



Town of Sharon

Financial Management Review

Division of Local Services/Technical Assistance Section

October 2007

INTRODUCTION

At the request of the Sharon 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 staff members of the Municipal Data Management & Technical Assistance Bureau (MDM/TAB), the Bureau of Accounts (BOA), and the Bureau of Local Assessment (BLA). During these visits, the staff interviewed the selectmen, members of the finance committee, town administrator, the acting treasurer/collector, assistant collector, assistant treasurer, assistant accountant, administrative assessor, information technology director, and other municipal board members and office staff.

DLS staff examined such documents as the tax rate recapitulation sheet, annual budgets, audits, cash and receivables reconciliation reports, and statements of indebtedness. The town also provided us with warrants, debt schedules, town bylaws, various job descriptions, and other assorted financial documents.

The purpose of this review is to assist officials 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 that exists between and among boards, officials and staff involved in the financial management function; (3) the performance of financial operations in such a way as to maximize resources and minimize costs.

We encourage the selectmen, when formulating overall strategies for improving the town's financial management, to consider the observations, analyses, and recommendations contained in this report. These are recommendations only and can be implemented, at the town's option, provided there is sufficient cooperation among the various boards, committees, and officials.

EXECUTIVE SUMMARY

Once a part of Stoughton, Sharon was incorporated as a town in 1765. Sharon is about 24.2 square miles with a population of 17,142 persons (2006 estimated US Census). The town's 2006 equalized property valuation (EQV) per capita, which is a measure of relative community wealth based on property values and is frequently used as a basis for state aid distributions, is \$176,671, well above the statewide average of \$153,979. Sharon's 1999 income/capita is \$41,323, almost 160 percent of the statewide average of \$25,952.

Like many Massachusetts communities, Sharon began as a rural, farming town. However, rather than yielding to large commercial and industrial development, Sharon became a popular summer resort community. Prior to World War II, people traveled to Sharon to enjoy the clean air and its natural resources. Central among these is Lake Massapoag, a nearly 400-acre swimming and boating recreational site. Today, other undeveloped and protected land, totaling more than 5,000 acres, includes the Massachusetts Audubon Society's Moosehill Wildlife Sanctuary, Borderland State Park, and town-owned conservation land.

While maintaining much of its green-space through creative planning, Sharon has grown to become a predominantly residential community due in part to the lack of public sewers. In just the last 20 years, Sharon's single-family parcels have increased from 4,302 (FY1987) to 5,196 (FY2007) or almost 21 percent. During this same timeframe, the town's condominium units have almost doubled, increasing from 176 to 338. With development, the town's population more than doubled during the 1950s, from 4,847 persons (1950 US Census) to 10,070 persons (1960 US Census), and increased an additional 70 percent to the current 2006 estimated US Census of 17,142 persons.

As a result of this growth, Sharon's budget increased significantly. In just the last 10 years, the budget has increased from about \$32.9 million (FY1997) to \$62 million (FY2007), or an increase of about 88 percent. Since 1997, the town's property tax revenues have nearly doubled, state aid has more than doubled, and local receipts have increased about 79 percent.

The escalation in Sharon's property tax revenue is primarily due to a combination of the annual statutory 2½ percent increase and to new growth that is generated by new construction and building renovations. It also has been impacted by voter-approved debt exclusions, which fund debt service costs over the lifetime of various projects, and Proposition 2½ overrides that permanently increase the local tax levy. Since 1988, Sharon voters have approved eight out of 15 override questions that permanently added over \$11.8 million to the town's property tax levy. The most recent override was approved in May 2007 for \$2.9 million to provide increased funding for school and general town services over the next three years.

The growth in state aid reflects increases in the state legislature's annual appropriations as well as changes to the state's Chapter 70 aid distribution formula that incorporate equity factors (e.g., property wealth and income). Because Sharon has been above the state averages, the town receives a low percentage of its total revenues (16 percent in FY2007) from state aid. Increased revenue from local receipts is a combination of growing motor vehicle excise and water service charges, as well as

increasing license, permitting, and other departmental fees. Sharon also has used fluctuating amounts of other available funds (e.g., free cash and one-time revenues) to support its spending.

Over the years, financial and legal complexities facing Sharon also have increased. In order to best handle these pressures, the community has reviewed its staffing, operations, and procedures periodically and, if warranted, implemented change. To improve management and accountability, the town replaced the elected treasurer and collector positions with an appointed, professional treasurer/collector in 1988 and upgraded its executive secretary to a town administrator during the early 1990s. The town created a priorities committee—made up of two selectmen, two school committee, and two finance committee members—to monitor the town’s fiscal circumstances and ensure consistent communication among Sharon’s policymakers. More recently, town meeting consolidated Sharon’s financial offices into one department by adopting M.G.L. Ch. 43C to provide better coordination and central management, and residents collected enough signatures to place a charter commission referendum on the next annual ballot, following the recommendations of a government study committee.

The town’s decision to create a consolidated finance department was in response to recent shortcomings in the accountant’s and treasurer/collector’s offices. In recent years, the accountant has been on extended medical leaves (and is now retired). In her absence, the assistant accountant managed the staff, prepared the warrant, and provided reports, however she encountered problems closing the books at year’s end. Similarly, the treasurer/collector’s office has had trouble accounting for trust funds and reconciling cash, both of which were cited as reportable conditions by the town’s private auditor. Upon the resignation of the treasurer/collector this past spring, the town had to hire a consultant as the acting department head because the assistants lacked training to serve in his absence.

The town is about to hire a finance director, who will manage Sharon’s accounting, assessing, management information systems, and treasury/collection staff. More importantly, the director will be responsible for organizing this newly consolidated department, addressing deficiencies in office operations, and providing guidance to staff and policymakers going forward.

During this transitional period, the selectmen requested that the Division of Local Services (DLS) conduct a comprehensive review of the town’s financial offices to provide an objective assessment of current operations and help identify potential improvements. The recommendations in this report are based on best management practices that comply with state laws and regulations as well as encourage efficiencies, checks and balances, and accountability. Chief among these is the need to provide training on important office procedures and responsibilities and the advantages of available automated systems. Under the guidance of the new finance director, changes in certain processes and procedures will help the finance staff to understand the value of collection controls and monthly cash reconciliations. Also, department heads should be held accountable to operate within town meeting’s appropriations or seek funding/transfers before overspending occurs. With well-trained staff and good practices in place, Sharon will be able to plan for the future and position itself for whatever lies ahead.

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OVERALL FINANCIAL MANAGEMENT AND BUDGETING

During the course of our review, we looked at the overall financial management in the town, including its governmental structure and by-laws, the budget and financial practices, and personnel procedures and policies. What follows is a summary of our observations and recommendations.

GOVERNMENT STRUCTURE AND BY-LAWS

Sharon has a selectmen-town administrator form of government. The town does not have a charter, so it's organized under a combination of state statutes, special acts, and local by-laws. State statutes generally provide allowable methods of governance and often offer guidance on minimum requirements, while special acts and by-laws enable a community to establish specific authority and procedures by which it operates.

Posted on the town's website, Sharon's general by-laws are sparse and not all inclusive. We found some town boards/officials and their basic duties are included in the by-laws while others are not. For example, the finance, standing building, and priorities committees' membership, terms and duties are included while the capital outlay committee, which has been a standing board since 1969, is not mentioned in the by-laws. According to the town clerk, a town meeting approved article is included in the by-laws only if clearly stated that it be codified. In another example, Sharon has a town administrator who manages the daily operations, staff, and budget process. Yet, despite key fiscal and management duties, the town administrator's responsibilities have not been codified in a by-law and the position exists only by virtue of a job description.

Recognizing these shortcomings, Sharon formed a government study committee. The committee spent nearly three years reviewing the town's current structure and investigating various forms of government before issuing a report in 2004. Chief among the proposed recommendations was the election of a charter commission. Town officials report they have enough petition signatures to place the charter commission on the town's annual election ballot in the spring of 2008.

BUDGET AND FINANCIAL PRACTICES

In Sharon, the budget process commences in the fall. The town administrator, with the assistance of the treasurer/collector (now the finance director will assume this duty), prepares preliminary revenue estimates for the ensuing year. The priorities committee reviews the revenue information and recommends budgeting guidelines after updating a multi-year forecast of revenues and expenditures.

A budget message, appropriation request forms, and a calendar of events and deadlines are sent to all departments. Departments, which report to the selectmen, submit requests to the town administrator for review and approval of the selectmen. The town administrator combines these budgets with other departments' requests and a balanced budget proposal is prepared for the finance committee's review. The town administrator, with the assistance of the financial officers, provides updated revenue and expenditure information as it becomes available and analysis upon request. At

the end of this process, the finance committee presents a written report of their recommendations on all warrant articles to town meeting.

During the budget process, a capital outlay committee reviews all capital requests and updates a five-year plan. The amount of new acquisitions recommended in the annual capital budget is based on a recently adopted long-term financial planning policy. Referred to locally as the “pay-down plan,” roughly six percent of the annual budget (net of cumulative overrides since FY01, excluded debt service, and the water budget) is earmarked for non-excluded debt and capital acquisitions. The intent is to move towards more direct purchases and less borrowing.

Another essential long-term financial planning tool is the development of reserves. Generally, reserves help a community to fund one-time and capital expenditures and provide some flexibility to fund extraordinary or unforeseen expenses after its tax rate is set. Also, bond-rating agencies recognize the vulnerability of communities with few reserves and consider this a negative factor. Over nearly the last two decades, Sharon has had positive free cash, which, according to financial officials, was the result of conservative budgeting practices. Another traditional reserve is the stabilization fund. Sharon does not make annual appropriations into the stabilization fund. Only recently, the town appropriated \$100,000 into the fund, bringing the current balance to about \$114,000 (6/30/07).

Within the town’s omnibus budget article is funding for the department of public works’ water division, which operates as a separate special revenue fund under M.G.L. Ch. 41, §69B. This general enabling legislation authorizes the town to construct and maintain a public water system, to charge revenues to support direct water operating costs and any debt service charges, and to use any surplus generated for water-related expenses. Hence, any surplus (or deficit) identified by the accountant closes to the water fund annually.

Once operating and capital appropriations are approved by town meeting, departments are authorized to spend their funds. However, each week, the town administrator and selectmen review all department bills and sign each, in addition to the department head, prior to submitting them to the accountant. The selectmen then approve the accounts payable and town/non-teacher payroll warrants weekly while the teachers’ payroll warrant is signed biweekly.

Due to an insufficient cash flow at the beginning of the fiscal year, departments often are asked to delay non-essential spending or, worse, some bills are not paid timely. This cash flow problem is due in part to Sharon’s issuance of semiannual property tax bills. As a semiannual community, it needs to finalize its property values and get its tax rate approved by DOR no later than September in order to issue timely property tax bills by October 1. Since FY2000, Sharon has issued its tax bills late, delaying the first property tax installment until December. While revenue anticipation notes could be issued to meet the town’s cash demands, the treasurer has opted against this alternative to avoid added interest costs.

At the close of each fiscal year, Sharon is required to have an annual audit performed to comply with the federal Single Audit Act. Included in an audit, there is a management letter that identifies improper or inadequate procedures. Over the last few years, a series of issues have been raised repeatedly because the town has never formulated a plan to correct them. Chief among these is the

lack of regular monthly cash and student activity trust fund reconciliations that were cited as a reportable condition in FY06. A reportable condition is a deficiency in internal control, which if significant, may become a “material weakness.” A material weakness is a reportable condition of such magnitude that it could potentially result in material misstatements of financial condition that could impact Sharon’s credit rating and future borrowing costs.

PERSONNEL PROCEDURES AND POLICIES

Using the computerized Munis System, the town produces the payroll as well as centrally accounts for employees’ time and attendance. Each town employee’s payroll statement reports the gross earnings, itemized deductions, the net income, and accrued leave (e.g., vacation, sick and personal time) balances. The school employees’ payroll statements contain similar information with the exception of accrued leave balances, which are kept at the school administration level.

Appointed by the moderator, Sharon has a personnel board. The board’s responsibilities include classifying positions, setting compensation for non-union positions, approving transfers, promotions, and demotions, and administering employment and benefit policies and practices. Codified in the town’s personnel bylaw, the personnel administration policies and procedures generally are detailed. One notable exception is performance evaluations. Currently, only department heads have annual evaluations based on performance criteria that are independently determined by each appointing authority without any uniform standards or guidance.

According to the accountant’s, collector’s, and treasurer’s assistants job descriptions each has supervisory duties, exercises independent judgment and initiative, and oversees office operations. Generally, an assistant department head should be trained and knowledgeable to perform these activities as well as assume added responsibilities in their manager’s absence. In the case of the assistant accountant, her years of experience have enabled her to manage the daily operations during the accountant’s extended absence, but she requires the assistance of a consultant at year’s end. Similarly, the assistants in the treasurer/collector’s office had no previous professional training and were not prepared to assume the role of the department head, hence the hiring of a consultant as acting treasurer/collector.

RECOMMENDATION 1: PROVIDE PROFESSIONAL TRAINING FOR ASSISTANT DEPARTMENT HEADS

We recommend that the accountant’s and treasurer/collector’s assistants attend professional development courses. An assistant should be fully trained to assume the responsibilities of the department head for brief or extended absences, thereby avoiding potential disruptions in activity or the need to hire outside help. Outside training will provide useful information about current laws and professional practices and will allow staff to interact with their counterparts from other communities.

RECOMMENDATION 2: ADOPT A CHARTER & REVIEW BY-LAWS

We recommend that the town adopt a charter. While we do not endorse one governmental organization over another, we believe the town needs to formalize its structure with the adoption of a charter. A charter would clearly define the government structure under which the town operates. It would document all positions, boards, and committees; establish the distribution of power, lines of authority, and responsibilities; and provide comprehensive financial management procedures.

We also recommend that Sharon perform a comprehensive review of its by-laws to make sure that they are clear, consistent, and complete. While the charter provides a stable structure under which the town government operates, it is complemented by a series of by-laws that fill in the details and are revised by town meeting vote as circumstances warrant. These by-laws establish codes, policies, and procedures under which the town operates (e.g., personnel rules, zoning regulations, and health codes).

RECOMMENDATION 3: STREAMLINE THE WARRANT PROCESS

We recommend that department heads approve and submit all invoices directly to the accountant for review and inclusion on the warrant in compliance with M.G.L. Ch. 41, §56. Having the selectmen approve each bill voucher prior to the accountant's review does not provide any additional measure of safeguarding the community's resources, but rather extends the approval process. It is the accounting officer's job to examine each bill submission, making sure each is legal, complies with contractual conditions, and that sufficient appropriation exists, before placing it on the warrant for the selectmen's approval. All backup documentation should be attached to the warrant for the selectmen's review and if any concerns are raised then a payment can be held back until sufficient answers are supplied.

We also recommend that the town adopt a biweekly vendor and payroll process. With the adoption of biweekly vendor and payroll, workloads in the treasurer's and accountant's offices would be reduced, freeing time for the completion of other important tasks. Any adjustment to pay periods must be impact bargained.

RECOMMENDATION 4: ESTABLISH A FINANCIAL RESERVE POLICY

We recommend that the town establish a financial reserve policy. Generally, the Department of Revenue recommends that a community's combined reserve levels are in the range of 5-10% of annual general fund budgeted revenues. In Sharon, reserves have ranged between 1.7-3.9 percent since FY2000. A formal reserve policy will allow the town to establish a practice of appropriating money to legal reserves for future needs. Appropriations to the reserves should be made annually as a part of the budget process. These reserves should be used to fund unanticipated costs and to make up any unanticipated shortfalls in the town's projected revenue estimates. However, reserves should not be used to regularly fund operating expenses. Reserves are intended to allow a community the flexibility to review and correct its problems over the long run.

RECOMMENDATION 5: ADOPT ENTERPRISE FUND FOR WATER DEPARTMENT

We recommend that the town adopt an enterprise fund for its water operation by accepting M.G.L. Ch. 44, §53F½. Enterprise fund accounting enables the town to track all revenues and expenditures of a service in a consolidated fund, which is still subject to the appropriation process and continues to fulfill financial and managerial reporting requirements like every other department. By fully identifying all direct, indirect, and capital costs of providing the service, enterprise fund accounting allows the town to demonstrate the true cost of the operation and provide information necessary to establish user fees. More importantly, the community would keep any surplus (certified by the Director of Accounts) in the enterprise that could be used to cover operating costs, capital improvements, or rate reductions.

Because the enterprise budget includes both revenue sources and expenditure estimates, town meeting should approve it as a separate article. Proper procedure for presenting and approving enterprise fund budgets may be found in DLS' [Enterprise Fund Manual](#) online.

RECOMMENDATION 6: ADOPT QUARTERLY TAX BILLS

We recommend that Sharon convert to quarterly tax billing by accepting M.G.L. c. 59, §57C. With collections occurring four times per year rather than two, a community has access to its property tax revenue earlier in the year to meet disbursement demands and can gain opportunities for increased investment income. In addition, the annual tax rate does not have to be set until December 31.

Adopting quarterly tax billing will require advanced planning and work in the collector's and assessors' offices. The assessor would have to be consulted because the property records must be updated in order to generate the commitment for mailing the preliminary bills by July 1. As for the collector's office, costs associated with quarterly billing are in the staff-hours needed during two additional tax collection periods, the increase in printing costs (i.e., bill forms) and other additional costs (i.e., envelopes and postage) if the community mails four times a year.

We recommend the collector consider contracting with a lockbox service or purchasing scan devices to handle this increased property tax billing volume. Typically offered by a financial institution, a lockbox service receives, processes, and deposits payments made to municipalities for property taxes, as well as motor vehicle or boat excise and utility payments. At the end of each processing day, the community receives payment information on disk or other medium, which can be uploaded and posted to tax/ratepayers' accounts electronically. This process makes posting automatic, accelerates deposits, makes funds available sooner, and improves investment earnings. Additional interest earned and efficiencies gained help offset the cost to the town for the service. Alternatively, the town could use scanning devices to process payments electronically, which would require the purchase of scanning equipment and the software application on the Munis System.

RECOMMENDATION 7: ESTABLISH AN INDEPENDENT AUDIT COMMITTEE

We recommend that the town create an audit committee by bylaw. The audit committee should be made up of individuals that have financial backgrounds and/or are familiar with the process. In order to avoid conflicts of interest or any allegations of impropriety, members of the committee should not include any individual whose work would be subject to the audit. The audit committee would be responsible for determining in advance the requirements and objectives of the audit and selecting the individual/firm. The committee also should be familiar with steps in the audit process and conduct an exit conference at the conclusion of the engagement.

We also recommend that the audit committee develop a written corrective action plan with specific goals, objectives and deadlines to address each accounting and management control issue raised in the independent auditor's annual report. The committee should then monitor the progress of the town administrator and the financial offices towards remedying the problems and meeting the objectives of the plan.

RECOMMENDATION 8: CONSIDER CHANGES TO THE PERSONNEL/PAYROLL SYSTEMS

We recommend that the school department enter employees' accrued balances (e.g., sick and vacation) into the town's central time and attendance module. Once entered, the school department would enter each employee's use of accrued time with every payroll run. This would enable the treasurer's and accountant's offices to centrally manage payroll and track uncompensated balances, which must be reported at year-end on the town's financial statements.

We recommend that the town develop a detailed personnel evaluation policy and conduct annual performance reviews for all employees. Increasingly, government is placing greater attention on written job descriptions with goals, performance expectations, and provisions for annual employee evaluations. The town should develop evaluation criteria that will provide uniform standards and guidance as well as benchmarks by which each employee's job performance may be measured. Based on the annual evaluation, an employee may be rewarded (i.e., step increase) for a job well done and/or given suggestions if performance improvement is warranted.

At the same time, an evaluation program works best when it is recognized as a two-way process. Employee performance is an obvious focus, but employee opinion and comment during the process can also provide valuable insight to management. Ultimately, the evaluation process can evolve into a collaborative effort leading to improvements in job performance, the operation of government and in work place conditions. Performance evaluations would be subject to labor negotiations.

MANAGEMENT INFORMATION SYSTEMS

The Town of Sharon has a management information systems (MIS) department with a full-time system administrator who reports to the director of municipal finance. A part-time technical support specialist staffs the department. MIS manages and supports the non-school computer systems, including servers, networks, and operating systems, software applications, Internet access, electronic mail, and website. MIS staff is responsible for user support and training, security and virus protection, backups, and application development.

The town's financial offices use Munis, an integrated financial system, and have access to Microsoft Office applications as well as other specialty software to conduct daily business and manage information. The Munis System modules used in Sharon include the general ledger, payroll, accounts payable, budget, and tax, excise, utility, and general receipt billing and collections. The treasurer's office also uses Quicken to maintain the cash book and the assessing office uses the Vision computer assisted mass appraisal system to value and manage property accounts.

An advantage of the Munis System is the remote access and data entry features. Once the community center opens this fall, all departments will be connected to the Munis System through the town network. Departments can inquire about the status of their budgets and enter time, attendance, and payroll information on an exception basis. Only the school department has the additional authority to input vendor payments on the Munis System at this time. The treasurer's office reviews payroll entries and the accountant checks appropriation balances and back-up documentation prior to placing expenditures on the warrant for payment. While the capability exists, departments do not post their own receipts directly into the Munis System. If they did, the receipts collected would be entered into Munis immediately, creating a turn over report with fund/account numbers that totals automatically. This, in turn, would be used by the treasurer's office to review and internally reconcile postings to deposit records.

When the Munis System and Microsoft Office products were installed, initial training was provided to the staff and since that time additional instruction has been given upon request due to module upgrades and/or personnel turn over. Similarly, the MIS staff has developed electronic databases to track or share information on which training was also given. However, during the course of our review, we found that despite the availability of the computerized applications and training, many individuals are maintaining manual, duplicate records, adding to their workload. For example, complete detail information is kept in the Munis System, but duplicate tax title records still are maintained in manual ledgers and municipal lien certificates are prepared manually. In another example, a database for retirees' insurance administration was developed with a series of management reports, but the same information also is being kept on ledger sheets in a binder.

The town has a website that provides news and announcements, departmental listings and telephone numbers, meeting schedules, town bylaws, agendas and minutes, some financial and billing information, and community links. However, email addresses to electronically contact staff are not provided and some departments have out-of-date postings or lack helpful information (e.g., forms,

reference materials, and links). In the absence of useful or complete information, users call or visit town hall offices for assistance, which causes work interruptions for personnel. MIS is in the process of reorganizing and refreshing the site, however, providing current content information is the responsibility of the departments.

RECOMMENDATION 9: EXPAND THE REMOTE ACCESS TO THE FINANCIAL MANAGEMENT SYSTEM

We recommend that all departments be granted remote entry capability to enter departmental receipts and vendor payments into the Munis System. With training, each office would be responsible for entering all financial information at the departmental level. This would enable the treasurer's and accountant's offices to review the electronic submission against backup documentation before accepting/posting it to the treasurer's receipt and accounts payable systems. Once established, even though hardcopy information is exchanged, the electronic transmission of financial data will greatly reduce the amount of manual entries the offices are performing, thereby freeing up staff to perform other management and analysis activities.

RECOMMENDATION 10: SURVEY CURRENT OPERATIONS AND PROVIDE TRAINING

We recommend that MIS survey staff on their knowledge and use of available computer applications. Based on the survey results, MIS will be able to identify staff needs and to provide department heads with recommendations on training and tasks that may be automated. For some staff, additional training may be required so they may better understand how the computerized systems can be useful to them. With greater computer proficiency, staff will no longer need to maintain duplicate manual records. MIS also could help identify repetitive and/or manual tasks that may be automated, streamlined, or developed into a shared database available to more than one office. Given the limited personnel and resources, exploring ways to operate more efficiently can free up valuable staff time.

RECOMMENDATION 11: EXPAND THE USE OF THE WEBSITE

We recommend that departments post current information timely and place all forms and policies on the town's website. Many activities in a community are cyclical, and as such, standard notices, reports, and calendars need to be annually updated. As a new budget, fee, or trash collection schedule is established, it should be published on the website timely and the older or prior information removed or archived for later reference. The website also could include contact e-mail addresses, timely committee/board minutes, the budget approved by town meeting, and commonly requested forms and documents for all departments. A comprehensive, up-to-date, and accurate website will help generate public awareness and confidence in the community. In other communities, user-friendly and informative websites have proven successful in reducing the amount time that town employees spend fielding questions in person or on the phone.

ACCOUNTANT'S OFFICE

An accountant, assistant accountant, and two clerks staff the office. The primary responsibilities of the accountant's office are maintaining the town's general ledger; reviewing invoices and preparing warrants; producing trial balances, revenue and expenditure reports; maintaining information on debt; and reconciling cash and receivables with the treasurer/collector.

The town accountant, who has been employed in Sharon since 1988, has been in and out of the office recently on medical leave, twice lasting more than a year in duration. In her absence, the assistant accountant has served as the department head. She has overseen the process of reviewing bills and approving payments despite not having copies of all town and school contracts and grants on file. While she has notified the selectmen when a department does not have a sufficient appropriation to pay a bill, the selectmen have allowed deficit spending with the expectation that the finance committee will transfer funding from its reserve (MGL Ch. 40, §6) or other appropriation balances (MGL Ch. 44, §33B) at year's end.

Throughout the year, the accountant's staff prepare internal and external reports. For internal purposes, the staff should prepare monthly expenditure and revenue reports to verify and monitor the town's financial activity. They also should produce periodic receivable and cash balance reports to reconcile with the treasurer/collector's records. In Sharon, departments have access to monthly expenditure information online in the town's financial system while the town's policymaking boards must rely on printed reports to monitor year-to-date activity. The former treasurer would provide expenditure reports upon request, which generally were not current, but revenue reports were not provided. The assistant accountant reconciles receivables with the assistant collector monthly. However, cash reconciliations historically occur at year's end.

Among external reports, the accountant (or assistant in her absence) prepares the Schedule A, a year-end fiscal statement of revenue, expenditures, and fund balances, and produces the balance sheet that DLS uses to certify free cash. In order to complete these tasks, the accounting staff must first close the town's financial books. However, we found that because school department encumbrances for outstanding for goods and services and the teachers' summer payroll have not been set up properly, the accounting staff has been unable to perform the closing activities timely or on their own. Generally, the staff waits until after the last teachers' payroll in August to do the closing and still requires the assistance of the financial management system vendor, Munis Systems. Historically, the town accountant coordinated the preparation of the annual tax recapitulation sheet and supporting documentation. In her absence over the last few years, Sharon has hired a consultant to review the town's work before submitting it to DLS.

During our review, we also found that some of the town's revenue and expenditures, normally reported in separate funds (e.g., capital funds and agency accounts), are included in the general fund. This reporting is typical of "statutory" or single fund accounting and requires additional work to separate out certain financial activity to comply with the reporting requirements of Generally Accepted Accounting Principals (GAAP) at year's end.

RECOMMENDATION 12: AVOID DEFICIT SPENDING

We recommend that the town monitor its spending and avoid deficits. 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, the town can seek the permission of the Director of Accounts (M.G.L. Ch. 44, §31) to deficit spend. The accountant should contact the department to review the reason for the over expenditure and verify that the department's internal budget reconciles with the general ledger.

RECOMMENDATION 13: REQUIRE ALL CONTRACTS BE SUBMITTED

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

RECOMMENDATION 14: CONDUCT CASH RECONCILIATIONS PROMPTLY

We recommend that the accountant meet to reconcile the town's cash with the treasurer/collector's office at least monthly. Frequent reconciliations shortly after the close of each month make it easier to locate and correct posting errors, minimizing the additional workload at year's end. Regular cash reconciliations also enable town officials to verify that revenues reported are accurate, thereby ensuring the community's funds are safeguarded.

RECOMMENDATION 15: ADOPT THE UNIFORM MASSACHUSETTS ACCOUNTING SYSTEM

We recommend that the new accountant adopt the Uniform Massachusetts Accounting System (UMAS) for the town's funds and account structure. UMAS is regarded as the professional standard for municipal accounting in Massachusetts. As a uniform system for local governments, it conforms to GAAP, offers increased consistency in reporting and record keeping, as well as enhanced comparability of data among cities and towns.

Generally, this conversion may be done in-house at no cost. However, the new accountant should work with the private auditor to identify any changes in the town's general ledger account code and fund structure before proceeding.

RECOMMENDATION 16: GET TRAINING ON ENCUMBRANCES AND YEAR-END CLOSING PROCESSES

We recommend that the assistant accountant receive additional training on the encumbrance and year-end closing processes. With proper training, the assistant will better understand how the town financial management system is designed and how it is intended to be used. She would be able to review and manage all entries to make sure they are posted correctly and would not delay the year-end closing of the books. She also would be able to complete the annual closing of the general ledger on her own without the assistance of consulting services.

RECOMMENDATION 17: ASSIGN DUTIES TO THE FINANCE DIRECTOR

With a finance director responsible for coordination of fiscal management and budget preparation, DOR recommends that he/she prepare monthly revenue and expenditure summaries for the town policymaking boards. The finance director would present this essential information, highlighting revenue performance, identifying potential problems so that corrective action may be taken, and answering any questions. Providing timely revenue and expenditure information also will provide guidance to policymaking boards during the budget process.

We also recommend that the finance director assume the responsibility of coordinating the tax rate setting process. This would include reviewing the rate and supporting documentation of the annual tax recapitulation sheet for completeness and accuracy before submitting it to DLS.

ASSESSING OFFICE

The assessing office is responsible for determining full and fair cash valuations, classifying all property, assigning tax payments to owners, and generating the commitment authorizing the treasurer/collector to collect property taxes and excise. The assessing office maintains assessment data on approximately 6,500 real property parcels and personal property accounts, 17,400 motor vehicle excise accounts, and 40 boat excise accounts. In addition, the office processes approximately 450 building permits, 550 deed transfers (200 of which are property sales), 50 abatements (150 in recertification year), and 180 exemptions annually. When a property transfer occurs, Sharon sends out a sale questionnaire, generally processing about 200 of these annually. The town's real property assessment records are maintained on and the personal property final values are entered into Vision's computer assisted mass appraisal (CAMA) system, which is used to compile analytical reports and property tax commitments.

An administrative assessor and two clerks staff the office. The administrative assessor oversees the daily office operations, performs fieldwork (e.g., measuring and listing new and improved properties where a building permit has been issued), and inspects some sales. He maintains the town's assessment records and determines residential property values. Because Sharon has adopted supplemental assessment on new construction (MGL Chapter 59 §2D), the administrative assessor must conduct inspections and issue pro-rated tax bills on parcels with an occupancy permit issued after January 1. The administrative assessor also reviews abatement and exemption requests and provides recommendations to the board for its approval. The clerks maintain all records, enter property information and sketches into the CAMA system, process deed transfers, and handle exemption and abatement applications. The clerks also manage the motor vehicle and boat excise accounts, respond to public inquiries by telephone and at the service counter, and perform other support as necessary.

Historically, office staff reported to an elected, part-time, three-member board of assessors. However, with the creation of the consolidated finance department, the assessing staff will now be appointed (subject to the approval of the board of assessors) and supervised by the finance director. In performing their duties, the staff will report to the finance director on administrative activities while the board of assessors will continue to oversee value-related matters and other statutorily required decisions (e.g., abatements and exemptions).

Triennially, the administrative assessor performs the revaluation of residential properties in-house. He oversees an appraisal consultant, Vision Appraisal, who collects/updates/values commercial and industrial property (estimated cost of \$20,000) and hires another consultant, G&K Associates, to update/collect/values new personal property information annually (an estimated cost of about \$10,000 for a three-year contract). In the intervening years, the administrative assessor analyzes sales and reviews commercial/industrial income and expense data for adjustments to all real property values.

Sharon conducts a cyclical re-inspection program in compliance with state statutes and the Bureau of Local Assessment guidelines. A cyclical re-inspection program involves completing an

interior and exterior inspection of all town property over a period not to exceed nine years. The primary benefit of this program is to provide the assessors' office with current, accurate data. From these inspections, any changes in the properties are entered into the CAMA system and may result in additional new growth for the town. A cyclical re-inspection program may be performed in-house or it may be contracted to an appraisal consultant. Currently, the town has hired a consultant to conduct a full recollection between FY05-FY09 at a cost of about \$165,000 to fulfill the Bureau's guidelines.

RECOMMENDATION 18: CONDUCT SALES INSPECTIONS

We recommend that the administrative assessor 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 do not accurately reflect its true characteristics or condition. A new owner may provide information or describe changes to the property through the sales questionnaire, but that information is not always reliable. Not being aware of the exact condition of properties at the time of the sale affects the assessors' ability to analyze market data. Teaming up with other departments (e.g., fire and water departments) scheduled to visit these properties, because of a pending property sale, would ensure timely, interior inspections for the assessing database. It would reduce the number of scheduled town visits to the same properties. It will also assist in the town's cyclical re-inspection program as well as potentially reduce the amount and cost of consulting services required.

RECOMMENDATION 19: PLACE ASSESSORS' PROPERTY DATABASE ON WEBSITE

We recommend that the assessors' property database and forms be placed on the town's website. Increasingly, communities put property data as well as abatement and exemption forms and instructions on the Internet so individuals may access them at their convenience. At the same time, posting this information also helps reduce telephone calls and in-person visits to the assessing office. At the discretion of the assessors, all or parts of the public information found on property record cards (e.g., owner name, parcel location, assessed value, construction details, sketch, photo, and ownership history) may be placed on the Internet.

TREASURER/COLLECTOR'S OFFICE

Since 1988, the treasurer and collector positions have been combined and appointed in Sharon. Currently, the combined office is budgeted for seven staff positions, a treasurer/collector, assistant treasurer, assistant collector, payroll supervisor, collections supervisor, and two part-time clerks, who are assigned to treasurer and collector functions.

The assistant treasurer and payroll supervisor are located in an office out of public view, where they process payroll and manage employee benefits for both town and school departments. The assistant treasurer and payroll supervisor review all departmental payroll data entries in the Munis System against timesheet and backup documentation provided, which should include a signed authorization by the department head in accordance with M.G.L. Ch. 41, §41. Sometimes the authorizing signature is not provided and yet they process the payroll, only to have the accountant's office hold back the payment until all prerequisites are met. Within benefit administration, they oversee health insurance enrollment and address issues for both employees and retirees. To their credit, town officials are exploring the advantages of moving from a self-insured program to the state's Group Insurance Commission plan.

The assistant collector, collections supervisor, and two part-time clerks are housed across the hall in a space that is equipped with a service window. All persons in the collector's office share the task of receiving payments at the window. The staff is responsible for collecting approximately 17,400 motor vehicle excise bills annually, 6,500 property tax bills semiannually, 5,600 water bills semiannually, and 40 boat excise bills annually. This office also collects parking tickets and prepares about 550 municipal lien certificates annually. According to the assistant collector, roughly 40 percent of the property tax bills are received through escrow (real estate only via mortgage companies) and Internet collection (www1.mcc.net) services, which are electronically posted to the appropriate account. All other payments are received through the mail and over the counter, and the staff posts these payments manually.

Payments taken at the window are initialed by the staff and placed in the one cash drawer for the office. Because more than one person may be accepting payments at the counter at the same time, multiple persons may have access to the cash drawer at any one time. Similarly, departments turn over revenues to the collector's office with a manual report at least weekly. If the office is busy, a staff member counts out only the cash and places the report and all money in a drop safe. At a later time, the full turnover is counted, the deposit is sent to the bank via courier, and the department's report copy is returned to it. All money received at the collector/treasurer's office is sent to the bank daily via a courier and reported to the accountant monthly.

To monitor the outstanding tax, excise and utility billings, the assistant collector maintains an up-to-date receivable control, which is reconciled with the accountant's office monthly. Once a real estate tax bill becomes past due, the assistant collector issues a demand notice and initiates a tax taking if it remains unpaid. Once in tax title, the town uses an outside attorney to pursue foreclosure remedies, which the assistant collector also manages. For all other outstanding accounts, the

treasurer/collector uses a deputy collector. The deputy collector completes online license and registration markings for non-renewal status with the Registry of Motor Vehicles and receives delinquent payments. Weekly, the deputy collector prepares a turnover report with an attached check (signed only by the deputy collector) and is paid for his services through the vendor warrant. If an outstanding personal property tax or excise is uncollectible, the deputy collector may provide evidence so the treasurer/collector may seek permission from the Commissioner of Revenue or the assessors to abate it.

The treasurer/collector's personal office is located away from the staff on the second floor. It is where the treasurer/collector alone maintains the cash book and conducts banking services. Currently, the town has a consultant serving as the acting treasurer/collector, who works in town hall only two days a week, but is available by telephone and email. Upon starting last May, the acting treasurer/collector found that some financial records were not current. He discovered transfers between some accounts had not been booked, rendering inaccurate balances in the treasurer's cash book and that most accounts were not reconciled with bank statements, each of which represents a problem that could take a while to sort out. He also found that cash was last reconciled with the accountant's general ledger in June 2006. A lack of regular monthly cash reconciliations was cited as a reportable condition in the FY06 management letter. The acting treasurer/collector has made it a priority to bring this work up-to-date, researching and correcting discrepancies with the goal of conducting monthly reconciliations with the accountant going forward.

Among the treasurer's bank accounts, there are two checking accounts, one for payroll and another for vendor payments. Historically, these accounts were reconciled by a contractor. However, the acting treasurer/collector now reconciles these in-house on a monthly-basis. In reviewing these accounts, we found the town had almost 250 checks (totaling over \$43,200) that were more than two months old and not cashed, the oldest of which dates back to 2000. These outstanding checks are in addition to the returned or unclaimed checks (commonly referred to as tailings) that total over \$121,700.

Annually, like the accountant's office, the treasurer's office must prepare and file specific documents. These would include the statement of indebtedness and cash and receivable reconciliation reports to DLS, wage and tax statements to employees and both state and federal tax departments. Generally, if a contractor or consultant provides more than \$600 of independent services, a Form 1099 would be issued. However, Sharon officials reported that the former treasurer/collector only issued a Form 1099 upon request of a contractor or consultant and did not submit a report of all 1099 qualifying recipients to the state and federal tax department.

RECOMMENDATION 20: OBTAIN AUTHORIZING SIGNATURE BEFORE PROCESSING PAYROLL

We recommend that the treasurer's staff make sure all payroll requests include the authorized department head's signature prior to processing in compliance with M.G.L. Ch. 41, §41. Without

proper authorization, the payroll should not be accepted and forwarded to the accountant's office for inclusion on the warrant.

RECOMMENDATION 21: RUN 1099 REPORT & ISSUE FORMS FOR QUALIFYING RECIPIENTS

We recommend that the treasurer run a report of potential recipients and issue Form 1099s to qualifying ones at the end of each calendar year. For any non-employee service provider who received \$600 or more in payments during a calendar year, the treasurer should issue a Form 1099 MISC. A report of these transactions must also be filed with the Internal Revenue Service (Form 1096 for paper submission and Form 4804 for magnetic media submission). Because Massachusetts participates in the Federal-State Combined Filing Program, the treasurer should file a Form 6847, Consent for Internal Revenue Service to Release Tax Information, with the Department of Revenue (DOR) for all 1099 recipients (except Forms 1099DIV and 1099INT that are filed directly to DOR).

RECOMMENDATION 22: IMPROVE COLLECTION PROCEDURES

We recommend that the office create a schedule for the collector's window duty and that each person cash out at the end of a shift. The assistant collector should assign staff to the collector's window to be responsible for handling all transactions during a certain period of the day. At the end of each person's shift, the staff member would cash out and be replaced. This practice would improve collection controls and enable the office to identify when or if discrepancies exist.

We recommend that more than one cash drawer be established for the collector's office. Often it is the case that more than one person is at the collector's window, so the office should have more than one cash drawer at the counter to handle transactions. Again, as a matter of adequate collection controls, only one person should be assigned to a cash drawer at any time.

RECOMMENDATION 23: IMPROVE CASH CONTROLS

We recommend that the treasurer's office complete and transmit its statement of receipts to the accountant weekly. Given the amount of revenues handled by this office, it would be best that this activity be performed weekly. Delays in reporting cash receipts impact the activities of the accountant's office and the eventual reconciliation of cash.

We recommend that the treasurer/collector's and auditor's offices conduct prompt, monthly cash reconciliations. Shortly after the end of each month, the treasurer's office should internally reconcile the cash book to all bank statements. Once reconciled internally, the treasurer's office should report the cash balances by fund to the accountant, who in turn would reconcile to the general ledger, ensuring financial records of the two offices are in agreement. Prompt and frequent reconciliations are essential in order to maintain control over cash.

We recommend that the treasurer research the returned or unclaimed checks. These outstanding items may include checks issued to pay employees and vendors, refund municipal taxes or

charges, or pay other municipal obligations. Any check found to have been cashed and erroneously included on the account statement should be reported to the bank. 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, or tailings, may turn them over to the state treasurer (M.G.L. Ch. 200A, §7). Alternatively, the treasurer may advertise the unclaimed checks himself and hold hearings to settle any claims (M.G.L. Ch. 200A, §9A). After the office complies with all legal requirements of M.G.L. Ch. 200A, any remaining unclaimed monies are credited to the municipality's general fund.

RECOMMENDATION 24: ASSIGN ADDITIONAL DUTIES TO THE ASSISTANT TREASURER

We recommend that the assistant treasurer be trained on additional treasury functions, including keeping the cash book, reconciling accounts to bank statements, and performing cash reconciliations with the accountant's office. With training, the assistant treasurer would learn how each function is managed and the importance of completing the tasks timely. These are vital activities that an assistant treasurer should be trained and knowledgeable to perform when the department head is absent or otherwise busy performing other duties, minimizing the need to seek outside consulting assistance.

We recommend that all departments turn over revenues collected to be counted fully and receipted immediately by the treasurer's staff. Upon receiving a turnover, the treasurer's staff should count it out immediately, confirming the total amount presented equals the department's printed report. Alternatively, departments may be instructed to deposit funds received into a local treasurer's bank account and to attach the deposit slip(s) to the turnover report, confirming the total funds reported.

RECOMMENDATION 25: ESTABLISH DEPUTY COLLECTOR ACCOUNT

We recommend that Sharon establish its own account for the deposit of all amounts collected by the deputy collector. A deputy collector may not receive checks for tax or excise payments, which are made out to him as payee, nor may he endorse any instrument, which he receives as a payment for taxes. In addition, a deputy may not deposit municipal funds in a personal bank account nor may he maintain a bank account in the name of a community (M.G.L. c. 60, §92). All delinquent payments received should be deposited to the town's bank account and a weekly report itemizing the deposits should be provided to the treasurer/collector.

RECOMMENDATION 26: CONSOLIDATE STAFF IN ADJOINING OFFICE SPACES

As a long-term consideration, we recommend that the treasurer/collector's staff be located in adjoining spaces in town hall. While there are no plans to make modifications to town hall at this time, there are advantages to having the staff centrally located on one level. It will enable the department head to observe operations and respond to issues as they arise. It will also provide opportunities to cross-train all the staff to perform the many responsibilities of the office.

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