Massachusetts Department of Revenue *Division of Local Services*
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Town of Millbury

Financial Management Review

October 2004

INTRODUCTION

At the request of the Board of Selectmen, the Department of Revenue's Division of Local Services (DLS) has completed this financial management review of the town.

We have based our findings and recommendations on site visits by Municipal Data Management & Technical Assistance Bureau (MDM/TAB), Bureau of Accounts (BOA), and Bureau of Local Assessment (BLA) staff members. During these visits, the staff interviewed members of the board of selectmen and finance committee, the current town manager, the interim town manager/police chief, finance director, collector/treasurer, assistant assessor and other municipal office staff and committees. DLS staff examined such documents as the tax rate recapitulation sheet, town reports, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness and other assorted financial documents.

The purpose of this review is to assist town officials and boards as they evaluate the town's financial management. In reviewing the existing financial management, we have focused on: (1) the town government structure in the context of the duties and responsibilities of financial officers; (2) the degree of coordination and communication among relevant boards and officials, (3) the performance of financial operations in such a way as to maximize resources and minimize costs.

The manager and board of selectmen should consider the recommendations contained in this report in formulating overall strategies for improving the town's financial management. Many recommendations in this report can be implemented without a major change in the current structure of town government given sufficient cooperation among town boards and officials, although one recommendation will require updating a town bylaw for clarification purposes.

EXECUTIVE SUMMARY

Millbury is a community with a population of 12,784 (2000 Census) persons and an area of 16.26 square miles. Millbury is located just south of Worcester in the northern most part of the Blackstone Valley and is bisected by the Blackstone and Singletary Rivers. Originally settled as an agricultural community, Millbury attracted a variety of mill industries because of the rapid and strong current the rivers provided. Some of the industries that located in the town include a gun and ammunition factory; textile (e.g., cotton, woolen, and felting) mills; gristmills; and sawmills. With the expansion of these industries, immigrants and their families flocked to the town for employment opportunities and settled in Millbury, adding to the diverse fabric of the community.

Today, while the mills are all but extinct, Millbury has attracted a balanced variety of commercial and industrial businesses, including a waste-to-energy plant, an electric distribution facility, and a large shopping center. However, the town continues to be predominantly residential with large developable tracts of land. During the 1990s, 210 single-family homes (or about 21 structures/year) were constructed in Millbury. During that same time period, the town's population grew from 12,228 persons to 12,784 persons or about 4.5 percent. The growth was due to a combination of open available land and the close proximity to highways, which provides easy commuting options to Boston, Providence, and Hartford. However, because of the recent construction of the new exit 10A on the Massachusetts Turnpike (Pike) and the widening of Route 146, Millbury is experiencing a residential development boom. Between 2000-2004, 171 new single-family homes were constructed, averaging 34 new homes per year, and it is estimated that the population has increased to 13,168 persons (2002 Estimated Census) or about three percent.

As a result of the development and population growth in the 1990s and in anticipation of the new Pike interchange impact, Millbury voted to establish a charter commission in April 1999. Historically a decentralized form of government, the voters wanted to establish a more efficient structure that would serve the community and its growing needs. The commission proposed a strong manager-selectmen form of government that was adopted by almost a two-thirds majority (1,409 to 812 votes) in May 2000.

In the charter, a number of previously elected offices and commissions were changed to appointed and all non-school operations have a direct reporting relationship with the selectmen. Because the selectmen are a part-time board, there is a professional manager who oversees daily operations. He appoints most department heads[1], supervises all non-school departments, and oversees annual job performance reviews. The manager also prepares the town budget and coordinates the financial functions. The charter also requires that the manager—no longer the selectmen—sign the warrant, authorizing payment of the town's obligations. While the manager is the chief administrative official, the selectmen are still the town's chief executive officers and responsible for Millbury's overall fiscal position. Therefore, by charter, the manager is required to keep the selectmen informed, presenting a financial and administrative report of the town at least quarterly.

[1] The exceptions being the town counsel; registrars of voters and other election officers; board of appeals; conservation commission; historic commission; industrial development financing authority; police chief and officers; board of fire engineers, council on aging; and forest fire warden.

The town hired its first town manager in the fall of 2000 and he served one three-year term. As the first manager, he was responsible for transitioning Millbury from the previously decentralized organization to a centrally managed operation. In 2001, the manager presented a departmental reorganization plan to the selectmen, which proposed creating a finance department, a department of public works, and a planning and redevelopment department. While the board did not act on the plan, it became effective 30 days after its submission according to the charter. The manager also created new positions, job descriptions, and hired staff. Similarly, the manager notified the selectmen of employees hired, but again the board never voted on the appointments.

From the information the manager provided, the selectmen assumed everything was operating efficiently and without incident, however, some complaints began to surface in 2003. In response, the selectmen began asking questions and requesting briefings on operations and financial activities, which the manager was less than forthcoming on. Because of the responsibilities granted the manager by virtue of the charter, it was assumed that the selectmen were powerless to intervene without accusations of micromanagement. The selectmen, however, continue to have a very important fiscal oversight role, which the board did not exercise during the transition process. While the board no longer made appointments or approved the warrant, it still was their responsibility to establish policies and performance expectations of the manager. Consequently, the board granted the former manager significant power and control without the necessary fiscal accountability. The lack of adequate oversight and checks and balances led to the following problems.

- Approval of the warrant – According to MGL Chapter 41 §56, the accountant must review all bills and payroll prior to approving payment and producing a warrant. This review is important because the accountant makes sure the expenditures pertain to the responsibilities of the department submitting them, are proper uses of public funds, and are within the available spending authority of the budget. Reportedly, the manager instructed the accounting office to forward all bills to him, not the accountant, for approval. This required that the clerk input all payables into the computer system, generating the warrant for the manager without the accountant's prior review or signature, which is a violation of state law.

- Overdrawn appropriations and deficits – Because bills/payroll were paid prior to the accountant's review, this sometimes resulted in expenditures in excess of appropriations. Although the overdrawn appropriations were clearly indicated on monthly expenditure reports, generally, they were not funded by town meeting and resulted in deficits at year's end. Between FY01-FY03, Millbury had over $756,000 in deficits. In 2003, the Director of Accounts informed Millbury that unless provided by law spending in excess of appropriation is illegal (MGL Chapter 41 §31) and that the accountant should refuse payment. The town was further instructed that if the overspending was not addressed by town meeting action that the resulting deficit would have to be provided for when setting the next tax rate. Despite the Director's instructions, the finance director signed a statement that no deficits existed when setting the FY04 tax rate (putting off funding the FY03 deficits until June 2004) and officials continued over expending FY04 appropriations.

- Line-item transfers – The authority to transfer funds among line-items is the sole discretion of town meeting (MGL Chapter 44 §33B). In FY03, the former manager violated this law when he

instructed the accountant to transfer funding between line-items to cover overspending in the town hall renovation account. Because the manager lacked this authority, the transfers were reversed and the FY03 town hall renovation account had a deficit of over $10,800 at year's end.

- Procurement practices – Because of the town hall renovation over expenditures, a selectman asked an opinion of the Inspector General's Office that turned into a review. The review concentrated on the procurement of town hall construction services as well as a planned acquisition of a phone system. After interviewing the manager and reviewing documents, the Inspector General's Office found the town violated several statutory requirements on procurement and construction work. Millbury also had improper procedures that would have led to an invalid contract with a phone vendor. The town was advised that the deficient procurement practices, if not corrected, could lead to fraud, waste and abuse.

- Approval of contracts -- The manager appoints and removes staff not otherwise provided for in the charter. The selectmen must be notified of all appointments and the board has two weeks to approve or reject an appointment. When the former manager hired non-union employees, he notified the selectmen with a brief written statement, including a name, resume, and starting salary. According to the selectmen, they never saw or reviewed the actual contracts, and therefore were not aware of the benefits granted and the full financial cost of each contract. After the manager's departure, the selectmen discovered that at least two non-union employees' contracts included financial benefits the board was not aware of. One employee was hired at a starting salary that was in excess of the budgeted salary amount, the other was paid a $5,000 signing bonus, and both had multi-year salary commitments with annual increases ranging between eight and 15 percent.

- Cashbook and reconciliations – The treasurer is the custodian of the town's revenues and the accountant is responsible for maintaining the accounting records of the town. To make sure financial records are accurate and no money is missing, these offices must periodically reconcile their cash and receivable records. According to town officials and audit reports, the town has not completed timely reconciliations of cash or receivables. In addition, the cashbook is not maintained timely, contains unidentified and other non-reconciling items that span many years, and is not reconciled to the bank statements timely. This problem is compounded by the fact that three different persons have served as the treasurer and/or collector since FY01. The lack of timely cash reconciliations has delayed the completion of the town's annual audits and repeatedly has been included in the management letter, but the manager did not take steps to ensure this was corrected or that periodic reconciliations of receivables were done.

- Audit services – Because of the federal Single Audit Act, Millbury is required to have an annual audit performed. An audit is an examination of a community's financial systems, procedures and data by a certified public accountant, and a report on the fairness of financial statements and on local compliance with statutes and regulations. The resulting audit report and management letter serve as valuable management tools for evaluating the fiscal performance of a community. Generally, Millbury's audits have not been completed until almost April of the following year, and as of this writing, the FY03 audit has not been finalized, over 15 months after the close of the fiscal year.

Having encountered troubled waters in the initial years of the new charter, the selectmen want to set a better course and move forward. The selectmen hired a new manager in July 2004. With the new manager on board, the selectmen expect improved fiscal oversight and accountability. The selectmen also requested that the Division of Local Services review Millbury's financial management procedures. It is the selectmen's expectation that this management review will provide a clearer understanding of how this new structure should operate and guidance to prevent future problems.

In the report that follows, we focus primarily on the shortcomings of the town's administration in the last few years and the need to review current policies and practices. We recommend a system of checks and balances designed to stabilize the weaknesses that occurred in recent years and avert future problems. These include:

- Legal responsibilities – Every financial official must perform their duties in compliance with state laws. They also must respond to the manager's directives, but not when they conflict with legal requirements. In some communities, the accountant is appointed by the selectmen and supervised by the manager. This dual reporting structure holds the accountant responsible to the manager on daily activities while providing an avenue to report information directly to the selectmen. While we do not feel Millbury needs to make this change to its organizational model, we do recommend that the selectmen make it clear to the manager and staff that legal compliance is of paramount importance. Unlike private industry, government activities must comply with various public finance laws and general accounting practices, as well as be performed openly in the public domain. Municipal officials must operate together to ensure that the community fulfills its obligations, expends funds legally and within the adopted budget, keeps policymakers informed, and earns the public trust.

- Fiscal accountability – It is the manager's responsibility to make sure that: the community operates within the budgetary parameters set; financial officers are performing their duties properly and timely; and periodic reports are prepared to reveal the community's compliance and progress. Routine activities and/or reports on a community's fiscal compliance and accountability include:

  1. Monthly revenue and expenditure reports – Annually, town meeting approves a budget. The budget directs the government as to what services or functions it will provide and the budget sets limits on how much officials may spend. The accountant should prepare monthly budget-to-actual comparisons that track the progress of the community. Financial officials and policymakers should review these reports to ensure that ample resources exist for the entire year, departments are operating within budget, and/or that corrective action will be taken if problems arise. It also is imperative that each department reviews the monthly expenditure reports, verifying it contains authorized expenditures and it reconciles with internal records.

  2. Reconciliations – Two of the largest assets for a community are cash and receivables. Information pertaining to these is kept by the treasurer and the accountant, and must be periodically reconciled between the two offices to ensure funds are not missing and financial records are correct. Before reconciliations with the accountant can occur, the treasurer must keep her cashbook current and reconcile her records to the bank statements timely. She should also track tax and excise collections, periodically reconciling these records to the accountant's.

Prompt and frequent reconciliations between the offices are essential in order to maintain control and ensure checks and balances are in place.

3. Audits – It is important that a community have an audit performed shortly after the close of the fiscal year. This independent review provides information on the reliability and legal compliance of the community's accounting and reporting systems. It should identify deficits from the prior year's operation that must be funded as well as any weaknesses in the financial offices. The audit results serve as a valuable management tool for evaluating the fiscal performance of the community and providing recommendations for future improvements.

4. Procurement practices – MGL Chapter 30B, the Uniform Procurement Act, establishes procedures for public officials to follow when purchasing or contracting for supplies, equipment, services and property. Public construction projects are procured under MGL Chapters 149, 149A, and 30 §39M. The community must comply with the thresholds of these laws (or town bylaw if lower) and all procedures to ensure competition is open and fair and abuse and waste does not occur.

- Open communication – In fulfilling their fiduciary responsibility to the public, it is necessary that the selectmen be kept informed as to Millbury's financial position and issues as they arise. Similarly, for budget planning purposes, the finance committee should be kept abreast of financial activities, too. We recommend that the manager keep the town's policymakers informed, providing monthly revenue and expenditure reports, gathering information upon request, and making special presentations on the town's finances at least quarterly. Furthermore, to ensure that all vital information is brought to their attention, we recommend that the selectmen establish an environment that encourages open communication.

Because the selectmen did not fully understand their role in establishing safeguards and management policies designed to direct and check the manager's activities, Millbury experienced problems. While we believe the reorganization of town government will better position Millbury to manage its future, the selectmen need to realize that their role as chief executive officers is vital. The selectmen need to impress upon all officials the importance of fiscal accountability. The board must insist that the town operates within its budget, reconciliations are performed timely, proper procurement practices are in place, and audits are completed timely. To ensure that town activities are performed properly, the board needs to foster open communication and make sure that an adequate system of checks and balances is in place. With good policies and procedures in place, Millbury will be able to manage its resources better and plan for the future.

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OVERALL FINANCIAL MANAGEMENT & BUDGETING

FINDING 1: AVOID DEFICIT SPENDING

As previously noted, Millbury has incurred deficits over the last few years, ranging from $22 (FY01 police travel) to $208,320 (FY03 snow & ice). Generally, the deficits are raised on the tax recapitulation sheet in the fall or they are put off until the spring town meeting. In the latter case, delaying action on the deficits violates a DOR policy. It is DOR's policy that when setting the tax rate, if the town has not submitted its balance sheet, then the accountant must certify that he has examined the town's records and there are no deficits that must be raised. Over the last few years, these statements were signed despite knowledge to the contrary. In addition, town records contain an unresolved capital project deficit since FY01. Millbury built a library addition and authorized debt to fund it. When the long-term debt was issued, officials found they had overspent the borrowing authorization by $32,027, hence a capital project deficit.

During the police chief's tenure as interim manager (December 2003-June 2004), he found some FY04 accounts were overdrawn or projected to be by June 30. The largest was an estimated $360,000 shortfall in the town's health insurance account, which was funded by town meeting in June 2004. The remaining FY04 operating shortfalls (totaling over $108,000) were covered by line-item transfers made by the selectmen with the approval of the finance committee. While town meeting action normally is required, the Municipal Relief Act (Chapter 46 §123 of the Acts of 2003) created a temporary exception, providing communities with the flexibility to make FY04 and FY05 budgetary transfers to avoid deficits. According to the act, transfers must be made during the last two months of the fiscal year and may not exceed three percent of the annual budget of the department from which the transfer is made. Upon review of the actions taken, it appears that 26 of the 33 transfers (over $68,600 of the total) exceeded the three percent transfer limit. When brought to the attention of local officials, some expressed no knowledge of the three percent limit while others assumed that the accountant had reviewed the act and all proposed transfers complied with the requirements.

While reviewing Millbury's deficits, we found that some are the result of historical budgeting practices and/or lack of budget reconciliation procedures. For example, Millbury budgets and separately votes salaries in three line-items: elected salary; administrative salary; and other salary. Because of these separate authorizations, the library department incurred an FY03 deficit of $126 in other salary while it closed a $4,187 surplus from the administrative salary account. In another example, the debt service budget has two line-items, principal reduction and interest. During FY03, the treasurer submitted some debt payment requests with only the principal reduction account code when in fact each bill consisted of principal and interest charges. If the treasurer had reviewed a monthly expenditure report and reconciled it to a set of internal records (see page 26), then the mis-postings would have been corrected and the resulting deficit prevented. To avoid the latter problem, the manager has instructed each department to develop and maintain its own internal budget spreadsheet and to reconcile it with the accounting office's expenditure reports monthly, verifying all expenditures were approved by the department head and the remaining balances match.

In addition to the multiple salary accounts, Millbury budgets supplies, other expenses, in-state travel, out-of-state travel, and capital separately. Providing a budget report by operating activity with specific

line-time purposes is designed to be informative, however when approved at this level of detail, it places limits on department heads in managing their budgets. For example, spending needs may periodically shift due to job vacancies or increased costs for services. When a budget authorization is approved with excruciating detail, the department head may be unable to make expenditures until a town meeting is called and a transfer is approved. Increasingly, communities are changing their budget format to be more efficient. Many have reduced the appropriation article to three funding authorization categories—personnel, expenses and capital—for each departmental budget while still providing the detail for informational purposes only. Reducing the level of budget detail can increase the management flexibility of department heads to deliver services and live within their budget authorization without incurring deficits.

RECOMMENDATION 1: AVOID DEFICIT SPENDING

We recommend that the town monitor its spending and avoid deficit spending. Unless there is a provision in the general laws that allows for a deficit, a community may not incur liabilities in excess of appropriation. If an expenditure would result in an illegal deficit, the accountant should not approve payment. If it is an emergency and a town meeting cannot be called timely, seek the permission of the Director of Accounts (MGL Chapter 44 §31). Any over expenditure not provided for by town meeting action before the close of a fiscal year should be clearly disclosed as an operating deficit and provided for prior to setting the next tax rate.

Failure to comply with the law or providing false statements about the existence of deficits at tax rate setting time could result in sanctions by the Director (e.g., requiring the completion and submission of a private audit prior to setting the tax rate). Not managing this problem and continuing to incur deficits could also result in a reduced bond rating for the community. Furthermore, a town official may be criminally liable up to a fine of $1,000 or by imprisonment for not more than one year, or both, to the extent that such officer "knowingly violates, or authorizes or directs any official or employee to violate" any general law as it relates to the incurring of a liability or the expenditure of public funds (MGL Chapter 44 §62).

We recommend that Millbury provide for the library construction deficit. According to the Director, the town must raise this deficit through town meeting action prior to setting the FY05 tax rate. If no meeting is called, it **must** be raised on page 2 of the FY05 tax recapitulation sheet.

We recommend that the town review future Municipal Relief transfers to make sure meet they fulfill the requirements of the act. According to the Director, he will not invalidate the FY04 transfers in excess of the three percent limit. However, the manager and/or accountant should closely monitor expenditures, proposing solutions to problems as they occur and avoiding the need to invoke this act at the close of FY05.

We recommend that the town adopt an abbreviated budget authorization format while still providing supplemental detailed documentation for informational purposes. By adopting a format with only the major spending categories (e.g., personnel, expenses, and capital) for each departmental budget, department heads would have greater flexibility to use money in places where it is needed without incurring deficits or having to call a special town meeting to make a transfer.

FINDING 2: INSTITUTE ADMINISTRATIVE CHECKS AND BALANCES

While the manager is the town's chief administrative officer responsible for daily operations and fiscal affairs, the selectmen are the chief executive officers and primary policymaking board, which ultimately is responsible for the town's financial welfare. The selectmen have a fiduciary responsibility to know the financial position of the town at any time. According to officials, problems that occurred during the first manager's administration generally happened without the selectmen's knowledge. Employees performed tasks as instructed by the former manager, often knowing they were in direct violation of state statutes. Despite adoption of a Whistleblower policy (Millbury Employees' Handbook, policy 7.802), employees were reluctant to report improper or illegal actions. The problems that occurred were not a result of the form of government itself, but rather a lack of adequate checks and balances.

According to the charter, the selectmen no longer sign the warrant, so they generally did not see the types of expenditures made weekly or see monthly expenditure reports that showed spending trends by department or townwide. The charter states that the manager is required to keep the selectmen fully informed. At least quarterly or as often as may be required by the selectmen, the manager must report on the financial and administrative activities and needs of the town. According to officials, the selectmen never defined the content or frequency of these reports, setting policy for the manager to implement. Consequently, the manager's reports were brief and never indicated problems. Whenever the selectmen asked about the status of something, the manger was often less than forthcoming or assured the board that he was handling it.

Annually, the accountant closed the town's books and prepared the balance sheet, which included the documented deficits. The town's private auditor raised the illegal deficits in Millbury's FY02 management letter, instructing the town to closely review expenditure reports and informing the accountant that payments that would result in a deficit should not be authorized. The former town manager's response to the auditor was that the town had determined that the spending was an issue of public safety, a designation that according to MGL Chapter 44 §31 must be approved by the Director of Accounts. However, because the town's audits have not been completed until almost a year after the fact, the selectmen again lacked an important management tool that would identify these problems timely and provide guidance on making future improvements.

RECOMMENDATION 2: INSTITUTE ADMINISTRATIVE CHECKS AND BALANCES

We recommend that the selectmen create an environment that will encourage employees to report improper actions without fear of retaliation. Officials should perform their duties in compliance of state laws and their professional code of ethics without interference. Failure to do so affects the performance of their duties as well as the community as a whole. Every official should be assured that if a problem exists and the manager does not resolve it, or worse requires the employee to do something improper, then the employee should bring the matter to the selectmen's attention in accordance with the town's Whistleblower policy.

We recommend that the manager keep the town's policymakers—the selectmen and finance committee—fully informed. The manager should provide policymakers with the monthly revenue and

expenditure reports prepared by the finance director (page 16). He also should present to them financial updates at least quarterly. These special meetings should provide complete data and analysis prepared with the assistance of the financial team (see below) on the prior year's performance, year-to-date activities, and issues as they come up. Officials should use these meetings to discuss information presented and to plan for future needs.

We also recommend that the selectmen adopt a policy to have the town's audit completed and presented to the board within six month's of the fiscal year's end. Based on the audit results and recommendations in the management letter, the selectmen or a separate audit review committee should develop a proposal to correct problems and plan for the future.

FINDING 3: STRENGTHEN FINANCIAL MANAGEMENT

Historically, the finance committee controlled the budget process. It developed the revenue estimates (with minimal assistance from financial officials), solicited departmental requests, prepared analysis, and recommended the final budget to town meeting. Under the new charter, the manager is responsible for the mechanics of the budget process so the finance committee can concentrate on evaluating requests and making recommendations. During the first town manager's term, he prepared preliminary revenue estimates in the fall. Based on these estimates, the town manager distributed a budget package, including guidelines and worksheets. Departments filled out the worksheets and returned them to the accounting office for data entry into the budgeting software. After consultation with the selectmen, the manager presented a balanced budget proposal to the finance committee. Once received, the finance committee held departmental hearings and presented its final recommendations to annual town meeting. Upon the manager's departure, the acting town manager distributed budget guidelines and worksheets to departments, reviewed the non-school requests and submitted some recommendations to the finance committee. However, because the acting manager was not familiar with the whole process and the financial officers had limited involvement historically, the finance committee again assumed responsibility for putting the FY05 budget together.

Based on the finance committee's estimates, the total budget requests exceeded available revenues by about $1.7 million. Because of the amount of the budget gap, the finance committee presented the problem at a selectmen's meeting. At the meeting, some of the finance committee's revenue estimates were questioned. Reportedly, the estimated new growth had been revised twice based on a review of building permits by the assessing office and some local receipts could be increased based on actual collections. However, the finance committee chose not to revise its revenue estimates. Instead, the finance committee closed the gap by making FY05 budget cuts and eliminating all FY05 capital/one-time expenditures. The finance committee's leaner budget was adopted at town meeting. Consequently, this process resulted in considerable friction among town officials. Some feel the town has ample resources and that not all the operating cuts made were necessary while others feel the cuts were necessary because departments were not operating within their budgets.

The new manager is aware of the past financial problems and the recent FY05 budget process. He has been reviewing the budget and the departmental operating needs, but does not see any immediate need to call a special town meeting for transfers or additional funding requests. It is his

expectation that each department will operate within its appropriation without exception. He has directed departments to keep internal budget worksheets, verifying that the department head approved all charges made against their accounts and reconciling them with the finance director's monthly expenditure reports. The manager has instructed the finance director to scrutinize bill and payroll submissions closely and to monitor spending patterns, periodically briefing the manager and the recently established financial team. The financial team is comprised of the manager, the finance director, collector/treasurer and assistant assessor and meets at least monthly. The team will assist the manager in reviewing financial documents, compiling data and information, preparing analyses, and developing strategies to deal with problems when they occur.

RECOMMENDATION 3: STRENGTHEN FINANCIAL MANAGEMENT

We recommend that the financial team include the school business manager. Because educational costs are over half of the town's budget, the school business manager's participation on the team is essential. She will be able to provide school-related information to the team, which will enable the group to develop comprehensive analyses. With the two school construction projects recently completed, the team should begin familiarizing themselves with the new school construction aid process, planning for the issuance of the long-term debt, and preparing for an audit of the projects.

We also recommend that the financial team actively participate in the budget process. This will ensure that more than one person knows all facets of the process, including estimating revenues, developing guidelines, gathering information, preparing analyses, and advising the policymakers of changes as they occur. Hence, the financial team would provide institutional continuity in the event any one of the town's financial officials left.

FINDING 4: APPROPRIATE INTO THE STABILIZATION FUND PROPERLY

The town receives an in-lieu of tax payment from the Wheelabrator facility in town. While this payment is a general receipt and reported as recurring miscellaneous revenue, Millbury takes a conservative approach to recognizing this resource. This is based on the experience of other communities that have had similar plants that were active and prosperous one year, only to be gone the next. In some communities, when the waste facility closed, the receipts from it ceased and created a budget gap for the community. As such, Millbury under estimates this receipt in the budget and preparation of the tax rate. The town also prefers to use this revenue source to fund capital or one-time, non-recurring expenditures by appropriating a portion of this receipt into the general-purpose stabilization fund. Unfortunately, we have concerns regarding the handling of this receipt and the contributions to the stabilization fund.

All general revenue should be deposited to the general fund and become part of the town's free cash certification after the close of the fiscal year. Town meeting annually votes a percentage of the Wheelabrator receipts to be deposited into the stabilization fund. Upon receipt of the funds, the accountant deposits the town meeting approved percentage directly to the fund and the remaining amount to the general fund. To divert general revenue to a particular fund requires legal authorization (e.g., general enabling or special legislation), which does not exist. In addition, an appropriation ordinarily consists of the allocation of a definite sum of money from a specified source to a particular

purpose, which is included in the town clerk's certification of appropriations (MGL Chapter 41 §15A). In our opinion, the allocation of 25 percent (Article 9) voted at the 2004 annual town meeting does not meet the definition of a valid appropriation.

RECOMMENDATION 4: APPROPRIATE INTO THE STABILIZATION FUND PROPERLY

When appropriating to the general-purpose stabilization fund, we recommend that the town always raise and appropriate or transfer from available funds a specific dollar amount. This will ensure that the town has validly exercised its appropriating power and that the receipt is properly handled and reported in the general ledger.

FINDING 5: PREPARE CAPITAL PLAN & MULTI-YEAR FORECAST

By charter, the town manager is required to prepare a five-year capital outlay program. This program should be updated annually and proposed capital expenditures are included in the annual budget presentation. While the previous manager prepared a detailed five-year plan (dated 2/13/01), the multi-year program has not been updated to reflect projects accomplished or new needs.

As a part of the budget process, the manager prepares a revenue and expense analysis for the proposed budget. However, he does not prepare a similar analysis on a multi-year basis. A multi-year forecast of revenues and expenditures is a useful management tool that many towns use to assist them in operating and capital funding decisions and in establishing financial policies.

RECOMMENDATION 5: PREPARE CAPITAL PLANNING & MULTI-YEAR FORECASTING

We recommend that the manager develop and maintain a comprehensive capital plan. The manager, with the assistance of the financial team, should develop a multi-year capital plan for all town departments, keeping it current to reflect changing needs and projects accomplished. These documents should: (1) prioritize the various proposed capital projects; (2) estimate project costs; and (3) list the proposed method of payment (current revenue, debt or debt excluded from the limits of Proposition 2½) for each project. Regardless of funding ability, annual presentation of a capital budget to town meeting has merit. It serves to inform citizens of the community's capital needs and makes them aware of essential capital needs that may be deferred due to financial constraints.

We also recommend that the manager develop a multi-year revenue and expenditure forecast. Again, with the assistance from the financial team, the manager should produce this forecast for the general fund operations and the enterprise fund. It is recommended that the forecast span between three and five years, updating it routinely as new information becomes available. It should be used by the policymakers to evaluate budget requests with multi-year impacts and to develop long-range financial plans. Used in conjunction with a well-developed capital plan, multi-year forecasting will also help the town determine whether capital projects should be funded from current revenues, the issuance of new debt or new debt that is excluded from the limits of Proposition 2½.

MANAGEMENT INFORMATION SYSTEMS (MIS)

Over the last decade, the financial offices have used a number of separate computerized systems. The accounting office used the Gemini system (FY98-FY99) and Vadar system (FY00-FY02), and has been using window-based Unifund BudgetSense system since FY03. The BudgetSense modules used include the general ledger, budgeting, purchasing, accounts payable and a report writer. The system also allows remote entry by departments throughout town, which is scheduled for implementation in the next year or so. The collector/treasurer's office used Sumaria (prior to FY98) and Point Software (FY98-FY01), and has been using the Vadar billing and collection system since FY02. For payroll production, Millbury uses an outside vendor, Harper's. The collector/treasurer's staff uses Excel spreadsheets to track daily collections and record bank account balances and the staff posts town receipts to the BudgetSense system. The assessing office uses a computer assisted mass appraisal (CAMA) system to value and manage property accounts.

The school department uses the DOS-based Unifund system, which was acquired five years ago. Because of the constant changes and improvements in technology, this DOS-platform system is quickly reaching the end of its useful life. According to the vendor, this version will no longer be supported after FY06, so the schools have been given advance notice of the need to plan for the expense of converting to the vendor's Windows-based version (compatible with the accounting office) or acquiring another application.

Currently, Millbury has two computer servers in the municipal building that house all the financial offices' software applications and associated data. They also house Microsoft Office applications, which are accessible to all departments in the municipal building[2]. The town's buildings—a municipal/police building, four fire stations, a library, a public works facility, the Asa Waters Mansion, a school administration building and three schools—are connected electronically for Internet access and e-mail service[3]. The town also has a website that is hosted by a private vendor, Virtual Town Hall. However, the town's information on the site is out-of-date, currently displaying FY02 information.

FINDING 1: ENHANCE TECHNOLOGY COORDINATION AND SUPPORT

Despite the municipal building network and availability of electronic mail, data used by more than one office must be repeatedly keyed by different office staff. This is because some operating platforms are different or the software applications are not able to transfer/receive information electronically. For example, the school department has a system by the same vendor as the accounting office, but because the school's system is a couple years older and resides in DOS rather than Windows, the accounting office must re-key payroll and payables data. In another example, detailed tax and excise collection data may be received electronically from escrow and lockbox services and posted to the Vadar System, but the daily, summarized collections cannot be transmitted to the BudgetSense System. The collector/treasurer's staff must manually enter the information so it gets posted to the accountant's general ledger.

[2] The police department, on the first floor of the building, has its own secured computer system and a stand-alone PC for Internet and electronic mail.
[3] The town has written policies on the proper and allowable use of Internet and electronic mail applications for employees.

Offices with specialized software received training on the applications when the systems were acquired. Because many of the offices have had more than one system and/or they have had staff turnover, staff may not be well-versed in each of the applications and could benefit from additional training. Similarly, all offices have access to Microsoft Office applications but most staff have had little or no training on these applications, so they continue to keep manual records. An example of this is the building and inspections department. This office issues hand-written permits. Monthly, carbon copies of permits issued are sent to the assessors who manually key the information into the CAMA system for inspection and tax levy growth purposes. If building and inspection data were kept in spreadsheets, the data could be imported electronically into the CAMA system, saving staff time. Unless training is available free of charge, new or refresher training on Microsoft Office or specialized applications is not available because there is no funding currently budgeted.

When users have computer issues, the finance director handles some user support and hardware issues, which often takes him away from his primary responsibilities. Lack of time or knowledge may prevent him from resolving some issues, requiring the department to contact an outside vendor for assistance. The town contracts with an outside vendor for electronic mail services. The same vendor provides software and hardware assistance, but the town does not have a service contract. Instead, as each department requires assistance, it contacts the vendor and is billed separately for each service call performed, which can be costly.

RECOMMENDATION 1: ENHANCE TECHNOLOGY COORDINATION AND SUPPORT

We recommend that the town hire an MIS coordinator who would report to the town manager. The town should hire a person with a strong technology background to serve as the MIS coordinator, responsible for organizing and managing the non-school computerized systems. The coordinator would monitor systems, provide network and software support, and purchase supplies. The coordinator would be responsible for analyzing, purchasing and installing equipment and technology for departments; and be the single point of contact with vendors. The coordinator would oversee the town's website and arrange training classes. While this position would not oversee the school's system, he would work with them to ensure that future upgrades/acquisitions are compatible and enable electronic transfer of information. An MIS coordinator could cost the town between $50,000-$75,000, however, it may not be practical for the town to create a new position with benefits at this time. An alternative is to engage contractual assistance. Many communities use a consultant to provide basic maintenance and support tasks on a specified hourly or part-time basis. In order for the town to move forward and operate more efficiently, it is necessary to increase technology support to make each office function more efficiently.

We recommend that the town hall staff receive formal Microsoft Office training. With formal training along with ongoing refresher courses, staff will become more familiar with applications and will be able to organize records, automate report data, and share information without the need to re-key it.

We recommend the town survey office staff on the data that is shared or repetitively entered and explore ways to transfer this information more efficiently. The town should review data transferability between software applications or develop a database available to more than one office. Given the limited staff and resources, exploring ways to operate more efficiently can free up valuable staff time.

FINANCE DIRECTOR/ACCOUNTANT'S OFFICE

The accountant's office is staffed by the finance director and a clerk. The finance director served as the elected town auditor for six years prior to being appointed in FY02, and the clerk joined the office in FY03. The finance director serves as the town accountant and oversees the other financial offices, including collector/treasurer and assessing offices. The finance director/accountant's office is responsible for maintaining the town's general ledger and performing accounting functions, including preparing warrants, producing trial balances, and reconciling cash and receivables with the collector/ treasurer as well as coordinating the financial offices' activities. The finance director/accountant prepares and submits annual reports required by DLS including the Schedule A and balance sheet.

The accounting office also is responsible for implementing the Government Accounting Standards Board (GASB) Statement 34. GASB Statement 34 is an accounting and reporting standard that requires all governments to maintain a capital asset and infrastructure inventory that is reported on the entity's financial statements. Using in-house staff, the town collected its capital assets and infrastructure information in FY03. Using an asset management software application, the town data-entered the data collected and produced values, which will be included in the FY03 audit report.

FINDING 1: REVIEW BILLS & PREPARE WARRANT BEFORE APPROVAL

According to state law, the accounting officer is responsible for examining all bills and payrolls to ensure that the purpose of spending is legal and accurate and that the appropriation is sufficient before the payment is made. In violation of the law, this process did not occur during the first town manager's tenure and it often resulted in deficits at year's end. Since the appointment of the new town manager, the accounting officer has been instructed to perform his job correctly, reviewing all payroll and bill submissions before the production of the warrant for the manager's approval.

Under the new charter, the elected town auditor has been replaced by an appointed town accountant (subsequently renamed as finance director). Unfortunately, the new position and its expanded duties over the other financial offices are not recognized in the town bylaws.

RECOMMENDATION 1: REVIEW BILLS & PREPARE WARRANT BEFORE APPROVAL

We recommend that the finance director/accountant properly fulfill his statutory duties, reviewing all payroll and bill submissions before the production of the warrant. The accountant's review process is a safeguard for the community, preventing the payment of illegal or inaccurate amounts. The review process provides controls on departmental spending, as the accountant may refuse a payment when the appropriation is insufficient. It is the accountant's legal responsibility to notify the manager, or the selectmen if need be, and department when there is a problem. The practice of submitting the warrant to the manager for approval before the finance director/accountant examined the charges defeated the purpose of the review process and violated the accountant's statutory obligation.

We also recommend that the town update its bylaws to correspond to the charter. At a minimum, the town needs to codify the finance director's position and its job responsibilities, which will provide clear guidance to the town and eliminate the current discrepancy. Having found one inconsistency, we

recommend that Millbury form a committee to review all the bylaws to ensure they conform to the town's charter.

FINDING 2: CUSTODY OF ALL CONTRACTS

According to MGL Chapter 41 §57, the accountant's office shall have copies of all town and school department contracts. According to the finance director, his office does not have all contracts on file.

RECOMMENDATION 2: CUSTODY OF ALL CONTRACTS

We recommend that copies of all contracts be submitted to the accountant's office in compliance with MGL Chapter 41 §57. All departments (including the schools), boards and commissions that enter into a contract must submit it to the accountant's office. With a valid contract on file, the accountant will be able to review it and verify that the terms of the contract are met when reviewing payment requests. If a bill is submitted for payment and the contract that contains information relating to payment terms is not on file, the accounting office should not process the payment request until said contract is presented.

FINDING 3: PREPARE MONTHLY REPORTS

The accounting office generates expenditure reports for the manager monthly and for the finance committee (generally during the budget process) upon request. These reports show the expenditures to date and any encumbrances versus the budget appropriations. This information is extensive and useful as a management tool. Unfortunately, the finance director has not used these reports to monitor and analyze departmental spending to ensure it stays within the amount set by town meeting. Consequently, some departments over spent their authorization without warning or concern.

Monthly expenditure reports are produced for department heads. According to officials, some departments maintain their own budget records and use the accountant's reports to compare and verify transactions. Other departments reportedly do not keep their own records or review the reports for accuracy, assuming they are correct. For departments responsible for fixed cost accounts (e.g., debt, insurance, retirement and workers' compensation), special revenue funds, or grants, we found expenditure reports were not distributed.

The accountant's office does not prepare revenue reports unless requested to do so, generally during the budget process. A revenue report is another helpful management tool that should show budget to actual revenues. It is essential that town officials have access to timely financial information in order to make informed decisions regarding town finances.

RECOMMENDATION 3: PREPARE MONTHLY REPORTS

DOR recommends that the finance director/accountant's office prepare and distribute a complete set of monthly expenditure reports. According to MGL Chapter 41 §58, the accountant must prepare a monthly report for each officer or department head showing the total appropriations, expenditures, and the balance in each appropriation. This includes all accounts in the general, special revenue and grant funds. Department heads should review these reports to ensure accuracy, identify any variances with internal budget records, and meet with the accountant to reconcile any differences.

DOR recommends that the finance director monitor departmental expenditures and prepare a detailed analysis of the projected year-end results at least monthly. Based on departmental spending patterns, the finance director should be able to reasonably estimate annualized spending for the town. In addition, he should review historical spending information and discuss the timing of large purchases with department heads to help refine his projections. Comparing these projections to the budget will enable the finance director to identify potential problems early. This information should be distributed to the manager and department heads so that corrective action may be taken and distributed to the policymakers (the selectmen and finance committee) to keep them informed.

DOR recommends that the finance director/accountant's office prepare monthly revenue reports. While the information is not legally required, it can provide useful information for the town's policymakers. These reports provide essential information to monitor the financial performance of the town, to analyze the underlying causes of any shortfalls, excesses and one-time receipts, and to provide guidance in the budget process.

FINDING 4: APPOINT AN ASSISTANT ACCOUNTANT

The accounting clerk reviews bills, enters them in the BudgetSense system, and prepares the warrant for the finance director's review and the manager's approval. She reviews departmental receipts; produces the monthly expenditure reports; produces the Form 1099s annually; and answers departmental inquiries.

According to the finance director, the clerk does not make general ledger and journal entries, and does not participate in any external office reconciliation activities. Consequently, in the absence of the finance director/accountant—for either a brief or extended period of time—no one is trained to assume the responsibilities of the accountant, including signing the warrants. In the event the accountant is absent, the warrant would go to the manager unsigned until the accountant is able to return to the office or the manager appoints a temporary replacement. To have an assistant accountant who is authorized to assume the department head's duties and to sign the warrant, the accountant must appoint an assistant with the approval of the selectmen (MGL Chapter 41 §49A).

RECOMMENDATION 4: APPOINT AN ASSISTANT ACCOUNTANT

We recommend that the town create an assistant accountant's position in accordance with MGL Chapter 41 §49A. Given the growing complexities of municipal finance, increasingly communities are appointing assistant accountants, trained in all aspects of the office. Because we believe the current staffing for the office is sufficient, we recommend that Millbury upgrade the clerk's position to an assistant accountant with additional duties and compensation. The assistant should possess good accounting skills and demonstrate knowledge of Massachusetts municipal finance laws, regulations, procedures and concepts. With proper training, the assistant would have the authorization to act in the accountant's absence, including signing the warrant.

ASSESSING OFFICE

An assistant assessor, a full-time head clerk and a part-time clerk staff the town assessing office. The staff report on daily administrative matters to the finance director and on policy issues to an elected, part-time, three-member board of assessors. The assessing office is responsible for maintaining assessment data on approximately 4,850 real property parcels, 200 personal property accounts, 15,400 motor vehicle excise accounts, and 630 betterment accounts. In addition, the office processes approximately 400 building permits, 250 deed changes, 260 exemptions, and 15 abatements (25 in recertification year) annually. The office also is responsible for compiling the supplemental assessment on new construction (MGL Chapter 59 §2D). This is a pro rata assessment on the value of improvements that are greater than 50 percent of the billed value when an occupancy permit is issued after January 1. In the first year of adoption (FY04), the office issued 82 supplemental tax bills with a commitment of approximately $129,000. The assessing office prepares timely reports for DOR, including new growth, taxable parcel count and recertification of value reports.

The assistant assessor has worked in the office since 1976, starting out as a part-time clerk and becoming the assistant assessor a year later. She performs fieldwork, measuring and listing improved properties; oversees the town's appraisal contractors; maintains the town's assessment records; determines residential property values; and compiles property tax commitments. The clerks maintain all records, process deed transfers, handle exemption and abatement applications, data-enter property and legal information on the CAMA system, handle the motor vehicle excise accounts and respond to public inquiries.

The town uses a CAMA system to manage its property database. There are three personal computers connected to the CAMA server for staff use. An additional stand-alone computer located just outside the office also has property data information for public viewing. The personal computers have Microsoft software products installed and these computers are connected to the Vadar system for transferring exemption and abatement information. The town also has its property database displayed on its CAMA system vendor's website.

FINDING 1: PERFORM ADDITIONAL INSPECTIONS

The assistant assessor has taken appraisal and assessment administration courses and has taught herself many of the responsibilities of the office. She performs permit inspections and determines growth in the interim years, and most recently created property records on the CAMA system for the Shoppes at Blackstone Valley, a 650,000 square foot retail center, using schematic drawings and performing site inspections. To ensure the accuracy of this large-scale project, the office had an appraisal consultant review the assistant assessor's data collection and entry into the CAMA system. The assistant assessor does not inspect all sale properties. Since recent sales represent the most current data regarding the local real estate market, it is crucial that the assessing office have first-hand knowledge of the characteristics and condition of sale properties.

Given the limited staffing in the office and the desire to hire outside experts to ensure the accuracy of its database, the town hires an appraisal consultant to perform triennial revaluation work. The town generally spends about $60,000 for a revaluation update program (residential, commercial, industrial

and personal property) triennially. However, because the town does not have a cyclical inspection program, the town has a full measure and listing of all parcels completed once every nine years, complying with the Bureau of Local Assessment's guidelines. The last full measure and list was completed in FY00 and cost the town about $109,000.

Based on the FY00 recertification results, BLA recommended that the town adopt a cyclical reinspection program. A cyclical re-inspection program involves completing an interior and exterior inspection of all town property over a specific time period, not exceeding nine years. This program would allow the town to maintain the most current property database, making sure all taxpayers are assessed fairly and minimizing the number of abatements granted. A cyclical program also is advantageous since it allows a community to spread a substantial workload and cost over a multi-year period. For Millbury, a cyclical inspection program would require the assistant assessor inspect about 460 property inspections[4] per year. According to a recent database query, because of permit, sale, and abatement inspections performed since the last full revaluation, the assistant assessor has gained entry and reviewed over 1,400 properties, well on her way towards completing a cyclical inspection program. From the database query, the assistant assessor was able to map out the inspections performed, enabling her to identify data inspection and recollection priorities.

Communities are required to maintain full and fair cash values annually for all real and personal property (MGL Chapter 59 §38). Assessing offices must prepare detailed analysis of sales data and income & expense statements, making adjustments in property values to reflect full and fair cash value as of January 1 each year. This is referred to as an interim year adjustment. Failure to make interim year adjustments that reflect changes in the real estate market may cause inequities among property classes. When values are not updated annually and there is an appreciating real estate market, taxpayers are often shocked when their community is re-certified in the third year. In a declining market, this lack of flexibility can cost a community a considerable amount of property tax revenue when the assessors grant abatements. To ensure this process is being done, a community is required to prepare and submit an Interim Year Adjustment Report beginning in FY05. In Millbury, the town has never performed a valuation adjustment program, however, the town has appropriated $5,000 for a consultant to assist the town in meeting this new reporting requirement.

RECOMMENDATION 1: PERFORM ADDITIONAL INSPECTIONS

We recommend that the assistant assessor regularly inspect the interior and exterior of all sale properties. Often, a sale property may have been upgraded without a permit or allowed to deteriorate to an extent that the assessors' files are not accurate regarding the characteristics or condition of the property. Not being aware of the exact condition of sale properties negatively affects the assessors' ability to value other properties accurately.

We recommend that the town adopt a formal cyclical re-inspection program. A cyclical re-inspection program encompasses a complete interior and exterior inspection of all real property over a multi-year period. The primary benefit of this program is that it will provide the assessors with current, accurate

[4] The town currently has about 4,850 parcels, which includes 515 vacant land and 190 commercial and industrial properties. By netting out these properties and spreading the work over a nine year period, approximately 460 properties would have to be inspected annually to complete the program.

data. Inspecting sale and improved parcels, reviewing real property abatement requests, and scheduling additional properties for inspection annually will enable the office to complete a full re-inspection by FY09. This program may be performed in-house with assistance from an appraisal consultant or fee appraiser. An annual appropriation of about $5,000 should be enough for this assistance.

FINDING 2: MAINTAIN TAX MAPS

Tax maps are a critical element in maintaining properties at 100 percent of full and fair cash value. They depict the location, size, and shape of properties for the purpose of assessment and taxation. Historically, the assessing staff pencils-in all changes to the assessors' maps and then once a year sends the whole set out to update the base maps. Due to limited resources, this annual maintenance contract ceased between 1990-2000. The lapse in annual updates was noted in the town's FY00 revaluation and the Bureau of Local Assessment (BLA) recommended that the town update its maps prior to the next revaluation. The town appropriated funds and had the Central Massachusetts Regional Planning Council update the maps to reflect parcel changes through January 1, 2002 (dated April 2003). The map improvements were noted during the FY03 revaluation and it was recommended that the town continue to maintain them. Annual funding for the maps continued through FY04, enabling the assessors to update selected maps with parcel changes but the assessors' maps do not include the recent relocation and widening of Route 146[5] between the Pike and the town of Sutton. According to officials, it was a policy decision not to fund any capital requests in FY05, which included the assessors' map update request. Tax map updates are not a capital or one-time expenditure, but rather an annual operating expense of the assessing office.

RECOMMENDATION 2: MAINTAIN TAX MAPS

We recommend that the assessing office request funding to update its maps prior to the FY06 revaluation. Because a community is required to maintain tax maps in order to ensure that property assessments meet the legal standard of full and fair cash value, it is necessary that the office maintain current and accurate maps. Presently, the town has appropriated $80,000 for revaluation services; however, the assistant assessor has estimated the contract cost will be closer to $60,000, resulting in potentially excess funds that may be transferred by town meeting to fund a mapping project.

We further recommend that the town annually appropriate funding for the ongoing maintenance of the assessors' maps. Since an accurate mapping system is the cornerstone of a well-organized, efficient assessing operation, it is essential that the town annually appropriate funding for updating map.

[5] This state project made about 90 land takings in Millbury, changing property lines, relocating utilities, and converting parcels to tax-exempt status.

COLLECTOR/TREASURER'S OFFICE

Historically, the treasurer's and collector's positions were independently elected offices. They became town manager's appointments under the new charter, and were combined into one position, collector/treasurer, when the first manager organized a finance department. Since FY01, Millbury has had three different persons[6] serving in one or both department head capacities. The current collector/treasurer was the payroll clerk for a number of years, served as the acting department head for about a year, and eventually was appointed in September 2003. Currently, a collector/treasurer, assistant collector/treasurer, payroll clerk, part-time (15 hours/week) collector's clerk, and part-time (7 hours/week) receipts clerk staff the office. All of the collector/treasurer's staff is located in a large, open office space with a glassed-in window counter, except the payroll clerk, who is located in the finance director's office down the hall.

On the collection side, the office is responsible for collecting approximately 5,100 property tax bills quarterly, 15,400 motor vehicle excise bills annually, 2,820 sewer bills semi-annually, and 230 boat excise bills annually. In addition, this office prepares about 780 municipal lien certificates annually. The town's deputy collector prints and mails the tax, excise and supplemental assessment bills, while the town prints and mails the real estate demand and sewer bills. The town receives payments by escrow service, mail, and at the counter. During FY04, the town began receiving excise payments by lockbox and property tax and excise payments by Internet (www.mcc.net). According to the collector, approximately 70 percent of all real estate payments are received from escrow companies, and the lockbox and Internet payment services are new but growing in popularity. Escrow, lockbox and Internet payment services deposit collections to a town bank account and send the collector computer files of collection information that are reviewed and then posted electronically to the Vadar system.

On the treasurer's side, the office is responsible for the payroll, employee benefits, and cash management, including the investment, disbursement and borrowing of cash. With the departmental reorganization, this office also assumed the responsibility for unemployment and workers' compensation benefits, and time and attendance records.

The town's real and personal property tax collection rate in the year of commitment is about 99 percent. Once a real estate tax bill becomes past due, the collector issues a demand notice. If the demand notice does not result in payment, the collector initiates tax taking procedures within two weeks. For properties already in tax title, the new outstanding amount is added to the account before the close of the fiscal year. For new takings, the collector sends a letter to the taxpayer. Failing to receive payment, the collector advertises and then makes a tax taking in the fall. In September 2003, the office held an auction on old foreclosed properties. Seven were sold, bringing in nearly $500,000 in one-time revenues and returning the parcels to the active tax rolls. For all properties currently in tax title, the town is using an outside attorney to pursue foreclosure remedies.

[6] The elected treasurer served until April 2002. The previously elected collector was appointed to the position in April 2001 and subsequently appointed as the first collector/treasurer in 2002, but only served briefly until December 2002.

FINDING 1: MAINTAIN THE CASHBOOK AND RECONCILE CASH TIMELY

The cashbook is the source of original entry for recording receipts and deposits, disbursements summarized by warrant, and the total cash position of the town. A cashbook provides control that enables the treasurer to reconcile with bank statements, cash on hand, and the general ledger balance on a monthly basis—one of many essential checks and balances in the financial operations. Since many of the accounting records flow from this source document, the cashbook is legally considered a permanent record.

Millbury's cashbook is comprised of 26 bank accounts, including depository, checking and special revenue accounts. Previously, the cashbook was kept using a series of electronically-linked Excel spreadsheets, one for each bank account and a summary spreadsheet that enabled the treasurer to determine the town cash position at any point in time. We found the spreadsheets were not current and some postings were not chronological, reflecting that they are posted as time allows. We also found that almost a third of the accounts had not been reconciled to the bank statements and some accounts had non-reconciling item amounts (e.g., unexplained postings and bounced checks) listed. The priority of the office has been customer service and payroll, and the maintenance of the cashbook has habitually been a secondary function. In an attempt to bring the cashbook up to date, the town has hired contractors only to have it fall behind again shortly after their departure. In a recent effort to improve the condition and timely maintenance of the cashbook, the town purchased the QuickBooks software application in FY05 and the treasurer has begun using it.

As of this writing, the treasurer has reconciled most of her records to bank statements through June 2003[7] and all transactions (i.e., deposits and disbursements) with the finance director through June 2004. Unfortunately, because of the ongoing problems of failing to reconcile the treasurer's and accountant's cash balances, the FY03 audit has not been completed and the town is at risk of being cited for a material weakness. A material weakness is a reportable condition of such magnitude that it could potentially result in material misstatements of financial condition.

RECOMMENDATION 1: MAINTAIN THE CASHBOOK AND RECONCILE CASH TIMELY

We recommend that the treasurer make the postings and maintenance of the cashbook a priority of the office. It is imperative that the cashbook is current at all times. While customer service and deposits into the bank are important, so too is demonstrating to the public that accurate and timely financial records are kept. While the acquisition and implementation of QuickBooks may assist the treasurer, she must devote more of her time on a regular basis to this necessary activity. To ensure this is done timely, the available staff (including the payroll clerk) will have to handle all customer service issues. It also may require that the collector/treasurer work in an office space away from public view, enabling her to concentrate on the cashbook without distractions or interruptions.

We recommend that the treasurer reduce the number of bank accounts. While a revenue source or fund type may need to be accounted for separately, there is no requirement to keep separate bank accounts for each. When fund balances are combined, the treasurer may improve the earnings on

[7] These continue to include constant, unidentified, non-reconciling amounts in some accounts, which in the auditor's opinion are non-material (in the town's overall favor). Two older accounts that were closed in FY03 are reconciled through July 2002 and are expected to be finished soon.

investments. More importantly, reducing the number of accounts may reduce the time required to maintain and reconcile them.

We recommend that the office research all non-reconciling items and balance variances, taking action to resolve them. For returned or unclaimed checks, commonly referred to as tailings, the treasurer needs to research these. The tailings may include checks issued to pay employees and vendors, refund municipal taxes or charges, or pay other municipal obligations. Any check that is not cashed within three years of issuance is deemed abandoned under MGL Chapter 200A §5. A municipal treasurer holding abandoned checks may turn them over to the state treasurer (Chapter 200A §7). Alternatively, the treasurer may advertise the unclaimed checks herself and hold hearings to settle any claims (Chapter 200A §9A). Having complied with all legal requirements of Chapter 200A, any remaining unclaimed monies are credited to the municipality's general fund.

For any bounced checks still listed in the cashbook, the treasurer also should research these to determine if they are collectable. For all uncollectable amounts, the treasurer should work with the private auditor to make any adjusting entries to the cashbook.

We recommend that the treasurer and the finance director conduct prompt, monthly cash reconciliations. Shortly after the end of each month, the treasurer should internally reconcile the cashbook to all bank statements and then externally reconcile with the accountant's general ledger, ensuring funds are not missing and financial records are correct. Prompt and frequent reconciliations are essential in order to maintain control over cash. The results of these reconciliations should be reported to the manager as well as the selectmen, verifying the reconciliations took place and providing explanations regarding any variances.

FINDING 2: REPORT REVENUE COLLECTIONS TIMELY

Daily, the office takes in revenue and deposits it in the bank. Most of the tax, excise, utility and related charges are posted to the Vadar system. Because some of the town's collectables reside on other systems[8], the assistant collector/treasurer maintains an Excel spreadsheet, which summarizes the daily collections (by payment type and fiscal year) and the corresponding deposit slips are attached. This summary report is turned over to the treasurer weekly. For all other receipts, departments turn over revenues received to the treasurer weekly or at least monthly and also provide a report. The receipts clerk posts all revenues to the BudgetSense software. After postings are completed each month, the accountant's clerk is notified and she extracts the information from the BudgetSense software and compares it to her copies of the departmental turnover reports, verifying all entries are reflected in the general ledger.

The office periodically receives check payments that bounce. If the collector's side of the office receives notice of a returned or non-sufficient funds (NSFs) check, the amount is reversed immediately (reinstating the tax, excise or utility receivable) on the computer. In addition, a letter is sent to the taxpayer notifying them that the payment did not clear and an additional $25 insufficient funds fee has been added to the amount due. NSFs are not included in the collector's Excel

[8] Older excise information resides on the Sumaria and Point Systems, sewer liens are currently kept manually, and boat excise is kept manually.

spreadsheet of daily collections or the weekly turnover report to the treasurer. Instead, the collector's staff alters the weekly turnover report after the fact with a hand-written adjustment. For all other receipts, a letter also is sent to the individual responsible for the NSF and a $25 fee is added. Because the responsible party generally repays the amount owed within a week or so, the office does not reverse an NSF payment from the cashbook. Because of the NSFs, the office has a historical practice of waiting two or more weeks before posting revenues to the BudgetSense software.

Unfortunately, some NSFs remain outstanding, which results in a three-fold problem. First, because an NSF payment remains in the treasurer's cashbook, it overstates the town's cash position. The outstanding NSF also becomes part of the difference between the treasurer's and bank's account balances. Second, the treasurer's office has not established a file to identify and track each NSF. Without accurate information to pursue these returned checks, they can become old and uncollectable, resulting in lost revenue for the town. Third, the treasurer's office does not notify the accountant or affected department of the bounced check. If the treasurer notified the department, it could assist in the collection of the funds. More importantly, because the treasurer does not report timely collections and bounced checks, the accountant's general ledger is not accurate or up to date.

RECOMMENDATION 2: REPORT REVENUE COLLECTIONS TIMELY

We recommend that the collector/treasurer report revenues received in the BudgetSense software timely. Continuing the current practice results in wide unnecessary variances between the treasurer's cashbook and the accountant's general ledger. All revenues turned over to the treasurer's office should be deposited to the bank and posted to the cashbook daily. In turn, the treasurer's office should enter these receipts into the BudgetSense system at least weekly, reconciling to the combined bank deposits (net of NSFs).

We recommend that the treasurer handle an NSF timely and properly. When the treasurer receives a NSF notice, she should use all remedies to collect payment. In the meanwhile, the treasurer should reduce her cash and reverse any departmental receipt. She should create a separate receivable file with the necessary information (i.e. name and purpose) to help track and eventually collect the payment. She also should notify the accountant (accurate postings to the BudgetSense system) and the affected department (a copy of the responsible party's bounced check letter), ensuring the accountant's and department's records correspond to the treasurer's.

We recommend that the collector modify her weekly summary report to include NSF notices. When preparing the weekly summary report, the collector should add a line for each bounced check so the net collections are reported to the treasurer.

FINDING 3: RECONCILE RECEIVABLES PROMPTLY

We found that the collector/treasurer's office is internally reconciling its receivable balances with a receivable control[9] routinely and forwards the information to the accounting office, but the office does not reconcile receivables with the accountant's general ledger until after the fiscal year closes.

[9] The receivables control is a record of original entry where the initial tax commitment is reduced by total collections (turnover reports), abatements, exemptions (from the assessors) and tax title transfers, and increased by total refunds.

RECOMMENDATION 3: RECONCILE RECEIVABLES PROMPTLY

We recommend that the collector/treasurer and finance director conduct prompt, monthly receivable reconciliations. It is best that these activities be prioritized and completed immediately after the close of the month rather than putting them off to a later time, potentially facing non-reconciling items that could delay and/or impact the certification of free cash.

FINDING 4: OBTAIN TRAINING AND SUPPORT

The current collector/treasurer and her assistant have worked in the office for several years. The collector/treasurer is knowledgeable in the payroll, human resource, and treasury functions as well as the daily collection operations, while her assistant is only knowledgeable in the collections-related activities. Some three months before her predecessor vacated the office, the current collector/ treasurer agreed to serve as the acting department head, but she was given no management training. She has been attending Massachusetts Collectors' and Treasurers' Association courses, has met other collectors and treasurers (who she contacts periodically for advice and guidance), and has self-taught herself on many of the responsibilities of the office.

According to the collector/treasurer, the priorities of her office are: to serve the customer at the counter; to process the payments received by mail and payment services; to deposit the funds in the bank; and to get payroll processed timely and accurately. Because of these operational priorities and that fact that the office often is staffed by only one-person if others are on sick, personal or vacation leave, the collector/treasurer generally spends most of her time handling problems and/or customer service responsibilities. This explains why the posting, maintenance, and reconciliation of the cashbook are a secondary function of the office.

RECOMMENDATION 4: OBTAIN TRAINING AND SUPPORT

We recommend that the collector/treasurer continue to take professional development courses. The benefits of this outside training are it will provide useful information about current laws and professional practices as well as allow the collector/treasurer to interact with other municipal treasury and collections personnel.

We recommend that the collector/treasurer seek advice and guidance from her peer collectors and treasurers on balancing the demands of the office. While serving the customer and getting revenues in the bank are essential duties of the office, control of the cash is a fundamental management responsibility. As stated earlier, the cashbook is a key financial record that must be maintained timely and accurately and used to verify information in the accountant's general ledger. The collector/ treasurer should contact her peers about ideas or procedures on how best to balance all the responsibilities of the office. For example, some offices periodically close to the public or have an office space out of public view to perform work that must be completed without constant interruptions.

Once the cashbook is brought up-to-date and consistently maintained, we recommend that the collector/treasurer begin training her assistant on treasury and payroll activity performed in the office. An assistant should be fully trained to assume the duties of the department head in her absence or when she is otherwise occupied, thus helping to prevent unnecessary interruptions or

delays. To assist in this training process, the collector/ treasurer should consider having the assistant also attend training workshops and/or the annual school provided by the Massachusetts Collectors and Treasurers Association.

FINDING 5: MONITOR DEPUTY COLLECTOR SERVICE

The collector uses the services of a deputy collector for past due motor vehicle excise bills. The town gives him a warrant and he completes online license and registration markings for non-renewal status with the Registry of Motor Vehicles. The deputy collector deposits all receipts into a town account and prepares weekly turnover reports.

In reviewing a detailed weekly report (dated 7/22/2004), we noted that the interest amounts collected differed significantly from the amounts calculated on the collector's computerized system. For example, an excise bill issued in the fall of 2000 listed interest collected in the amount of $11.50 while in fact the interest due as of mid-July 2004 was over $51. Reportedly, the deputy collector's computer system is not programmed to continue calculating interest after an excise has been marked at the Registry, resulting in a conflict with state statute, which directs these activities. Specifically, statutes require that interest is calculated from the 31st day after issue to the date of payment (MGL Chapter 60A §2) and permit a collector to waive payment of the interest, charges and fees, provided the combined charges do not exceed $15 (MGL Chapter 60 §15). If the interest is not calculated correctly, it is not clear how much the collector is waiving and it results in lost revenue to the town.

RECOMMENDATION 5: MONITOR DEPUTY COLLECTOR SERVICE

We recommend that the collector instruct the deputy collector to calculate the interest due on all accounts turned over for service through the date of collection. This will ensure that the proper amounts due are collected and that the community will receive all revenues due.

FINDING 6: MAINTAIN BOND AND DEBT SERVICE SCHEDULES

The treasurer/collector has a statutory obligation to report annually to the finance director/accountant and periodically to the Bureau of Accounts information relating to the issuance and payment of debt. In Millbury, the treasurer has various files and records on long-term debt, which she has inherited from her predecessors. She also has files on the town's temporary debt, though she generally gets the proposed budgeted estimates from the town's financial advisor. Most of the records are in paper format and none are consolidated in a spreadsheet to track and reconcile these expenditures with the accountant. As a result, the town has incurred and funded deficits in its debt service accounts in recent years ($133,066 in FY01 and $133,274[10] in FY03).

RECOMMENDATION 6: MAINTAIN BOND AND DEBT SERVICE SCHEDULES

We recommend that the treasurer create and maintain bond and debt service schedules on Excel spreadsheets. The treasurer should review her records and create the following schedules.

[10] According to town documents, most of the FY03 deficit raised was due to misposted interest payments ($26,250 sewer bond 94-17, $38,843 sewer bond 95-24, and $14,181 sewer bond 98-52, totaling $79,274) made to the retirement of debt principal account.

1. Long-term debt service – Using the bank's debt service schedules, the treasurer should create a schedule of principal and interest payments for each long term debt instrument. From these spreadsheets, she should create a summary spreadsheet for tracking and budgeting purposes.
2. Monthly debt service – From the long-term debt service spreadsheets and short-term borrowing estimates provided by the town's financial advisor, the treasurer should maintain a similar chart of debt service obligations on a monthly basis for the current year, enabling her to reconcile periodically with the accountant.
3. Debt schedule (Statement of Indebtedness) – The debt schedule would be a list of long term debt by project inside and outside the town's debt limit and of short-term debt expenditures by type and project. This spreadsheet also should be reconciled with the accountant's information.

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Richard Handfield, Police Chief and Interim Town Manager
Monique Tripaldi, Town Manager's Administrative Assistant
Dorothy Guillette, Town Manager's Secretary
J. Bruce Arrington, Finance Committee
Gerald Bleau, Finance Director
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