

Town of Millis Financial Management Review

Municipal Data Management and Technical Assistance Bureau

June 2000



June 29, 2000

Board of Selectmen
Town of Millis
64 Exchange Street
Millis, MA 02054

Dear Members of the Board:

It is with pleasure that I transmit to you the enclosed report, "Town of Millis, Financial Management Review."

It is our hope that the information presented in this report will assist the town of Millis 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.

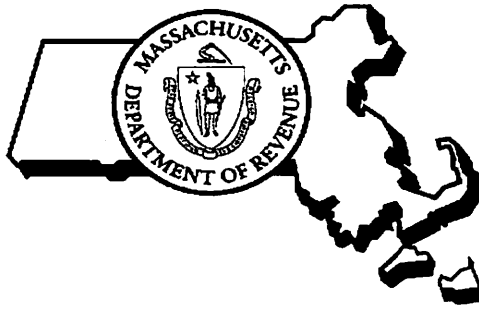
In closing, we would like to thank you and the other officials in Millis for your cooperation. I am pleased that the Division of Local Services has had the opportunity to assist the town as part of the Department of Revenue's ongoing commitment to improve financial management in cities and towns across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

Sincerely,


Joseph J. Chessey, Jr.
Deputy Commissioner

JJC:jg
Enclosure

Cc: Charles Aspinwall, Town Administrator



TOWN OF MILLIS

FINANCIAL MANAGEMENT REVIEW

INTRODUCTION

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

We have based our findings and recommendations on site visits by a Technical Assistance team consisting of staff from the Division's Bureau of Accounts, Bureau of Local Assessment, and Municipal Data Management & Technical Assistance Bureau. During these visits, the team interviewed the town accountant, treasurer, collector, assessors' clerk and staff members in each of these offices. The team also interviewed the town administrator, and a member of the board of selectmen and the finance committee.

Division staff also examined such documents as the tax recapitulation sheet, town reports, annual budgets, the FY98 audit report and management letter, town meeting minutes and other financial documents.

In reviewing the existing financial management, we have focused on the performance of financial operations in such a way as to maximize resources and minimize costs.

The board of selectmen should consider the recommendations contained in this report when formulating overall strategies for improving the town's financial management. The recommendations in this report can be implemented without major changes in the current structure of town government, provided that there is sufficient cooperation among town boards and officials.

OVERVIEW

Background

Millis is a growing residential community in Norfolk County with a population of about 8,100. The town consists mainly of single family homes, with the residential property class comprising about 88 percent of the total assessed value. In recent years, several new subdivisions containing single family homes have been built and plans are underway for additional new subdivisions. However, with a limited commercial/industrial tax base, residential property taxes are the chief funding source for the town's operating and capital budgets.

Growth and development have increased the demand for town services and placed a strain on operating budgets. On the school side, out of district special education tuition expenses increased dramatically in FY99 and FY2000. On the town side, fixed costs, such as health insurance costs for current employees as well as retirees have risen sharply over the past few years. Since the early 1990s, school choice and charter school tuition costs have also increased significantly.

In addition to coping with increasing fixed costs, the town is also planning various capital projects. According to the finance committee, "The single biggest factor that impacts the town's long-term finances is the list of major capital projects that need to be undertaken to maintain the town's infrastructure." In October, the town will undertake a \$13.2 million bond project for school renovations, sewer and water improvements, open space and well site purchases, computer equipment purchases and the purchase of a new DPW truck. In the years ahead, the town is looking to build a new police station and public library and undertake significant repairs for the DPW building.

With numerous spending needs and limited revenues, the town, by a single vote, approved an override last month to maintain level services in both town and school departments. With the electorate split evenly on increasing taxes, future overrides may be a hard sell to the voters. In this environment, the town must monitor its finances carefully and focus on improving the efficiency of its financial operations.

Executive Summary

In our view, the town of Millis is at a critical point with regard to the operations of its financial offices. As we will discuss below, several factors have converged to leave the town in this situation. First, the town has experienced residential development and population growth in recent years, growing from about 5,600 residents in 1970 to approximately 8,100 today. The growth, along with the increasing complexity of municipal government, has placed added demands on the town's traditionally part-time and/or elected financial officers. The town has taken some action recently to address this situation, however, we believe further change is needed to buttress the operations of the town's financial offices.

More than a year ago, the town sought and received approval from the electorate to amend their charter to make the treasurer's position appointed rather than elected. This was prompted by the retirement of the town's long-standing, elected treasurer about four years ago and the difficulty the town had with his two elected successors. During this period, the treasurer's office performance had deteriorated to the point that the town's audit firm noted several weaknesses in the FY98 audit that it considered serious enough to be "reportable conditions". Reportable conditions represent significant departures from sound internal controls that could adversely affect the town's ability to accurately process and report financial data. In the extreme, these weaknesses compromise the town's ability to safeguard assets against misuse or theft.

Moving to an appointed treasurer's position gave the town flexibility to choose qualified candidates from outside town boundaries and provided clearer lines of accountability between the treasurer and town management.

The town has also made significant investments in hardware and software to improve the operations of its financial offices. For example, the town recently upgraded its computer systems and, in July of 1999, began converting to the MUNIS financial software for accounting, tax collection, payroll and accounts payable. MUNIS offered the benefits of an integrated financial software package and addressed the town's Y2K compliance needs. The computer conversion has not been without difficulty, however, as town financial officers have encountered problems that they attribute primarily to insufficient training and support from MUNIS.

While these initiatives were steps in the right direction, we found that certain problems persist with regard to the town's internal financial controls. For example, the current treasurer is still experiencing several of the same problems former treasurers had performing fundamental duties, including maintaining a current and comprehensive cash book and the reconciliation of cash with the accountant. Further, the difficulties in the treasurer's office, along with the stress of the computer conversion, have strained relations among the town's key financial offices to the point that communication and cooperation has suffered.

Another area of concern is the lack of separation of duties among staff in the accountant's and treasurer's offices. The accountant and treasurer essentially share two staff members who perform functions for each office. For example, one staff member receives departmental turnovers, prepares and makes bank deposits and then posts these receipts into the accountant's general ledger. We believe that this staffing arrangement needs to be rectified as it clearly compromises the town's financial controls and defeats the system of checks and balances contemplated by the general laws. It also appears to create confusion as to reporting relationships, the flow of information and blurs the areas of responsibility of each office.

Although the town has upgraded its financial software, there are also numerous computer system issues that should be resolved. In the collector's office, the town needs to implement the scanning technology it purchased to post tax payments and master the tax bill-printing component of the software. It also needs to install e-mail software so that departments can communicate better and send data files between departments. Finally, the town should establish a single point of contact with the software vendor to ensure that the town's interests are protected. This will allow the town to keep a log of system problems, cultivate some in-house expertise in the software and enable the town to prioritize support calls to the vendor. With the impending retirement of the computer systems coordinator who maintained and backed-up the system, we believe the town needs to hire a part-time, professional MIS director to maximize the functionality of the software and focus vendor support.

In the report that follows, we strongly recommend that the treasurer maintain a daily, comprehensive record of all receipts, disbursements and transfers by bank account in the automated cash book the town's auditors set up for him. This is a primary duty of the treasurer that must not be allowed to lapse. An accurate, current cash book will also assist the treasurer and accountant in completing monthly cash reconciliations and enable them to file the required quarterly cash reports to the state on time. Reconciliation of cash is an essential component of sound cash controls.

There are also some long-term recommendations that we think the town should consider. In general, these recommendations involve creating full-time, professional positions in the key financial offices and enhancing in-house functionality. First, we recommend that the town combine the treasurer and collector's positions into a appointed treasurer/collector's position. The most compelling reason to make this change is that it allows the town to create one professional, full-time department head position rather than having a separate part-time, appointed treasurer and an elected, part-time collector.

Later, at the appropriate time, the town should consider expanding the town accountant's position to a full-time position. We feel a full-time accountant's position is warranted given the town's size and the extent of the accountant's responsibilities. It should also consider augmenting the functionality of the assessors' office by creating a full-time assistant assessor's position. This will enable the office to assume most or all appraisal responsibilities in-house. Cultivating in-house appraisal expertise will allow the office to better understand the local real estate market and promptly respond to

changing conditions. It will also allow the town to be less dependent on appraisal consultants for property inspections and valuation.

SUMMARY OF PRIMARY RECOMMENDATIONS *[By page number]*

- 1) Treasurer: Maintain a daily cash book of all bank account activity. [7]
- 2) Treasurer: Perform reconciliations between bank accounts, the cash book and the general ledger on a monthly basis. [8]
- 3) Treasurer: Separate duties of receiving/depositing cash and posting these receipts to MUNIS between the accountant and the treasurer's offices. Compile a weekly turnover sheet for the accountant listing deposits. [9]
- 4) Treasurer: Implement procedures for handling items causing reconciliation differences between treasurer's cash and accountant's general ledger. [9-11]
- 5) Treasurer: Arrange with one bank to place several trust funds into one master account. Convert passbook savings accounts into statement accounts. [12]
- 6) Collector: Establish monthly procedures to reconcile receivables with the accountant. [14]
- 7) Collector: Place more emphasis on the pursuit of delinquent real estate tax accounts through prompt tax takings. [16]
- 8) Collector: Combine the part-time treasurer and collector's offices into a single, appointed full-time position. [16]
- 9) Accountant: Take an assertive role in resolving some of the persistent cash and accounts receivable reconciliation problems. [18]
- 10) Accountant: In the long term, expand the role of the town accountant to a full-time position. [18]
- 11) Assessors: At the appropriate time, hire a full-time assistant assessor to enhance the in-house appraisal capability of the office, rather than contract with outside professionals for these services. [20]
- 12) Separation of Duties: Re-structure duties in the financial offices so that the treasury and accounting functions are separated. [22]
- 13) Computer System: Create a part-time MIS position to maintain the town's computer system and assist users with MUNIS. [24]
- 14) Computer System: The town should participate routinely in MUNIS' regional users' groups. [25]

THE TREASURER'S OFFICE

Over the past four years, Millis has experienced frequent turnover in the part-time treasurer's position. The two elected treasurers who preceded the current treasurer had difficulty performing the fundamental duties of a treasurer. To address this situation town meeting proposed, and the electorate approved, a charter change to make this an appointed position. This change created a direct reporting relationship between the treasurer and town management and allowed the town flexibility to choose any qualified candidate. The current treasurer, who also serves as the elected collector, was appointed by the board of selectmen in May of 1999.

The treasurer acknowledges that since he assumed the duties of treasurer he has been months behind in maintaining a cash book and reconciling cash. Many of these cash control and reconciliation problems in Millis date back to before the current treasurer was appointed. For example, the auditor's management letter for FY98 specifically noted the lack of cash reconciliation between the treasurer and the accountant as a reportable condition. Although the town's auditor has spent a considerable amount of time setting up cash book spreadsheets and assisting the current treasurer with the reconciliation process, he has struggled to fulfill these responsibilities.

To assist the treasurer with these critical duties, the town created a full-time (35 hours per week) assistant's position in November of 1999. In hopes of reconciling cash in time for the close of FY2000, the treasurer's assistant and the accountant have been working closely. So far, they have reconciled cash through July and August of 1999.

The treasurer has also had problems maintaining an up-to-date and comprehensive cash book. The cash book is essentially a record of bank account activity in which the treasurer records receipts, deposits, transfers and disbursements, as well as monthly beginning and ending balances. It provides a necessary starting point for reconciling with the treasurer's bank statements and the accountant's general ledger. Allowing fundamental duties like the cash book and monthly reconciliations to lapse, diminishes the town's financial controls and impinges on the treasurer's ability to manage cash effectively since he has no way to determine the town's cash position on any given day.

Without essential checks and balances like cash reconciliation a community cannot be sure that its assets are protected. It also calls into question whether the town's financial statements are fairly stated and accurately reflect the town's financial position. For example, 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 raises questions about the accuracy of the balance sheet. For these reasons, the Bureau of Accounts requires

that when a municipality submits its balance sheet for free cash certification it must demonstrate that cash is reconciled as of June 30th.

Finding 1: Maintaining a Current Cash Book

As mentioned earlier, the cash book contains the information the treasurer needs to determine the amount of cash on hand on a daily basis. Basically, the cash book is much like the check register most people use to track activity in a personal bank account. As a means of providing the treasurer with an automated cash book, the town asked its audit firm to create a cash book for all accounts by bank in a spreadsheet format. However, before the auditors created the cash book spreadsheet, the treasurer created his own excel spreadsheets or "schedules" for recording bank account activity. According to the treasurer, he still uses these schedules as a data source to make entries into the cash book some time after the end of the month, rather than recording account activity directly into the cash book on a daily basis.

The treasurer says that although he does not use the cash book daily to record bank activity, he has been able to determine the town's cash on hand by calling the banks and inquiring about cash balances. He also uses monthly bank statements to verify and check the information he has recorded on his schedules. However, when we visited the treasurer in May, the only cash book entries from January through May were deposits; no beginning balances, disbursements or ending balances were recorded.

Recommendation 1: Maintaining a Current Cash Book

In the strongest terms, we recommend that the treasurer maintain a current cash book including all receipts, deposits, warrants and transfers. The cash book should be the source book of original entry for recording all bank account activity. For each bank account, the cash book should show the ending balance for the prior month, daily receipts (deposits), warrants (disbursements), transfers and the ending balance for the current month. By showing this account activity, the cash book provides a control that enables the treasurer to reconcile with bank statements and the general ledger.

Failure to maintain the cash book hinders the treasurer's ability to ensure that adequate funds are available to cover current obligations, since he has no comprehensive record of the actual amount of funds available in various accounts. The treasurer's practice of keeping records relating to bank account activity on various separate excel spreadsheets is a duplication of effort since the activity must be re-keyed from the schedules to the excel cash book. Re-keying this information is time-consuming and increases the likelihood that a data entry error may occur.

Finding 2: Reconciling Cash on a Monthly Basis

In an attempt to assist the treasurer with cash reconciliations, the town requested that the audit firm assist the treasurer in reconciling cash through June 30, 1999. Although there were significant variances between the accountant's general ledger and the treasurer's records, the auditor was able to reconcile all but \$4,000. As of May 2000,

the treasurer still had not reconciled cash with the accountant for the first quarter of FY2000, although the accountant and the treasurer's full-time assistant successfully reconciled cash for the months of July, August and September 1999.

The last time the treasurer filed a quarterly cash reconciliation with the Bureau of Accounts was June 30, 1999. Since the treasurer is so far behind in reconciling cash with the general ledger, the accountant is concerned about submitting a timely balance sheet as of June 30, 2000.

Recommendation 2: Reconciling Cash on a Monthly Basis

We recommend that the treasurer conduct prompt and frequent cash reconciliations. Maintaining control over cash is the treasurer's primary function. At a minimum, reconciliation between bank accounts, the cash book, and the general ledger should occur monthly. Frequent reconciliation will make it easier to locate and correct any posting or reporting errors. It will also make it easier to produce accurate financial records and reports that are essential requirements for outside agencies such as the state Bureau of Accounts. The *Treasurer's Manual*, published by the Department of Revenue, provides step by step procedures for reconciling cash with the cash book, bank statements and the general ledger.

Finding 3: Managing Debt and Interest Payments

The town maintains an account with State Street Bank into which state aid payments are deposited. When debt payments are due, the treasurer does not have to issue a check for these payments or wire money; the bank simply takes money from the state aid account to make the debt payments. According to the treasurer, he receives advance notice from State Street Bank when debt and interest payments are due for both short and long-term notes. He has also devised his own debt payment schedules and refers to these to keep track of due dates for debt payments.

The treasurer says he routinely places debt payments on a warrant, however, there have been several instances where debt and interest payments for long and short-term borrowing have not been recorded into the general ledger. The accountant and the computer operator (who handles accounts payable) say that there have been instances when they have not received a warrant for these payments from the treasurer. Consequently, debt service payments have not been recorded in the general ledger.

There have also been instances where proceeds from bond anticipation notes (BANS) have not been recorded in the general ledger. For new bond proceeds, the treasurer says he places a copy of the bond proceeds notice into the cash receipts folder for the computer coordinator. She then uses this notice to post the new bond proceeds in MUNIS. According to the town's auditor, the general ledger is not current in terms of reflecting new bond proceeds. For example, the auditor, working with the accountant and the treasurer in mid May, discovered that new bond proceeds received in January for \$1.3 million and \$645,000 were not reflected in the general ledger.

Recommendation 3: Managing Debt and Interest Payments

We recommend that the treasurer notify the accountant of all debt payments upon notice from the bank. It is important that these payments be included in a warrant so that the general ledger reflects these payments on a current basis. The treasurer should also make sure his daily cash book is current with regard to debt payments, so that at the end of the month debt payments do not cause reconciliation variances.

Similarly, the treasurer should submit notices of new bond proceeds to the accountant as soon as they are received so the accountant can post these to the general ledger in the month they are received. This will eliminate the reconciliation problems and the need for timing adjustments that occur when these payments are posted to the general ledger several months after they are received.

Finding 4: Turnover Sheets

When town departments turn money over to the treasurer for deposit, they submit a turnover sheet with the receipts to the treasurer. Each department also provides a copy of the turnover sheet to a staff person who not only deposits the money for the treasurer but also posts the receipts to the computer system (MUNIS) for the accountant. The treasurer signs the bottom portion of his turnover sheet and returns it to the department as notice that he received the deposit and that the accompanying turnover sheet accurately reflects the amount of the deposit.

A break down of internal control measures occurs when the staff person deposits the cash and also posts the receipts to the accountant's general ledger. She is the only person who verifies that the departmental statements of turnover tie to the amount that gets deposited and posted to the computer system. Under this arrangement, the staff person has the opportunity to deposit less money than what was actually turned over and to post whatever amount she chooses to deposit.

Recommendation 4: Turnover Sheets

We recommend that the duties of receiving/depositing cash and posting these receipts to the MUNIS accounting system be separated between the accountant and treasurer's offices. We also recommend that once these duties are separated, the treasurer compile a weekly turnover sheet for the accountant listing all deposits received during the course of each week. To ensure adequate checks and balances, the functions of receiving receipts and making the deposits must be separated from the posting responsibilities in the accounting office. A person from the treasurer's office should receive and make the deposits and another person from the accountant's office should post the cash receipts to the computer system.

Once this segregation of duties occurs, the treasurer should compile a weekly turnover sheet for the accountant listing all deposits. This turnover sheet is the treasurer's official notice to the accountant that he has received the departmental turnovers and actually made the corresponding deposits; the accountant or her staff should not post cash

receipt into MUNIS until they receive and verify this weekly turnover sheet. The accountant should compare the treasurer's weekly turnover sheets to her copies of the departmental turnover sheets to make sure that all records are in agreement.

Finding 5: Bank Fees and Monthly Interest Accrued

In the past, there were discrepancies between the accountant's general ledger and the treasurer's cash due to timing differences between the two offices in posting monthly interest accrued. Also, the treasurer did not notify the accountant of monthly bank fees. As a result, these charges were not posted to the general ledger.

During the past few months, the treasurer has established a procedure of posting interest and bank fees after receipt of the bank statements. For example, the treasurer reduces May's cash by the amount of April's bank service charges, since he is not notified of April's service charges until the middle of May. The treasurer says he also posts interest to the current month (i.e., interest earned in April is posted in May), since he does not receive the bank statements notifying him of the amount of interest earned until the middle of the month after the interest was earned.

Recommendation 5: Bank Fees and Monthly Interest Accrued

We recommend the treasurer notify the accountant of monthly investment income and bank service charges after receipt of the bank statement. It is important that the treasurer inform the accountant of these items so that they can be recorded accurately into the town's accounting records. The investment income should be included in the recommended treasurer's turnover of receipts to the accountant. Also, the treasurer should notify the accountant of all bank fees and the accounts to which they relate so that the accountant or her staff can place them on the warrant and post these fees to the general ledger.

Finding 6: Voided Checks

There has been some confusion in the treasurer's office over when voided checks should effectively increase cash. For example, a vendor returned a check issued in February because the town had already paid him in a previous month. By the time the town received the returned check from the vendor, it was mid-March. The treasurer was unsure whether to apply the void to February's cash (since February was the month the check was originally issued) or March's cash (the month the check was voided in the MUNIS system by the computer operator).

Recommendation 6: Voided Checks

We recommend that the treasurer increase cash upon receiving notice that the general ledger has been reduced by the amount of the voided check. Staff in the financial offices void checks by entering the void into the MUNIS system; the general ledger is simultaneously increased by the amount of the voided check. Once the check has been voided in the MUNIS system, the staff person records the void on a diskette that

goes to the bank. She also creates a report through MUNIS listing the amount of the void and the date it increases the general ledger. The staff person then sends one copy of this report to the accountant and one copy to the treasurer. The treasurer should increase cash upon receipt of this report, even if he receives it in the month following the month the check was originally issued.

Finding 7: Bounced Checks

When the computer operator receives a bounced check from the bank, she gives one copy of the check to the treasurer and one copy to the accountant. She gives the original check back to the department so that the department can either redeposit the check or pursue collection of the amount owed. The accountant makes a journal entry that reduces general ledger cash and the revenue of the department that submitted the check for deposit.

Though the accountant has been reducing departmental revenue, the treasurer has not been reducing cash in the cash book upon receipt of a bad check. Similar to voided checks, the treasurer says he is unsure when to enter bad checks into the cash book if the town does not receive the check until a month or so after it was originally deposited.

Recommendation 7: Bounced Checks

We recommend the treasurer enter bounced checks into the cash book immediately upon receipt of the check. This will ensure that the bad check is reflected in the cash book the same month the accountant creates the journal entry and reduces revenue in the general ledger.

Finding 8: Wire Transfers of Funds to the Federal Government

In addition to reconciling discrepancies caused by voided checks, bad checks, interest and bank charges, the treasurer was not including wire transfers for federal withholdings and Medicare on a warrant.¹ As a result, the accountant was not notified of these wire transfers and the general ledger did not reflect these transfers.

Recommendation 8: Wire Transfers of Funds to the Federal Government

We recommend the treasurer notify the accountant regularly concerning all wire transfers for federal taxes and Medicare. Recently, with the assistance of the auditor, the treasurer has begun taking the steps necessary to place wire transfers of federal withholdings and Medicare on a warrant so that the transfer will hit the accountant's general ledger.

¹Federal withholdings and Medicare are electronically wired to the federal government. All other withholdings, including state taxes, are paid by check.

Finding 9: Restructuring Bank Accounts

The town has funds in a total of 31 bank accounts, although it primarily uses only five or six of these accounts for its major banking activity. The major accounts include payroll and main depository accounts at Middlesex Savings Bank, a vendor account and money market account at Boston Deposit and Trust, a main borrowing account at State Street Bank and three or four investment accounts in the Massachusetts Municipal Depository Trust (MMDT)². The remaining accounts are mostly trust funds. Some of these trust funds are maintained as passbook savings accounts and contain only small amounts of money (\$200-\$300).

Recommendation 9: Restructuring Bank Accounts

We recommend the treasurer work with one bank to place these trust funds into one master account. Under this arrangement, the bank would apply interest to each individual trust fund or sub-account, and show all activity as it relates to each sub-account. This arrangement would reduce the amount of paperwork involved in maintaining these accounts since the treasurer would receive only one report from one bank per month, rather than bank statements from several banks.

We also recommend the treasurer convert passbook savings accounts into statement accounts. Maintaining passbook savings accounts is time consuming and cumbersome since the treasurer or someone from his staff must physically take the passbook to the bank when making deposits and withdrawals. It would be much easier for the treasurer to compare his records to one monthly report or statement showing activity for these various passbook accounts, rather than having to consult various passbooks.

² The MMDT is an investment pool created by the Commonwealth under the supervision of the state treasurer's office.

THE COLLECTOR'S OFFICE

The collector serves in an elected capacity and has held this position in intermittent terms totaling about ten years. The tax collector's office is located on the first floor of the town hall, whereas the treasurer's office is located on the second floor. The collector has one assistant who works 25 hours per week. Since this assistant works part time, another person—such as the collector, the treasurer's assistant or even the assessors' clerk—must work in the collector's office in the late afternoon until the town hall closes.

In FY2000, the tax collector will collect approximately 3,300 real estate and 220 personal property tax bills semi-annually. The collector's assistant uses the MUNIS software to post these tax payments to the collector's detailed receivable file with corresponding entries made directly to the accountant's general ledger. Though the assistant collector deposits these collections daily and attempts to post them the same day they are received, she is often unable to post payments on a daily basis during the periods of greatest payment activity.

The tax collector also collects motor vehicle excise payments. In 1999, the total commitment for motor vehicle excise was approximately 8,760 bills. Unlike the real estate and personal property tax payments, the town uses a system provided by the deputy collector, rather than MUNIS, to post these payments. The assistant collector prepares a weekly report for the accountant of motor vehicle excise payments received and the year to which these payments apply and the accountant's staff posts these payments as reported by the collector to the general ledger.

The town issues approximately 2,170 water bills three times per year. This includes 885 bills for sewer as well as water charges. The town intends to send out the last water-sewer billing for FY2000 on May 1. For FY2001, the town will issue water-sewer bills on a quarterly basis. The tax collector's office uses the MUNIS software to post these payments to the general ledger. In addition, the collector also uses MUNIS to post payments for apportioned sewer betterments.

The assessors provide the collector with a list of abatements and exemptions and they also enter these abatements and exemptions into the MUNIS system. Through MUNIS, this information is transferred to the collector's detailed receivable records. The collector uses the list to make sure that the abatements and exemptions appear accurately in their system. The collector's assistant says she also submits a weekly turnover report to the treasurer of the amounts deposited for each type of payment received (real estate, personal property, motor vehicle, water, sewer etc.) and the year to which each payment relates.

Finding 1: Reconciliation with the Accountant

The accountant and the tax collector have not reconciled receivable balances for FY2000. In March, the accountant provided the collector with a spreadsheet asking for the collector's detail on receivable balances from July 1, 1999 through February 29, 2000 and has not received a response. The collector, on the other hand, says he is awaiting balances from the accountant so that he can compare these to his balances for FY2000 and that the accountant has not fulfilled his request.

Recently, the state Bureau of Accounts (BOA) initiated a new reporting requirement regarding receivables to accountants, collectors and treasurers. As the first phase of a multi-year program, BOA required that the accountant, collector and treasurer list all outstanding receivables for real estate taxes, personal property taxes, motor vehicle excise, tax title liens and tax foreclosures. BOA required that this report be submitted as a condition to certifying free cash on July 1, 1999. However, variances in these balances did not preclude certification of free cash. Beginning with the July 1, 2000 free cash certification, however, these receivables must be reconciled to demonstrate the validity of the balance sheet and to receive a free cash certification. In the future, all receivables must be reconciled to receive free cash certification.

Recommendation 1: Reconciliation with the Accountant

We recommend that the accountant and the tax collector establish monthly procedures to reconcile receivables. 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 collector's office must review collections posted in the cash book and refunds processed through the town warrant, making sure these were accurately reported to the accountant. Similarly, the accountant reviews her records, checking the assessors' reported commitments, abatements and exemptions against the general ledger. The accountant also reviews or verifies that reported revenues turned over by the treasurer/collector were posted accurately in the general ledger.

Having reviewed their records, the collector's office reports any outstanding receivable balances 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.

Finding 2: Pursuing Delinquent Real Estate Accounts

Millis has been successful in collecting about 98 percent of each year's real estate tax levy over the past several fiscal years. However, there are still small receivable amounts remaining from prior years' tax levies as indicated in the following table.

TABLE 1: TAXES RECEIVABLE (YEAR ENDED JUNE 30, 1999)	
Real Estate	Uncollected as of June 30, 1999
1999	163,519
1998	36,532
1997	6,490
1996	
1995	2,449
1994	2,349
1993	1,198

The last year the town placed a delinquent real estate parcel in tax title was in 1996. According to the collector, there are currently six or seven property owners whose properties should be in tax title. However, the collector says he began the tax taking process with respect to these real estate property accounts in June 1999, but failed to record the instrument of taking for these properties within sixty days of the date of the taking. This invalidated the takings. Since that time, he has not taken any additional steps toward placing these properties into tax title.

Perhaps the most effective method of collection for real estate taxes is the tax title process. Most liens are automatically in effect on real estate from January 1 in the year of the assessment until such time as the taxes have been paid. However, liens can be "defeated" or removed if two things occur before a valid taking or tax sale is made. (1) 3 ½ years elapse from the end of the fiscal year for which the taxes were assessed and (2) an alienation (or conveyance) of the parcel is recorded. Therefore, it is important for a collector to proceed promptly with a formal tax taking.

This requires the preparation of a notice of taking, advertisement of the notice, and a recording of the instrument of taking at the Registry of Deeds within 60 days of the date of the taking. State law (sections 53 and 54 of Chapter 60) allows this process to begin as soon as 14 days after a statement demanding payment has been issued. These demand notices may be issued as soon as the bills become overdue.

Recommendation 2: Pursuing Delinquent Real Estate Accounts

We recommend that the tax collector place more emphasis on the pursuit of delinquent real estate tax accounts through prompt tax takings. At this point, all outstanding real estate accounts from prior years should be in tax title, including delinquent accounts from FY99. It is important that the town establish and adhere to a schedule for placing delinquent accounts into tax title. Putting taxpayers on notice that the town intends to take their property for outstanding taxes will convey the message that the town is serious about collecting overdue taxes and may bring delinquent taxpayers in to negotiate a payment plan.

Finding 3: Combining the Treasury and Collection Functions

The conversion to MUNIS and the retirement of the computer systems coordinator are key factors causing town officials to consider restructuring the financial offices. As the town proceeds with these considerations, it must also take into account the costs involved with creating new positions and reallocating duties. Currently, the town has a part-time, appointed treasurer's position and a part-time, elected tax collector's position. The same person fills both positions. As already mentioned, the town often has difficulty providing afternoon office coverage in the collector's office.

In many ways, the responsibilities of the treasurer and collector's offices overlap. Both offices play a role in the pursuit of delinquent property tax accounts. The collector's office prepares these accounts for tax taking, but once in tax title, the treasurer's office is responsible for collecting them. Both offices also have various cash management responsibilities.

Recommendation 3: Combining the Treasury and Collection Functions

We recommend that the town create a combined treasurer/collector's office.

Combining the collector and treasurer functions will enable the town to hire a full-time, professional department head rather than having two separate part-time position -- an appointed treasurer and an elected, part-time collector. Also, the town may potentially improve operations in both offices at a cost similar to what it now pays for having an elected collector and an appointed treasurer.³

With a combined office, more staff will be available to handle periods of peak workload such as when semi-annual tax bills are due. Also, a combined office provides more opportunities for cross-training staff in other areas so that there is always adequate coverage during vacations or other absences. In recent years, several other towns have received special legislation to combine these offices.

³ The combined salary for both the treasurer and collector as of July 1, 2000 is about \$45,000. The break down is as follows: Treasurer-\$25,958 (20 hours per week); Collector- \$9,042 (annual salary) plus \$10,000-\$14,000 per year from collection fees.

THE ACCOUNTANT'S OFFICE

The town accountant has worked for the town of Millis for the past 6 years and holds the position part-time (25 hours/week). As discussed earlier on in this review, the computer systems coordinator (who handles cash receipts) and maintains the town's computer system) and the computer operator (who handles accounts payable and payroll) perform functions for the accountant as well as the treasurer.

During our visit in March, we requested a summary trial balance of all general ledger accounts. The accountant provided us with a summary trial balance as of September 1999 that did not appear to reflect beginning balances as of July 1, 1999. Since the accountant did not use the ending balances as of June 30, 1999 as the beginning balances as of July 1, 1999, some of the accounts showed negative amounts. For example, the account for real estate taxes for FY99 shows a beginning balance of - \$119,473. The accountant said she was not willing to carry over ending balances as of June 30, 1999 because she felt these were inaccurate due to a history of receivable reconciliation errors between the general ledger and the collector's detail.

The accountant says she is waiting for the auditor to produce audited balances for FY99 that she will use as beginning balances. Her rationale for waiting for these audited or "clean" balances is that inaccurate beginning balances will cause errors to carry over into FY2000 and that the longer these errors continue, the harder it will be to correct them. As of the end of May, the accountant still had not received the beginning balances from the auditor, though she expects to receive them some time before June 30, 2000.

According to the town's auditor, he expects to have these beginning balances available in time for the accountant to close the books by the end of FY2000. Consistent monthly reconciliations between the treasurer, collector and the accountant, and agreement among these financial officers on procedures for posting items that have been a recurrent source of reconciling differences, should prevent the accountant from resorting to maintaining a general ledger with no beginning balances.

Finding 1: Pursuing the Reconciliation of Cash and Receivables

In recent years, communication between the accountant and the treasurer and collector has suffered. In many respects this has been the result of the historical and ongoing operational problems in the treasurer's office. Nonetheless, as the selectmen's appointed accounting officer, the accountant has broad fiduciary responsibilities to review the financial operations of all town departments. For example, MGL Chapter 41 § 50⁴ enables the accountant to examine the books of all officers charged with the receipt, custody or expenditure of money. It further provides the accountant with "free access to...books, accounts, bills and vouchers as often as once a month for the

⁴ Though this section of the law deals with the powers and duties of town auditors, in towns such as Millis that do not have an auditor's position, this section refers to town accountants.

purpose of examination.” This section also allows the accountant to verify the cash balance of all financial offices “by actual count of the cash and by reconciliation of bank balances.”

Consequently, we believe that the general laws and best management practices dictate that the accountant should play a major role in resolving some, but certainly not all, of the operational difficulties between these offices.

Recommendation 2: Pursuing the Reconciliation of Cash and Receivables

We recommend that the town accountant take an assertive role in resolving some of the persistent cash and accounts receivable reconciliation problems. Although we understand that this places the accountant in a difficult role, we believe that it is in the best interests of the town for the accountant to provide leadership in the area of office procedures and reporting. This includes taking the lead in resolving some of the persistent cash reconciliation issues discussed in detail in the treasurer’s section.

Finding 2: The Need for a Full-Time Accountant

Millis is a growing residential community with its own school department and water and sewer services. In full service communities like Millis, accountants typically have more responsibility than in other communities that belong to regional school districts and do not provide these services. As the scope of town finances grows and becomes more complex, the accountant is increasingly called upon to provide financial information to town officers and committees. As the town looks toward improving its financial planning and management, the accountant will play a crucial role.

Recommendation 2: The Need for a Full-Time Accountant

In the long-term, we recommend that Millis consider expanding the role of the town accountant to a full-time position. In Massachusetts, the vast majority of towns in the 5,000 to 10,000 population range with a local school system employ full-time accountants.

THE ASSESSORS' OFFICE

The assessors' office in Millis oversees the valuation of the town's real and personal property for the purposes of taxation. The town elects three members to the board of assessors while the office is staffed by a full-time clerk and a part-time clerk who works 19 hours per week. The full-time assessors' clerk has worked for the town in that position for 20 years.

In Millis, there are approximately 2,830 residential, 110 commercial, 29 industrial and 200 personal properties. The assessors contract with Real Estate Research Consultants (RRC), a private appraisal firm, to annually review all building permits.⁵ The appraiser from RRC conducts all field inspections and uses the town's Vision Appraisal software to generate values and produce property record cards. In 1999, the town converted from the Arlington Data software to Vision Appraisal software. Due to differences in how these software packages perform calculations, there tend to be differences in the values they generate. Now that the assessors have converted to Vision they intend to conduct a full measure and list⁶ for the next certification year (FY2002) to obtain current and accurate data to enter into the new system. RRC also conducted the FY99 revaluation process as required every three years by state law.

The assessors' clerk administers the motor vehicle excise commitments (about 8,000 in FY99) using a system provided by the deputy collector. She also processes real estate abatement requests by providing the property record card and related information to the board of assessors, while members of the board conduct the field inspections. The town ordinarily has about 25 to 30 abatement requests annually, but had about 200 for the FY99 revaluation year. The part-time clerk assists the full-time clerk with all of her duties and also processes requests for exemptions. In FY99, the assessors' office processed about 45 exemptions (for elderly, veterans, hardship, etc.)

Finding 1: Hiring a Full-Time Assistant Assessor

The assessors contract with an appraisal firm to review building permits and perform the revaluation process as required by the state law every three years. In FY2000, the town will pay the appraiser about \$5,000 to conduct the field work and related valuation work on Vision for building permits. In FY99, the town paid its appraisal consultant, RRC, \$50,500 for conducting the three-year revaluation process. The full-time assessors' clerk estimates that contracting costs for a full measure and list will be approximately \$90,000.

Though RRC reviews building permits annually, the town does not contract with them to perform interim year adjustments to value. Also, the assessors do not perform cyclical re-inspections of all property. This entails completing interior and exterior inspections of

⁵ In calendar year 1999, the town issued 173 building permits (26 of these permits were for single family dwellings).

⁶ This entails visiting each and every property and updating the property record card accordingly.

all property over a multi-year period to ensure that property data is current and accurate.

Recommendation 1: Hiring a Full-Time Assistant Assessor

At the appropriate time in the future, we recommend that the town consider hiring a full-time assistant assessor. While things appear to be going well with the town's appraisal consultant, hiring an assistant assessor with mass appraisal experience will improve the functionality of the assessors' office and reduce the town's dependence on outside consultants. We calculate that, on average, the town will pay consultants about \$30,000 per year, including an annualized cost for the full measure and list spread over nine or ten years. In the future, it may be more cost effective for the town to staff the assessors' office with a full-time clerk and assistant assessor rather than pay a contractor for various appraisal services. We estimate the town could probably hire a full-time assistant assessor for approximately \$40,000-\$45,000 per year.

With some assistance from board members in reviewing building permits and collecting data, the assistant assessor should be able to keep up with valuing the residential properties. However, this person may need assistance from an outside appraisal service for commercial/industrial property valuations.

With in-house appraisal expertise, the town will be more responsive to local market conditions and capable of adjusting residential values on an annual basis if necessary. However, the assistant assessor may need the assistance of an appraisal consultant to value commercial/industrial properties. In an appreciating market, annual adjustments to value will enable the town to maximize its new levy growth by bringing new construction on the tax rolls at market assessments. Adjusting values yearly in this type of market also prevents the "sticker shock" that often accompanies tax bills that represent three years' worth of appreciation in one year. Also, in a declining market, keeping values current allows the town to minimize abatement exposure.

The town will also be better equipped to avoid large expenses such as the \$90,000 estimated cost for a full measure and list. The town can realize savings by having the assistant assessor, with the assistance of the board, organize a cyclical re-inspection program over a multi-year period. A cyclical re-inspection program involves inspecting all property over a period of several years (up to nine or ten years) using in-house resources.

SEPARATION OF DUTIES IN THE FINANCIAL OFFICES

There are two full-time positions, the computer systems coordinator and the computer operator, that support the operations of both the town accountant and the treasurer. The following tables summarize the duties of each of these employees and shows how they relate to either the treasurer or the accountant.

TABLE 1: THE COMPUTER SYSTEMS COORDINATOR

Function	Responsibility
Deposits miscellaneous cash receipts	Treasurer
Posts miscellaneous cash receipts	Accountant
Receives bank statements showing checks that remain outstanding	Treasurer
Make payments to ambulance billing firm and pays health and life insurance premiums. Prepares paperwork for new enrollees and current employees who change benefit coverage.	Treasurer
Assists the accountant in producing a monthly statement for each department head showing the total appropriations, expenditures, and the balance in each appropriation.	Accountant

TABLE 2: THE COMPUTER OPERATOR

Function	Responsibility
Checks payroll sheets for accuracy	Treasurer
Enters payroll and vendor data into MUNIS	Treasurer
Produces vendor and payroll checks	Treasurer
Produces payroll and vendor warrants	Accountant
Produces monthly and quarterly payroll reports	Treasurer
Makes payments for payroll deductions (annuities, garnished wages, Copeland); makes payments to dental insurance carrier and Norfolk County Retirement Board	Treasurer
Produces and distributes W-2 forms	Treasurer

Finding 1: Separation of Duties

The general laws delineate specific roles for finance officials and describe how these roles interrelate in an effort to provide a system of checks and balances. In many ways, these checks and balances are intended to provide a clear audit trail for transactions and to guard against the misappropriation of town funds. With the computer systems coordinator and the computer operator performing functions for both the accountant and the treasurer, the town lacks a clear distinction between those receiving money and those maintaining the accounting records (See MGL Ch. 41, §55). As a result, internal controls are weakened and there is the potential that the town's assets may not be safe.

The way the departmental turnovers of cash receipts are currently handled is a prime example. As discussed earlier, the computer systems coordinator receives turnover sheets from all the departments and physically deposits the money in the bank (treasurer's function). She also posts cash receipts to the general ledger through MUNIS (accountant's function). This type of arrangement defeats a system of checks and balances that normally occurs when duties are segregated and one person checks or verifies another person's work. Having staff people in separate offices deposit cash and post these receipts to the general ledger is the best way to safeguard the town's funds.

The computer operator also performs duties for both the treasurer and the accountant which should be performed by separate individuals working out of separate offices. She not only prepares the warrants for payroll and vendor expenses (accounting function) but also produces the checks (treasurer's function). Having the same person prepare warrants and also print signed checks creates the possibility that an illegitimate check bearing the treasurer's signature could be placed on the warrant and ultimately approved for disbursement.

Recommendation 1: Separation of Duties

We recommend that the town re-structure duties in the financial offices so that the treasury and accounting functions are separated. From our discussions with the town administrator, the town appears to be moving in the direction of having separate people perform these duties. Since the town is considering separating the clerical duties related to the accountant and the treasurer from the computer systems coordinator, it appears that the treasurer's full-time assistant will be taking on the treasurer's duties that were performed by this person. The computer operator will continue to administer payroll and expense functions and a part-time person will provide assistance to the accountant.

COMPUTER SYSTEM ISSUES

In July of 1999, the town began its conversion to the MUNIS financial software packages. The town uses these packages for accounts receivable, accounts payable, utility billing, accounting, and budgeting. Every financial officer and support staff member we interviewed expressed reservations about the conversion to the new MUNIS system. Most felt that they did not receive enough training and that advice from MUNIS support staff was often hard to understand.

There are also various components of the MUNIS package that the town has purchased but has not fully implemented. For example, the collector's office is not using the scanning technology the town purchased as part of the collection package. Essentially, these scanners read bar codes printed on the tax bills so that payments can be posted automatically into the computer system and a receipt generated for the taxpayer. This is a valuable tool and saves time in the collector's office, especially during peak collection periods.

In another example, the town purchased the module for processing tax title receipts but the collector says he was unaware the town had acquired this software. Consequently, as of this time, the tax title module has not been utilized. Also, the MUNIS system has the capability to print real estate tax bills, but the collector has not been able to print bills satisfactorily. He says that MUNIS has not provided adequate training on how to use this function. For the first commitment for FY2000 real estate and personal property tax bills, the treasurer contracted with a business in Maine that charged upwards of \$4,000 to print, stuff and mail the bills. For the second commitment, the treasurer contracted with another vendor for essentially the same services, at a cost of about \$2,400.

Aside from MUNIS components that have not been fully implemented, the town did not purchase modules for processing the treasurer's cash receipts and motor vehicle excise payments. This has prevented the town from realizing some of the benefits of a fully integrated system. Also, an e-mail software package installed on town computers is not yet up and running since no one has received any training on how to use it.

Finding 1: Creating a Part-Time MIS Position

For several years, a staff member in the financial offices has functioned as the "computer systems operator." In this capacity, she prepared the NT and UNIX servers to perform automatic, overnight system backups, performed upgrades of MUNIS and other software applications and installed printers when needed. Though she attempted to troubleshoot MUNIS problems for other town hall employees, she had no training in MUNIS above and beyond what most of the other users have received. As discussed earlier, her duties also included performing various functions for the accountant and the treasurer. After serving the town for 17 years, she retired in June 2000.

Town officials have a concern that the clerical duties associated with the computer systems coordinator position are making it difficult to attract a replacement with an adequate background in computer systems. The town has already advertised the position with the clerical duties as part of the job, but received no applicants. Consequently, town officials are considering hiring a person part-time (about 20 hours per week) to function solely as MIS director. From our discussions with town officials, it appears town officials realize the need for a MIS person devoted solely to maintaining the town's computer system and resolving computer related issues.

Recommendation 1: Creating a Part-Time MIS Position

We recommend that the town create a part-time MIS position to maintain the town's computer system and assist staff with MUNIS issues, including the implementation of the aforementioned components that the town has purchased but not used. Along with the routine duties such as system back-ups, software upgrades and hardware installation, this person should gain sufficient proficiency with MUNIS so that he or she can function as a liaison between MUNIS and town hall users. Since most town hall users say they have difficulty understanding directions from MUNIS support staff, direct assistance from an MIS person who can offer "hands on" support will be beneficial.

As the point person dealing with the software vendor, the MIS person should be very familiar with the contractual obligations of the software vendor. In this role, the MIS person can maintain a request log to track problems requiring in-house or vendor intervention. A log can reveal specific areas of the system proving problematic from a technical standpoint, or that require additional training of users. The log can also serve as a mechanism to ensure that all requests are solved in a timely fashion. Finally, the MIS person can prioritize the town's computer issues, ensuring that the most urgent issues get prompt attention.

The intent here is not to buffer staff from having contact with the company, but to establish a process that produces the best "support" results for the town. Software companies generally prefer, and some actually require, the designation of a single contact person by those who purchase their product. Nonetheless, there will be frequent occasions when the need to place staff in contact with technicians arises as the most practical means to resolve a computer problem.

We recognize that the town may have difficulty attracting qualified candidates willing to accept an MIS position on a part-time basis. One option the town may want to consider is combining its town and school department MIS operations. The benefit of this combined arrangement is that the responsibilities become sufficient to sustain an MIS department. In the event of a vacancy or absence, a combined MIS department will have more staff to provide coverage.

Finding 2: Seeking Assistance with MUNIS

Training by MUNIS staff in the Millis financial offices was included in the original purchase price of the MUNIS system; however, the town has used up all its allotted training time. Additional on-site training can be purchased from MUNIS at a cost of \$950 per day.

Recommendation 2: Seeking Assistance with MUNIS

We recommend that town hall users make every effort to attend user group meetings when available and seek assistance from MUNIS users in other communities. Since the cost of additional training from MUNIS is very expensive, until the town actually creates and fills an MIS position, staff should obtain as much information as possible from user group meetings and users in other towns. Millis users who recently attended a MUNIS user group meeting say the information they received was very helpful.

ACKNOWLEDGEMENTS

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