of June 30) is a key financial record. The balance sheet is relied upon by inside (e.g., finance committee, selectmen, department heads) and outside (e.g., banks, DOR, investors, federal grant agencies) users to assess a community's strengths, weaknesses and financial position. A major component of the balance sheet is the assets (cash and accounts receivable). The assets listed are based on information reported to the accountant by the collector and treasurer and should reconcile with the collector and treasurer's records. If cash or receivable variances exist between these offices, then it may raise questions about the accuracy of the balance sheet and the financial position of the town.

To ensure the integrity of the balance sheet and the financial position of the community, BOA has instituted a new reporting requirement, a schedule of outstanding receivables, beginning in 1999 (Appendix A). This new reporting requirement requires the accountant, collector and treasurer to list all outstanding receivables for real estate taxes, personal property taxes, motor vehicle excise, tax title liens and tax foreclosures. The initial report was required before the community's free cash could be certified and was comparative purposes only; any variances did not impact a community's certification of free cash as of July 1, 1999. However, in the future, the community's receivables must reconcile in order for the community's free cash to be certified.

THE RECONCILIATION OF ACCOUNTS RECEIVABLE PROCESS

Generally, the reconciliation process begins with each office (treasurer, collector and accountant) reviewing its records with the reported activity. For example, the collector must review the records, making sure the assessors' reported commitments, abatements and exemptions match the receivable detail. In addition, the treasurer's and collector's office must review collections posted in the cashbook and refunds processed through the town warrant, making sure these were accurately reported to the accountant. Similarly, the accountant reviews his records, checking the assessors' reported commitments, abatements and exemptions against the general ledger. The accountant also reviews or verifies the reported revenues turned over by the treasurer/collector were accurately posted in the general ledger correctly.

Having reviewed its records, the treasurer's and collector's offices report any outstanding receivable balances (or control accounts) to the accountant's office. When compared to the accountant's receivable balances in the general ledger, these should match. If variances between these balances exist, the offices must identify the cause of the variances (e.g., reporting errors, timing differences in reporting, missing information) and reconcile them.

LONGMEADOW'S RECONCILIATION ATTEMPTS

As previously noted, the town's attempts to reconcile the treasurer/collector's and accountant's accounts receivable have been unsuccessful. On the schedule of outstanding receivables (6/30/1999), the town reported variances in all its accounts receivable to DLS. In addition, the collector's office did not report any real or personal property receivables (except for FY1993 real estate) prior to FY1997 while the accountant's office reported various balances dating back quite a few years.

The variances reported to DLS have since been reduced, in part but not entirely, through the efforts of the town's auditor. According to the FY1999 audit, the town's receivables date back a number of years and some variances exist (See Appendix B). Its real estate tax, personal property tax and motor vehicle excise receivables date back to FY1972, FY1979, and prior to 1990, respectively. According to the assistant treasurer/collector, she was not aware of all

the pre-FY1997 receivable balances that existed because she thought all real estate receivable balances had been placed into tax title.

The two offices attempted to reconcile some receivables again using the 10/31/1999 balances of the treasurer/collector's and accountant's offices (Appendix C). Variances still existed: some increased, some decreased, some disappeared and some new ones appeared. The assistant treasurer/collector also discovered that her FY1998 real estate commitment and abatement/exemption amounts had changed since June 1999 (Appendix D). These figures should not have changed because nothing new had been committed to the FY1998 real estate nor had the assessors granted any abatements or exemptions for that billing. With the assistance of the IT department, the FY1998 commitment was corrected in January 2000, but we discovered some of the commitment amounts have changed without anyone's knowledge again. Since October, attempts to reconcile have not occurred because the treasurer/collector's office has cited computer issues and limited staffing.

COMPUTER ISSUES

According to the treasurer/collector's office, the Gemini computer system (see Town Computer Systems section) is a problem. Every year something new goes wrong. One year a prior year's commitment amount changed without their knowledge and another year the new real and personal property accounts were billed but not included in the commitment.

Producing reports is also a problem because the system is cumulative and generating the output report causes interruptions in the office. One very important report the treasurer/collector's office must routinely produce for a reconciliation of receivables is the trial balance report. The Gemini computer system's trial balance reports are cumulative, so reports must be run on specific dates. As such, once the last day of the month over the counter work is posted, the monthly trial balance reports are generated and printed. Typically, generating and printing trial balance reports take a while, ranging from an hour to all morning. During this time, the staff may not make entries into the system because it would alter the trial balance information. This causes delays in posting entries into the computer system.

STAFFING ISSUES

The town has had staff turnover in two important financial management departments, the treasurer/collector's office and IT department. Because of the changes in personnel, we found that, while the various departmental staff has received training, no one is fully trained on the Gemini computer system. Therefore, as problems occurred, the town has turned to the vendor to resolve them which has resulted in unanticipated support costs. According to town officials, if the town contracted and received training on a module and then the town seeks assistance on anything to do with the module, the town will be billed for support services. The town has discussed the support service costs with the vendor and is working on containing these costs in the future.

According to the treasurer/collector/clerk, the combination of staff turnover and computer systems problems has impacted her staff's ability to do reconciliation of receivables. Understanding the importance of receivable reconciliation, the town of Longmeadow requested that DLS review the town's operations and advise the town on improving its procedures. In the report that follows, we will provide recommendations designed to assist the community in addressing its computer concerns, improving operating procedures, and working towards reconciling its receivables.

TOWN COMPUTER SYSTEMS

The town's financial offices use three different computer systems.

1. Vision -- The assessors have used the computer assisted mass appraisal system, Vision, in-house since 1997. The office generates assessed values on the system and then has the values electronically uploaded to the collector's system for billing purposes by the town's information technology department (IT).
2. Gemini -- The town's billing and collection system is on the Gemini computer system, a large, multi-user municipal financial package. It consists of separate modules (e.g., real, personal, excise, utility, report writing etc.) that can be used as an integrated system.

The treasurer/collector's office has used the Gemini computer system since 1997 (motor vehicle excise since 1997 and real and personal property taxes and utility bills since FY1998). Real & personal property taxes, motor vehicle excise and utility charges are committed, billed and collected on this system. All billing information and amounts outstanding prior to FY1998 are not on the Gemini computer system and not maintained on a spreadsheet program, but only exist in old historical hardcopy files.

The town's deputy collector converts the Registry of Motor Vehicles' excise computer tape to disk for the town. Each disk is installed into the Gemini computer system by IT. Once installed, the assessors review the excise and commit it to the collector. The assessors also process the abatements and exemptions on the Gemini computer system and send paper copies of the entries to the collector and accountant.

3. Compusense -- The town's general ledger has been maintained on the Compusense system since FY1998. The town accountant's staff posts all general ledger entries except the departmental revenues reported by the treasurer to the accountant. The treasurer's clerk enters these revenues directly in Compusense which automatically posts the entries into the general ledger. The treasurer's clerk sends a paper backup report of the entries to the accountant's office for confirmation of the entries.

FINDING 1 -- SYSTEM ADMINISTRATION

The IT department has had turnover in staffing. Over the last year, the town has had two administrators and for a period of seven months had an independent contractor manage IT. The current system administrator and computer support staff assistant were hired in November 1999. Neither had received sufficient training on the Gemini computer system by December 1999, so the vendor had to assist in the commitment and billing of the 3rd quarter tax bills. Despite the on-site assistance of the vendor, the tax rate was omitted on the bills and the bills had to be reprinted in January 2000. The IT staff attended the tax billing training after the billing problem and plans to attend other training as time allows.

In the meantime, the system administrator deals with issues as they occur. The accountant's office provided copies of all contracts on file in the office. At DLS' suggestion, the system administrator has attempted to review some of the town's computer contracts but has limited time and possibly incomplete contractual information. Without knowing the terms of the contracts, it is difficult for the administrator to manage the town's systems.

RECOMMENDATION 1 -- SYSTEM ADMINISTRATION

We recommend that the system administrator maintain a complete set of computer contracts. The accountant and system administrator should review all contracts on file and determine if anything is missing. If information is incomplete, the town should obtain signed copies from the appropriate vendor.

We recommend that the IT administrator review the computer vendor contract(s) carefully to determine duties, responsibilities, policies, procedures, commitments and clarify with the vendor in writing any inconsistencies or omissions. The IT administrator should know the terms and limitations of the contracts in order to handle issues as they arise and to determine remedies to the town's problems with any of the computer systems.

We recommend that the IT department receive training on all the computer systems and modules the town purchased. With proper training, the IT staff may be able to provide on site support to departments and better assess problems before contacting the vendor. All staff using the Gemini computer system may benefit from a refresher or additional training (by the vendor or in-house) to better use the system modules effectively.

FINDING 2 – COMPUTER ISSUES

According to town officials, the town selected the Gemini computer system because the town thought it would meet its billing and collection computer needs. However, the system has been more complicated and expensive than anticipated. The town's concerns with the system include the following:

1. Training – As each module was implemented, staff received initial training. However, with staff turnover and routine updates to the software which have altered various modules without advance notice of the vendor (see #5 updates to software and system applications below), the staff has had difficulties using the system. The IT department is not always aware of the problems the staff is experiencing because the staff contacts the vendor directly. Most often, the IT department becomes aware of problems when the vendor requests access to the computer remotely.
2. Reference manuals – The computer manuals are general and do not provide step-by-step instructions. In addition, the manuals are not updated as revisions to the system and applications are made by the vendor. The town had trouble printing the tax bills in December 1999 and training the new assessors' clerk because the manuals were not current. Reportedly, the treasurer/collector's office has made repeated requests for updated manuals to no avail. The assessors' office has begun making their own instructional references to supplement the manuals.
3. Customer service – As problems occur, the town contacts the vendor to resolve them. Reportedly, answers to the problem or assistance by the vendor may or may not be timely and/or helpful. Each time the community contacts the vendor for assistance, the town is charged customer support fees. Not pleased with response time and the increasing cost of support fees, town officials have questioned customer service billings and met with the vendor.
4. Remote access by the vendor – At the request of staff and with the permission of IT, the vendor gains access to the town's computer system remotely. Reportedly, the vendor does not identify all changes it made. In one instance, the vendor altered data, specifically the tax commitment, without the town's knowledge. The town's auditor discovered this problem while conducting an audit and the vendor has given assurances this will not happen again.
5. Updates to software and system applications – When the town has identified problems in the system or software, the vendor has developed "patches" to resolve some of them. Other problems have been resolved when the vendor sends the town updated releases of the system software and operating system files that the town installed. And still other problems have not been addressed. Two examples are: 1) state forms that are printed off the system have not been revised with statutory language changes, and 2) property square footage is reflected on the tax bills incorrectly due to a decimal point error. In

addition, the town reports the update releases have undone some "patches" and changed operating procedures without notice. The vendor does not identify revisions/changes in scheduled updates and does not inform when "promised changes" were not included.

Adding to the town's problems with the Gemini computer system, the Vision vendor has made modifications to its system without notifying the town or Gemini, resulting in problems converting some assessment data into the Gemini computer system. In FY1999, the modifications affected the commitment and went undetected until the auditor discovered them. Reportedly, the town's commitment was correct when the 3rd quarter bills were printed, but the auditor discovered the commitment figure changed before the end of the fiscal year. According to Gemini, the problem resulted when new personal property accounts were not coded properly and an Appellate Tax Board abatement (for FY1998 only) that should not have altered the total value of the parcel in fact did. In FY2000, the town had to repeatedly run the commitment-billing file until it arrived at the correct commitment amount. Gemini's explanation was that a change in the format of personal property account numbers did not match up with the old accounts correctly and some old personal property accounts on the Gemini computer system that were not committed by the assessors were billed in error.

RECOMMENDATION 2 -- COMPUTER ISSUES

We recommend that the IT administrator be the "first point of contact" for dealing with the vendor. Users should notify the IT administrator of problems and requests which should be kept in a central log for reference, tracking and follow-up purposes. IT will assess the matter to determine if it may be resolved internally or by the vendor. Contact with the vendor should be made by the IT administrator or on a conference call with the affected department. Similarly, as information is received from the vendor, IT should disseminate information to staff. Having one person deal with the vendor may improve response time and support issues.

We recommend that IT request that Gemini explain and document all modifications prior to installation. All data changes should also be fully documented and be done only with permission of the town. The IT administrator can then disseminate this information to the appropriate departments, who can rest assured that their interests (and their data) have been protected.

We recommend that IT assess the training needs for all departments. First, identify those areas of the system critical to operations (e.g., tax bill generation, producing specific reports) and determine costs for adequately training necessary personnel in these areas. Once identified, the system administrator should plan the training in order of priority so training is received before more problems occur. The central log mentioned above could help identify modules or specific areas of the system proving problematic from a technical standpoint or that require additional training of users. And lastly, IT staff should participate in all training for operational understanding and internal support of users.

Given the changes made to the system and software since the town purchased it, we recommend that the town request updated manuals from the vendor and consider developing and maintaining step-by-step instructions to complement the manuals. Some users have already documented their own step-by-step instructions, providing guidance and useful information internally. The IT department should collect, review and distribute any user-generated instructional documents it feels would benefit current and future users. Additional step-by-step instructions for critical tasks should be generated whenever possible as a supplement to existing Gemini computer manuals.

We recommend that the town participate in the newly formed Gemini computer users group to develop contacts with other communities using the same modules. Regular contact with

other officials using the same financial software will enable town officials to raise issues, to resolve problems, and to learn new procedures that may save time.

COLLECTOR'S PROCEDURES

The treasurer/collector/clerk's office staff includes the elected treasurer/collector/clerk, assistant treasurer/collector, a treasurer's clerk, a collector's clerk, a clerk's clerk and a part-time clerk who assists throughout the office. Over the last couple of years, this office replaced two positions and currently has a temporary employee for a third position.

FINDING 1 -- COLLECTIONS PROCEDURES LACK ADEQUATE CONTROL

As was a finding in our 1990 report, all persons in the office except the treasurer/collector/clerk shared the task of receiving payments at the collector's window. All used the same cash drawer for treasurer's, collector's and clerk's receipts which the treasurer's clerk closes out once a day. While there is a schedule for the collector's window duty, more than one person may be accepting payments at the counter at the same time, thus more than one may have access to the cash drawer at any one time.

RECOMMENDATION 1 -- COLLECTIONS PROCEDURES LACK ADEQUATE CONTROL

We recommend that the office establish separate cash drawers for each department within the office and that each person scheduled for the collector's window duty cash out at the end of the person's shift. These practices would serve as a control measure in the collection procedures. Separate cash drawers will make it easier to account for collections by department and each person cashing out the drawer will enable the office to identify when or if discrepancies exist. As an additional control, the treasurer's clerk, who is responsible for preparing bank deposits, should not be collecting cash.

FINDING 2 -- DAILY COLLECTION PROCEDURES

Generally, receipts received by mail are processed on the day they are received. Over the counter payments are processed the following day. Each tax type is entered into the appropriate module (e.g., real, personal, excise, utility) on the Gemini computer system using scanners. As each batch is entered, a detailed journal report is printed and compared to the adding machine tape of checks and cash received. Once the day's collections are entered, the Gemini posting summary report (by module) is printed and placed in separate "End of Day's Work" report binders by module.

The collector's clerk prepares three revenue reports daily—a spreadsheet report, a town collector receipt report and a water and sewer receipt report. In the first report, the clerk prepares a spreadsheet of the turnover by tax type, fiscal year and type of transaction (over the counter, mail, and deputy collector). This spreadsheet report includes subtotals by tax type and a partial breakdown of water and sewer receipts, but does not total all the entries. The second report, town collector receipt report, details the collections by tax type and fiscal year, includes the general fund account numbers and reconciles the collections against the cash reported, but it does not include water and sewer payments. The third report is a detailed report of water and sewer receipts turned over to the treasurer as public works receipts and signed by the collector's clerk.

The three reports and checks are turned over to the treasurer's clerk. However, there may be a difference between the reported total turnover (collector's receipts and water & sewer receipts) and the total of the checks. This difference is cash payments that the treasurer's clerk removes from the office cash drawer to make a deposit.

In the past, during heavy collection periods, the office may experience delays posting and turning over cash to be deposited. The town's auditor raised this issue and now deposits are

made daily. Payments not posted timely to the Gemini computer systems are reported as collector's unidentified cash. Once the staff has time to enter these payments, the office reports payments correctly, thus reversing all the collector's unidentified cash.

RECOMMENDATION 2 – DAILY COLLECTION PROCEDURES

We recommend that the collector's office cash out the collector's cash drawer at least once a day, deposit the receipts to a collector's interest-bearing bank account, and review and reconcile the daily work. Once the collections are posted, the Gemini summary reports (end of day's work reports) should be printed and reviewed. Careful review of these printouts will help the staff detect possible posting errors or misclassifications of receipts. After the printouts are reviewed, they should be reconciled to the bank deposits.

We recommend that one collector receipt report with the attached Gemini summary reports for the day be placed into the collector's cashbook and that the collector's clerk turnover the cash to the treasurer's clerk at least once a week. The turnover to the treasurer's clerk should include a check for the total, the deposit slips to the collector's bank account, and one collector receipt report; all of which should reconcile. The collector receipt report should include all receipts received by the collector's office (e.g., real, personal, excise, utility, fees, interest etc.) by fiscal year, general fund account codes, and the signature of the person making the turnover. Frequent reconciliation will make it easier to locate and correct any posting or reporting errors and will help ensure that the town's financial records are accurate.

We also recommend that the office maintain a spreadsheet of the daily collections by tax type and fiscal year for each month. The spreadsheet should be set up with tax types by fiscal year on the top and the days of the month in the first column. The spreadsheet should total both across and down. Totals by line should reconcile to the day's cashbook total. Totals by column should reconcile to the change in collection totals from one month's trial balance report to the next month's report. The grand total should reconcile to the total cash turned over to the treasurer for the month. Any variances should be identified and corrected. This report should be included with the monthly reconciliation of receivables report to the accountant.

FINDING 3 – PREPARING & USING REPORTS

The office prepares trial balance, refund and detailed listing of receivables reports.

The assistant treasurer/collector processes the Gemini trial balance reports (or control account) to determine the receivable balances to which the accountant's general fund receivable balances are reconciled. As a control account, it should reflect every transaction from the initial entry of the commitment to the final entry that reduces the balance to zero. During our interviews, we found that the treasurer/collector's office prepared trial balance reports for most months. However, these reports are not reviewed internally or reconciled to other management reports (e.g., commitment warrant, abatement & exemption reports, collector receipt reports, and refund warrant) for accuracy/problems. Without reviewing the trial balance report, the office cannot be sure the receivable balances are correct.

As previously noted, the Gemini computer system takes a while to generate a trial balance report during which the staff may not make entries into the system because it would alter the trial balance information. According to IT, the monthly trial balance reports may be processed and saved to an electronic file to be printed at a later time or after hours. At the beginning of March, the office attempted to save the reports to file as instructed by IT. On the following workday, the assistant treasurer/collector tried to retrieve the files to print them, but they were missing. A couple weeks later, IT discovered these missing reports in an unrelated file on the Gemini computer system. IT and the vendor are looking into making sure these reports are stored into the correct file area in the future.

From time to time, the collector's clerk prepares a refund report and files it for future review. Generally, the assistant treasurer/collector reviews refund reports when time allows or after the final bill is due and determines if a refund should be processed.

Generally, the collector's office prepares its detailed outstanding list of receivables at year's end for the auditors. These lists are limited to the taxes, excise and utility bills on the Gemini computer system. All other lists are not readily available and the collector's office was not sure where they may be able to get these. During our discussions with the town's auditor, the auditor provided DLS with detailed lists of the town's receivables for the years 1991 to 1997 which comprise the receivables in the town's audit.

RECOMMENDATION 3 – PREPARING & USING REPORTS

We recommend that the collector's office prepare the trial balance report by tax type and fiscal year at least once a month. It is essential that these reports are printed so the office may check its work and establish a process of reconciling its receivables with the accountant. Due to the report-generating impacts on the office, the collector's office should work with IT to establish a procedure that will save the report to an electronic file in the correct storage area on the Gemini computer system and to print the report after hours. As a result, the reports will be produced and reduce the time that staff may not use the Gemini computer system. Furthermore, if unexplained variances occur, it may be useful to run the trial balance report more frequently than once a month.

We recommend that the office print and review the refund reports routinely to determine if they are accurate, the result of an overpayment or the result of an abatement. Potentially erroneous refunds should be caught when the office is reviewing daily transaction reports. Refunds that are the result of voluntary overpayments and motor vehicle excise abatements may be processed after the final payment is due as is the current practice. Property tax refunds as a result of abatements should be processed timely. This is because the taxpayer is entitled to receive a refund of the excess amount, with interest at 8 percent from the time of the payment or the final tax due date for the fiscal year, whichever is later.

At least quarterly, we recommend that the collector prepare and print an outstanding list of tax receivables by tax type and fiscal year. Each list is a control account and should reconcile to the appropriate trial balance report for the same period of time. These listings would also be used to verify balances and to locate any variances between the accountant's and collector's records. Again, frequent reconciliation will make it easier to locate and correct any posting or reporting errors and will help ensure that the town's financial records are accurate.

FINDING 4 – MAKING POSTING AND REPORTING CORRECTIONS

From time to time, the collector's office discovers mistakes that need to be corrected (e.g., posting to the wrong bill or fiscal year) and adjustments that need to be made (e.g., postings to interest versus principal). The collector's office makes journal entries to correct some of these and they are included in the day's turnover of cash. The treasurer's clerk also reports posting corrections to the accountant when the corrections cross fiscal years. In reviewing some of the interoffice memos, it was not always clear what the problem was and which accounts were involved. And lastly, the auditors find reporting errors that need to be adjusted. Specifically, the auditors found approximately \$160,700 of the personal property collections reported as real estate collections in FY1998 and approximately \$54,800 of the water collections reported as sewer collections in FY1999.

RECOMMENDATION 4 – MAKING POSTING AND REPORTING CORRECTIONS

We recommend that the treasurer/collector and accountant develop a template report that clearly states the type of transaction correction, the due to and due from accounts with

account codes and an explanation. These would include all unusual transactions, such as reversing or offsetting entries to put an account back into balance after an incorrect entry has been discovered. The collector should maintain a thorough explanation of such entries in the files for reference and to provide an audit trail.

FINDING 5 – TAX TITLE AND FORECLOSURE ACCOUNTS

After a real estate tax bill becomes past due, the collector issues a demand bill. If the taxes remain unpaid, the collector takes the parcel into tax title, or if a tax title already exists on the parcel, certifies the subsequent taxes into that account. In Longmeadow, no new tax takings have been made in the last two years, so receivable balances remain in FY1997 and FY1998. Under MGL Chapter 60 §37, the town's tax lien expires 3½ years from the end of the fiscal year for which the taxes were assessed, or upon a recorded sale or transfer of the property, whichever is later. For example, the liens for FY1997 taxes (January 1, 1996 assessment date) on properties that have sold will terminate 12/31/2000. To secure the town's liens, therefore, the collector must make timely tax takings.

Because the Gemini computer system is not designed to classify tax title and foreclosure accounts, the town maintains its tax title and foreclosure accounts in a spreadsheet program. Any subsequent tax title takings on FY1998 and FY1999 taxes are included in the tax title spreadsheet and in the Gemini computer system's tax receivable balances, resulting in a double counting of receivables on the collector's system. This adds to the adjustments that must be made when reconciling receivables.

During the course of our review, the treasurer/collector's office informed us it has secured the services of an attorney to process foreclosure petitions and land of low value parcels (property with value of less than \$5,000). To date, the office reports it has received seven foreclosure decrees from Land Court and four land of low value affidavits from the Commissioner of Revenue (Appendix E). Some of these foreclosures were finalized prior to FY2000 but the properties continued to be taxed because the assessors had not been informed of the foreclosures. The treasurer/collector's office has subsequently informed both the assessors and accountant of the foreclosures.

RECOMMENDATION 5 – TAX TITLE AND FORECLOSURE ACCOUNTS

We recommend that the treasurer/collector initiate new tax title takings soon after the issuance of a demand notice. The treasurer/collector has been aggressive in placing subsequent taxes into previously established tax title accounts, an essential step towards securing the town's liens on these properties. However, no new takings have been made recently. The treasurer/collector should initiate new takings on all receivables dating back to FY1997 as soon as possible before the lien terminates.

After making a tax taking or certifying subsequent taxes into a tax title account, we recommend that the collector establish procedures for adjusting the tax receivables on the Gemini computer system. According to a Gemini computer system user community, when transferring receivables into tax title liens, the transactions should be processed as a payment in order to remove it from the receivable balance. However, when processing these enter "transfer to tax title" in the payee field and make a notation in the reference field, indicating whether it is an original or subsequent taking. In doing so, the transfer will be clearly noted in the billing and history files of the account, it will be recognized as a transfer not a cash transaction, and it will prevent future payments from being processed by the collector's office when the treasurer's office should be handling them. Furthermore, the town will not double count these outstanding amounts and it will not have to make extra adjustments to the trial balance reports when preparing a reconciliation. All tax title transfers should be processed on one journal report that is reported to the treasurer and the accountant.

We recommend that the collector report Land Court and land of low value foreclosures to the accountant and assessors in a timely fashion. When Land Court grants a foreclosure, the town becomes the new owner of record. As such, the assessors need to be notified so they do not assess the property in the fiscal year following the foreclosure and the accountant needs to be notified so the tax title receivable is transferred to tax possession receivable. If foreclosed property is redeemed or sold at a public auction, the property again becomes taxable and must be reported to the assessors and the accountant.

For property which the collector has a land of low value affidavit, it continues to be assessed until the treasurer forecloses on the property by sale at public auction. A successful bidder pays for the purchase in full and the new deed is recorded (or registered) by the treasurer. For those parcels that were not sold, a deed to the municipality is prepared and recorded (or registered). The town becomes the new owner and the action on the parcel must be reported to the assessors and accountant.

FINDING 6 – RECEIVABLE BALANCES

As previously mentioned, the town's receivable balances date back many years and not all the receivables are on the Gemini computer system.

RECOMMENDATION 6 – RECEIVABLE BALANCES

We recommend that the treasurer/collector use the services of the deputy collector to pursue outstanding personal property accounts. The deputy collector may be able to obtain money owed the town and/or provide evidence (e.g., death, absence, poverty, insolvency, or other inability of the person assessed to pay) that the accounts are uncollectible. Being reasonably sure that the accounts are uncollectible, the collector should again work with the assessors and Commissioner of Revenue to have them abated and cleared off the town's books.

We recommend that the treasurer/collector begin the process of clearing up certain uncollectible accounts that date back many years. While the town's real estate receivables for FY1972-FY1993 reconcile, they may not be collectible because they date back so many years and the ownership of the parcels may have changed. The treasurer/collector will have to research these amounts. For those amounts that are determined to be uncollectible, the collector will need to follow BOA's guidelines to be released in the spring of 2000. Depending on the total amount that is uncollectible, the town may have to raise it on the tax recapitulation sheet or have it raised at town meeting to clear the collector's accounts.

OTHER ISSUES

FINDING 1 – NOTIFICATION OF COMMITMENT

During the process of this review, we traced recent real and personal property taxes reported from the assessors to the collector and the accountant (Appendix F). We found the assessors commit the preliminary taxes and commit the balance amount due rather than committing the total amount due. This lead to some confusion and small variances when comparing commitment amounts in the assessors' and collector's records and it does not provide a clear audit trail.

RECOMMENDATION 1 – NOTIFICATION OF COMMITMENT

When committing the actual real and personal property taxes with a warrant to the collector or notifying the accountant of the commitment, we recommend that the assessors list the actual commitment amount. Once the valuations as of January 1 are established for all taxable real property parcels and personal property accounts and the tax rate is set, the assessors determine the total tax assessments for the fiscal year and commit those taxes with a warrant to the collector. As such, the actual commitment supercedes the preliminary estimate figures and the assessors should list the full amounts committed on the warrant, thereby providing a clear audit trail.

We also recommend that the accountant record the actual tax commitment amounts per the assessors' notice. This will require the accountant reverse the preliminary tax commitment entries, again providing a clear audit trail.

FINDING 2 – REVIEWING TREASURER'S RECEIPTS REPORTS

Until the spring of 1999, the accountant's office did not review the treasurer's posting to the Compusense system and reconcile them against the departmental turnover sheets and the monthly trial balances of the general ledger. Now, the accountant's office reviews these reports and follows up on questionable entries.

RECOMMENDATION 2 – REVIEWING TREASURER'S RECEIPTS REPORTS

We recommend that the accountant continue to review these reports and periodically meet with the treasurer to reconcile any differences. Frequent reconciliation will make it easier to locate and correct any posting or reporting errors and will help ensure that the town's financial records are accurate.

ACKNOWLEDGEMENTS

The Department of Revenue, Division of Local Services, prepared this report.

Joseph J. Chessey, Deputy Commissioner

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In preparing this review, DLS interviewed the following officials and individuals:

Robert Leclair, Assistant Assessor
Barbara Hough, Assessors' Clerk
Ann Hubbard, Assessors' Clerk
Louise Lines, Treasurer/Collector/Clerk
Donna Hunsinger, Assistant Treasurer/Collector
Cheryl Cudnik, Treasurer's Clerk
Phillip Fisher, Collector's Clerk
Monica LaCroix, Systems Administrator
Victor Tirado, Computer Support Assistant
Paul Pasterczyk, Town Accountant
Vickie Murray, Assistant Town Accountant
Julia Enroth Whitlock, Town Administrator
Thomas Scanlon, Auditor
Greg Winters, Auditor

APPENDIX A



Massachusetts Department of Revenue Division of Local Services

Frederick A. Laskey, Commissioner Joseph J. Chessey, Jr., Deputy Commissioner

Bulletin

January 2000

TO: City Auditors and Town Accountants
City and Town Treasurers
City and Town Collectors

COPY: Mayors
Selectmen

FROM: James R. Johnson, Director of Accounts

SUBJECT: Certification of Free Cash as of June 30, 2000

In our letter to auditors and accountants, to treasurers and to collectors in August 1999, we requested additional information on accounts receivable for personal property, real estate, motor vehicle excise, tax liens and tax foreclosures and provided a schedule to be completed, signed and returned to the Bureau of Accounts before free cash as of July 1, 1999 would be certified. The letter stated that variances identified as of June 30, 1999 would not impact certification as of July 1, 1999.

We also stated that this was the first step of a multi-year program that will eventually require the reconciliation of all accounts receivable for free cash certification. For the fiscal year ending June 30, 2000, reconciliation of the balances of the receivables listed above reported by the collector or treasurer with the balances of the auditor or accountant will be necessary. The same schedule used last year will be utilized.

One year later, we expect to require reconciliation of the balances of all receivables.

The purpose of the BULLETIN is to reiterate the point made last August, and to allow all city and town officials involved the time to schedule any staff time needed to meet these requirements. Please contact your Bureau of Accounts field representative to discuss any questions.

The Division of Local Services is responsible for oversight of and assistance to cities and towns in achieving equitable property taxation and efficient fiscal management. The Division regularly publishes IGRs (Informational Guideline Releases detailing legal and administrative procedures) and the Bulletin (announcements and useful information) for local officials and others interested in municipal finance.

Appendix B: FY1999 Audit Statement of Receivables, Liens & Foreclosures

| | | 7/1/1998 | | Abated/ | Adjusted taxes | Collections net | General ledger | Collector's | |
|-----------------------|---------------|-------------|-------------|----------|----------------|-----------------------------|--------------------------|---------------------|----------|
| | | Uncollected | Commitments | adjusted | collectible | of refunds/ overpayments | uncollected 6/30/1999 | detail 6/30/1999 | Variance |
| Real estate | FY1999 | | 22,938,345 | 106,385 | 22,831,960 | 22,544,496 | 287,464 | 287,464 | - |
| | FY1998 | 233,906 | | 86,760 | 147,146 | 85,514 | 61,632 | 55,609 | 6,023 |
| | FY1997 | 65,310 | | (41) | 65,351 | 59,354 | 5,997 | 3,171 | 2,826 |
| | FY1993 | 111 | | | 111 | | 111 | 111 | - |
| | FY1991 | 1,421 | | | 1,421 | | 1,421 | 1,421 | - |
| | FY1972-1989 | 18,904 | - | - | 18,904 | - | 18,904 | 18,904 | - |
| | | 319,652 | 22,938,345 | 193,104 | 23,064,893 | 22,689,364 | 375,529 | 366,680 | 8,849 |
| Personal property | FY1999 | | 451,823 | 775 | 451,048 | 445,191 | 5,857 | 5,857 | - |
| | FY1998 | 4,240 | | - | 4,240 | 464 | 3,776 | 3,775 | 1 |
| | FY1997 | 898 | | 66 | 832 | | 832 | 832 | - |
| | FY1995 | 1,758 | | 1,741 | 17 | | 17 | 17 | - |
| | FY1993 | - | | (7) | 7 | | 7 | - | 7 |
| | FY1991 | 74 | | | 74 | | 74 | 81 | (7) |
| | FY1979-1988 | 3,488 | - | - | 3,488 | - | 3,488 | 3,488 | - |
| | | 10,458 | 451,823 | 2,575 | 459,706 | 445,655 | 14,051 | 14,050 | 1 |
| Total Real & Personal | | 330,110 | 23,390,168 | 195,679 | 23,524,599 | 23,135,019 | 389,580 | 380,730 | 8,850 |
| Motor vehicle excise | 1999 | | 1,496,989 | 35,670 | 1,461,319 | 1,399,082 | 62,237 | 62,316 | (79) |
| | 1998 | 52,810 | 236,789 | 18,575 | 271,024 | 259,983 | 11,041 | 11,307 | (266) |
| | 1997 | 18,090 | 322 | 1,909 | 16,503 | 3,613 | 12,890 | 9,767 | 3,123 |
| | 1996 | 4,776 | | | 4,776 | 1,235 | 3,541 | 3,814 | (273) |
| | 1995 | 7,630 | | | 7,630 | 269 | 7,361 | 5,113 | 2,248 |
| | 1994 | 4,193 | | | 4,193 | 252 | 3,941 | 6,367 | (2,426) |
| | 1993 | 15,365 | | | 15,365 | 239 | 15,126 | 6,297 | 8,829 |
| | 1992 | 5,327 | | | 5,327 | 163 | 5,164 | 7,660 | (2,496) |
| | 1991 | 17,057 | | | 17,057 | 261 | 16,796 | 18,836 | (2,040) |
| | 1990 | 17,624 | | | 17,624 | 376 | 17,248 | 17,248 | - |
| | Prior to 1990 | 50,638 | 2,400 | | 53,038 | 2,661 | 50,377 | 50,384 | (7) |
| | | 193,510 | 1,736,500 | 56,154 | 1,873,856 | 1,668,134 | 205,722 | 199,109 | 6,613 |
| Tax title liens | | 488,954 | 58,245 | 18 | 547,181 | 232,508 | 314,673 | 314,673 | - |
| Foreclosures | | 2,333 | | | 2,333 | - | 2,333 | 2,333 | - |

Appendix C: Comparison of Receivable Balances, October 31, 1999

| | | Commitment (+) | Receipts (-) | Abate/exempt (-) | Refunds (+) | Tax title (-) | Outstanding balance | Comments |
|---------------|----------------------------|-------------------|-------------------|---------------------|-----------------|------------------|------------------------|------------------------|
| 1997 MVE | Accountant | 1,655,754.42 | 1,618,386.82 | 58,220.02 | 32,463.09 | 0.00 | 11,610.67 | |
| | Treasurer/Collector | 1,655,784.21 | 1,621,162.33 | 58,229.14 | 32,119.64 | 0.00 | 8,512.38 | |
| | Difference | -29.79 | -2,775.51 | -9.12 | 343.45 | 0.00 | 3,098.29 | |
| | <i>Previous difference</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | |
| 1998 MVE | Accountant | 1,781,760.19 | 1,747,341.75 | 52,624.60 | 27,284.15 | 0.00 | 9,077.99 | |
| | Treasurer/Collector | 1,781,760.19 | 1,748,333.28 | 52,862.83 | 27,900.46 | 0.00 | 8,464.54 | |
| | Difference | 0.00 | -991.53 | -238.23 | -616.31 | 0.00 | 613.45 | |
| | <i>Previous difference</i> | <i>0.00</i> | <i>273.99</i> | <i>-949.86</i> | <i>0.00</i> | <i>0.00</i> | <i>675.87</i> | |
| 1999 MVE | Accountant | 1,736,481.45 | 1,702,069.20 | 43,968.43 | 36,341.66 | 0.00 | 26,785.48 | |
| | Treasurer/Collector | 1,736,481.45 | 1,700,692.93 | 47,707.55 | 39,730.90 | 0.00 | 27,811.87 | |
| | Difference | 0.00 | 1,376.27 | -3,739.12 | -3,389.24 | 0.00 | -1,026.39 | |
| | <i>Previous difference</i> | <i>0.00</i> | <i>91.72</i> | <i>-3,549.32</i> | <i>0.00</i> | <i>0.00</i> | <i>3,457.60</i> | |
| 1998 PP | Accountant | 425,851.08 | 422,065.51 | 0.00 | 0.00 | 0.00 | 3,785.57 | |
| | Treasurer/Collector | 426,516.00 | 422,943.43 | 0.00 | 195.87 | 0.00 | 3,768.44 | |
| | Difference | -664.92 | -877.92 | 0.00 | -195.87 | 0.00 | 17.13 | |
| | <i>Previous difference</i> | <i>-664.92</i> | <i>-749.05</i> | <i>0.00</i> | <i>-73.33</i> | <i>0.00</i> | <i>10.80</i> | |
| 1999 PP | Accountant | 451,822.83 | 446,346.47 | 775.40 | 0.00 | 0.00 | 4,700.96 | |
| | Treasurer/Collector | 451,822.83 | 447,744.44 | 775.40 | 95.89 | 0.00 | 3,398.88 | |
| | Difference | 0.00 | -1,397.97 | 0.00 | -95.89 | 0.00 | 1,302.08 | |
| | <i>Previous difference</i> | <i>489.48</i> | <i>-906.27</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>1,395.75</i> | |
| 2000 PP | Accountant | 224,356.85 | 149,485.74 | 0.00 | 0.00 | 0.00 | 74,871.11 | |
| | Treasurer/Collector | 224,356.85 | 149,485.74 | 0.00 | 0.00 | 0.00 | 74,871.11 | |
| | Difference | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |
| | <i>Previous difference</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | |
| 1998 RE | Accountant | 22,475,816.68 | 22,316,675.45 | 104,549.59 | 90,775.80 | 63,200.98 | 82,166.46 | |
| | Treasurer/Collector | 23,937,392.97 | 22,318,202.54 | 1,623,277.75 | 82,682.37 | 63,200.98 | 15,394.07 | |
| | Difference | -1,461,576.29 | -1,527.09 | -1,518,728.16 | 8,093.43 | 0.00 | 66,772.39 | |
| | <i>Previous difference</i> | <i>-13,019.53</i> | <i>357.69</i> | <i>-11,424.03</i> | <i>7,976.93</i> | <i>0.00</i> | <i>6,023.74</i> | |
| 1999 RE | Accountant | 22,938,345.14 | 22,670,561.38 | 106,731.50 | 75,022.15 | 49,566.36 | 186,508.05 | |
| | Treasurer/Collector | 22,938,345.14 | 22,662,565.43 | 166,194.57 | 70,732.22 | 49,566.36 | 130,751.00 | |
| | Difference | 0.00 | 7,995.95 | -59,463.07 | 4,289.93 | 0.00 | 55,757.05 | |
| | <i>Previous difference</i> | <i>88,752.93</i> | <i>102,009.62</i> | <i>0.00</i> | <i>1,064.29</i> | <i>0.00</i> | <i>-12,192.40</i> | |
| 2000 RE | Accountant | 11,400,635.23 | 8,530,561.32 | 0.00 | 1,449.15 | 0.00 | 2,871,523.06 | Refund 9/15/99 warrant |
| | Treasurer/Collector | 11,400,635.23 | 8,529,112.18 | 0.00 | 0.00 | 0.00 | 2,871,523.05 | |
| | Difference | 0.00 | 1,449.14 | 0.00 | 1,449.15 | 0.00 | 0.01 | |
| | <i>Previous difference</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | |
| Water & sewer | Accountant | 1,057,431.30 | 617,594.08 | 3,095.45 | 1,141.23 | 0.00 | 437,883.00 | |
| | Treasurer/Collector | 440,978.37 | 0.00 | 0.00 | 0.00 | 0.00 | 440,978.37 | |
| | Difference | 616,452.93 | 617,594.08 | 3,095.45 | 1,141.23 | 0.00 | -3,095.37 | |
| | <i>Previous difference</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | <i>0.00</i> | |

**Appendix D: Changes in Commitment
Amounts per Gemini Monthly Reports**

| <u>Report dated</u> | <u>FY1998 real commitment</u> | <u>FY1998 real abate & exempt</u> | <u>FY1999 real commitment</u> |
|-------------------------|-----------------------------------|---|-----------------------------------|
| 06/30/1999 | 22,488,836.21 | 115,973.62 | |
| 10/31/1999 | 23,937,392.97 | 1,623,277.75 | 22,938,345.14 |
| 11/30/1999 | 23,937,392.97 | 1,623,277.75 | 22,938,345.14 |
| 12/28/1999 | | | 22,938,345.14 |
| 12/30/1999 | n/a | n/a | |
| 02/02/2000 | 22,488,836.21 | 174,720.99 | 22,849,592.21 |
| 03/01/2000 | 32,915,926.66 | 174,720.99 | 22,938,345.14 |

Appendix E: Foreclosed & Land of Low Value Properties

| <u>Owner (time of tax taking)</u> | <u>Address</u> | <u>Date of foreclosure</u> | <u>Land of low value granted</u> | <u>Current Value (FY2000 taxes)</u> |
|---------------------------------------|--------------------------------|--------------------------------|--------------------------------------|---|
| Kope | Portion Conn. Ave. | 03/24/1998 | | 2,800 |
| Lovelace | Westerly Fairview Street | 05/04/1998 | | 2,800 |
| Zarlengo | Arcadia Street | 12/09/1998 | | 6,600 |
| Venti | 463 Maple Road | 02/16/1999 | | 122,100 |
| Gaul | Barrington Rd, #143 | 03/04/1999 | | 3,700 |
| Whitman RT | Stirling St, lot 27A | | 03/18/1999 | 400 |
| Whitman RT | Warwick St, lot 35A | | 03/18/1999 | 400 |
| Pelkey | Northside Sword Ave. | 01/09/2000 | | 6,100 |
| Redmond | 200 Anthony Rd. | 01/20/2000 | | 84,700 |
| Roy | Conn. Ave., rear part of lot 5 | | 02/07/2000 | 2,100 |
| Kossick | Bark Haul Rd, Lot 91 | | 02/07/2000 | 2,100 |

Appendix F: Comparisons of Commitments, Abatements and Exemptions Reported

| | <u>Tax Rate</u> <u>Recap</u> | Assessors' reported commitment <u>total</u> | Assessors' reported total of <u>warrants</u> | <u>Variance</u> | Collector's commitment total on <u>Gemini</u> | Variance from <u>warrant</u> | Assessors' reported abatements <u>exemptions</u> | Collector's abatements exemptions on Gemini | <u>Variance</u> |
|-------------------------------------|---------------------------------|--|---|-----------------|--|------------------------------------|---|--|-----------------|
| Real Property (as of 1/31/2000) | | | | | | | | | |
| FY1998 | 22,475,816.68 | 22,482,987.69 | 22,475,816.68 | 7,171.01 | 22,488,836.21 | 13,019.53 | 163,296.96 | 174,720.99 | 11,424.03 |
| FY1999 | 22,938,222.27 | 22,938,222.01 | 22,938,345.14 | (123.13) | 22,938,345.14 | - | 168,695.31 | 169,470.71 | 775.40 |
| FY2000 | 23,963,220.72 | 23,963,219.56 | 23,963,220.72 | (1.16) | 23,963,219.56 | (1.16) | 45,568.15 | 45,568.15 | - |
| Personal Property (as of 1/31/2000) | | | | | | | | | |
| FY1998 | 425,707.41 | 425,707.40 | 425,698.55 | 8.85 | 426,516.00 | 817.45 | | - | - |
| FY1999 | 451,484.25 | 451,484.21 | 451,822.83 | (338.62) | 451,333.35 | (489.48) | 775.40 | 775.40 | - |
| FY2000 | 443,175.91 | 443,401.16 | 443,175.91 | 225.25 | 443,401.16 | 225.25 | | - | - |

The variance in the Assessors' FY1998 real commitment and warrant is due to the mistaken inclusion of betterments committed.

The variance in the Assessors' FY1999 real commitment and warrant is due to an ATB abatement that should not have affected the commitment.

The variance in the Assessors' FY2000 real commitment and warrant is due to rounding of the tax amount billed.

The variance in the Assessors' FY1998 personal commitment and warrant is due to rounding of the tax amount billed.

The variance in the Assessors' FY1999 personal commitment and warrant is due to a commitment adjustment not reported to the collector.

The variance in the Assessors' FY2000 personal commitment and warrant is due to an erroneous bill that was never committed.