



# *Town of Stoughton*

## *Financial Management Review*

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*June 2003*

## INTRODUCTION

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At the request of the board of selectmen, school committee and town manager, the Department of Revenue's Division of Local Services (DLS) has completed this financial management review of Stoughton.

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 (BOA), Bureau of Local Assessment (BLA), and Municipal Data Management & Technical Assistance Bureau (MDM/TAB). During these visits, the team interviewed members of the board of selectmen and finance committee, the town manager, assistant town manager, accountant, treasurer/collector, director of assessing, school superintendent, and other municipal office staff.

DLS staff examined such documents as the tax rate recapitulation sheet, town reports, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness and other assorted financial documents.

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

The town should consider the recommendations contained in this report in formulating overall strategies for improving the town's financial management. Many recommendations in this report can be implemented without a major change in the current structure of town government given sufficient cooperation among town boards and officials.

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## EXECUTIVE SUMMARY

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Located 20 miles south of Boston, Stoughton is town of approximately 27,150 persons. Easily accessible by three major highways (Routes 24, I-93 and I-95/128) and commuter-rail to Boston, Stoughton is a predominantly residential (82 percent of assessed value) community with a diverse commercial and industrial base (18 percent).

Like many Massachusetts communities, Stoughton has experienced growth and development over the last decade. This growth occurred despite a water supply problem and a Department of Environmental Protection water emergency order in place since the mid-1980s, which required all new construction to have private wells. In June 2001, Stoughton voted to join the Massachusetts Water Resources Authority (MWRA), giving the town access to a backup supply in the event the demand for water exceeded its own resources. To join the MWRA, Stoughton must pay a buy-in assessment of \$5 million (paid over 20 years) and it borrowed \$7.33 million for design, construction, and other related costs of building a pumping station and laying connection lines to the MWRA system, all of which will be recovered through the water enterprise revenues. With access to additional water resources if they are needed, the construction moratorium has been lifted and town officials report there has been an increase in building permits issued in 2003.

Stoughton has a five-member board of selectmen and a representative town meeting that serve as the executive and legislative branches respectively. To supervise and manage the daily operations of the town, Stoughton has a town manager. During most of the 1990s, one town manager served the town, keeping a close watch on the town's operations and finances. However, this individual left in November 2000. He was replaced by his assistant town manager until December 2002 when she retired. Her assistant served as acting manager until the end of April 2003 when the most recent manager began his appointment.

By charter, the manager prepares the budget. Historically, the town has been successful in balancing its budgets annually without the need for Proposition 2½ overrides. The town built a new police station, a central fire station, senior center, and public works building; remodeled the library, historical commission, and school buildings; acquired land; and purchased hardware, software and equipment without debt exclusions.

Historically, the town developed a balanced budget without incident, however, under the new manager in FY01, the process did not go well. When the budget was adopted in the spring of 2001, it was based on preliminary revenue estimates. It was not until the town was about to set its tax rate in September that the town's acting accountant discovered the budget was out of balance by almost \$2 million. The acting accountant prepared an analysis of the revenue assumptions used in the spring and the fall and presented it at a selectmen's meeting with representatives of the finance and school committees in attendance. It was determined that Stoughton officials had overestimated the tax levy by about \$116,000, local estimated receipts by about \$360,000<sup>1</sup>, and combined enterprise estimated revenues by about \$825,000. The accountant also discovered that the spring revenue estimates

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<sup>1</sup> Based on actual FY01 collections, Stoughton over estimated its motor vehicle excise by about \$130,000, investment income by about \$150,000, and all other fees, fines and licenses by about \$80,000.

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included over \$500,000 in free cash in excess of Stoughton's certified amount and \$140,000 in excess lottery proceeds that never materialized. To resolve the imbalance, Stoughton reduced appropriations and made layoffs almost half way through the fiscal year, and appropriated available funds and reserves. In addition, the town had to appropriate available reserves to underfunded items (health insurance and union settlements).

Based on the prior year's budget experience, town officials reportedly took greater care in estimating the revenues and expenditures of the town for FY2003. Without the input of the finance committee, the selectmen placed a \$2.7 million override question on the spring ballot, hoping to restore some of the departmental layoffs and service reductions from FY2002 and avoid the need to implement a trash fee. The finance committee proposed a FY2003 budget plan which was adopted at annual town meeting and did not include the additional \$2.7 million<sup>2</sup>. While Stoughton set its tax rate timely, the town still lacked the financial management coordination it possessed under the town manager during the 1990s. This was demonstrated by the fact that the selectmen's proposed override was not included in the finance committee's budget plan and that, despite a longstanding practice of levying to its limit, the town had over \$970,000 in excess levy capacity. According to town officials, the policymakers were unaware this levy capacity existed and the financial officials were unfamiliar with the procedures to capture the funds.

During the transition of town managers, the town was also experiencing rapid turnover in the accountant's office. Between FY01-FY03, three individuals served as town accountant and a consultant filled in as acting accountant for almost six months in 2001. During this same period, the town's private auditor issued its FY2000 and FY2001 audit reports. In these reports, the town was criticized for debt service posting and reporting errors. According to the private auditor, the accountant mistakenly made posting errors between the capital funds and the debt budget that required an almost \$2 million negative adjustment in the general fund. The auditor criticized the accountant and treasurer for not reconciling cash and receivable consistently, and found the town lacked an accounting procedures manual that documents office activities and facilitates training of new personnel.

Due to the recent turnover in essential financial personnel, the coordination of financial management operations in Stoughton has been affected. With the departure of the longstanding town manager in 2000, the town lacked the coordination and institutional knowledge to pull its various resources together, producing the financial information necessary for the budget process and keeping the policymakers informed. Beginning in FY03, a transition is taking place in Stoughton and it is clear there is a need for the town to operate differently than it has in the last couple of years. Town officials are striving to correct recent problems and plan for the future. However, because of lingering concern over the changes in key personnel, audit findings and proposed reductions in state aid, the school committee asked the selectmen to request a financial management review of the town.

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<sup>2</sup> The \$2.7 million override failed by a vote of 4,161 to 1,648.

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Below is a summary of our financial management review, followed by a more detailed discussion of our observations and recommendations.

*Overall Financial Management and Budgeting (page 5)* – Stoughton has a strong town manager form of government. The town manager is responsible for the town's operations and for proposing the annual budget, which has traditionally been done with limited input of the financial officers. With turnover in the manager's position, the town has had difficulty putting together a balanced budget. We recommend that the manager form a financial team to assist him, and that the town's policymaking boards meet periodically throughout the year to discuss issues. We recommend that the town adopt quarterly tax billing and a financial reserve policy. We also recommend that the manager develop a capital improvement plan and a multi-year forecast.

*Computer Systems (page 9)* – Stoughton is in the process of converting to new financial management software and creating a computer services position in a joint venture with the school department. Once the new financial system is operational, we recommend that the school department electronically transfer financial information rather than continuing the manual transmission. We also recommend that the town address some utility billing problems.

*Accountant's Office (page 13)* – As a part of the accountant's duties, he prepares numerous reports and reconciliations for financial management and tracking purposes. Prior to the current accountant taking office, we found that some of these reports and reconciliations were not prepared timely or until the end of the fiscal year, if at all. Upon taking office, the current accountant had to close the books for his predecessor and file the Schedule A with the state. Due to the workload of the office and added computer duties involved with the conversion, the accountant has not been able to prepare cash and receivable reconciliations during FY03, but hopes to perform them routinely beginning in FY04. We recommend that the new accountant make every effort to complete and submit reports and reconciliations timely. We also recommend that an assistant accountant be appointed to act in the accountant's absence.

*Assessing Office (page 16)* – The assessing office performs routine activities to maintain an accurate and current database. It performs building and sales inspections timely. It conducts cyclical re-inspections over a multi-year period, avoiding the need for costly full re-inspections every nine years, and it performs interim year adjustments to values. It, however, does not perform in-house revaluations of its residential properties. We recommend that the assessing office begin performing the triennial revaluations of residential properties in-house and reconcile the overlay balances with the accountant regularly rather than at yearend.

*Treasurer/Collector's Office (page 18)* – This office is responsible for payroll and the collection and management of the town's revenues. We found that cash and receivables were not reconciled with the accountant regularly and recommend that these reconciliations be done monthly with the use of electronic spreadsheets. We found departmental receipt turnover reports vary in presentation and recommend that the treasurer, in cooperation with the accountant, standardize these reports for all departments and boards. We also recommend that the treasurer's office be responsible for entering departmental receipts once the new financial software is implemented, relieving the accounting office from this activity. We further recommend the office clear up older tax receivables and resolve tailings.

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## SUMMARY OF REPORT FINDINGS AND RECOMMENDATIONS

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1. Overall Financial Management and Budgeting (page 5) – Strengthen financial management
  2. Overall Financial Management and Budgeting (page 6) – Adopt quarterly tax billing
  3. Overall Financial Management and Budgeting (page 7) – Establish capital planning & multi-year forecasting
  4. Overall Financial Management and Budgeting (page 8) – Establish financial reserves policy
  5. Computer Systems (page 10) – Transfer school financial data electronically
  6. Computer Systems (page 11) – Correct utility billing and collection issues
  7. Accountant’s Office (page 13) – Timeliness of reports and reconciliations
  8. Accountant’s Office (page 14) – Appoint an assistant accountant
  9. Assessing Office (page 17) – Perform in-house residential revaluation programs
  10. Assessing Office (page 17) – Reconcile overlay balances frequently
  11. Treasurer/Collector’s Office (page 18) – Reconcile cash and receivables promptly
  12. Treasurer/Collector’s Office (page 19) – Standardize departmental receipts reporting
  13. Treasurer/Collector’s Office (page 20) – Clear up older tax receivables
  14. Treasurer/Collector’s Office (page 20) – Resolve tailings
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## OVERALL FINANCIAL MANAGEMENT AND BUDGETING

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When Stoughton adopted its charter in 1972, it established a strong town manager's position. The town manager appoints most department heads<sup>3</sup>, supervises all departments except the schools, and prepares the town budget proposal for the selectmen's and finance committee's review. An assistant town manager handles special projects and participates in collective bargaining meetings, but spends the vast majority of his time as the town clerk.

### FINDING 1: STRENGTHEN FINANCIAL MANAGEMENT

Before soliciting departmental budget requests for the ensuing fiscal year, the town manager prepares preliminary revenue estimates. Based on the preliminary revenue estimates, the town manager distributes the budget package, including guidelines, worksheets and a calendar of events. Departments fill out the worksheets and return them to the manager's office. The manager's balanced budget proposal is presented to the selectmen who hold hearings on the budget and then present it to the finance committee by the first Tuesday in February. Once received, the finance committee begins its review and departmental hearings. Its final recommendations are presented to town meeting in the spring.

The town manager's office needs to be constantly informed of the ongoing operations and issues so that his annual budget proposals fully address the town's needs given the available revenues. Historically, the town manager has done this independently with minimal assistance from financial officials. In 2001, this approach proved to be a problem.

The FY2002 budget was adopted in May 2001 based on the then available revenue estimates. Because Stoughton issues its property taxes semiannually, it must get its tax recapitulation sheet approved by DLS by September so the tax bills may be mailed by October 1<sup>st</sup>. While preparing the necessary documents for DLS, the town's acting accountant reviewed the estimated revenues based on the actual collections of the prior year and available reserves. He discovered that the estimated revenues were overstated and that the budget was nearly \$2 million out of balance. This required that the town and school officials scrutinize the FY02 spending plan, find additional revenues, and seek town meeting action to correct the situation. In December, almost six months into the fiscal year, town meeting voted to defer capital projects and reduce FY02 operating line items by almost \$1.5 million while it simultaneously increased health insurance, short-term debt and union settlements that had been underfunded.

Stoughton's FY02 budgeting experience had both positive and negative impacts on the town. Because of the overestimated revenues and the late year cuts that had to be made by the schools, some friction developed between the selectmen and school committee. On a positive note, town officials closely monitored FY02 collections, were a little more conservative on FY03 revenue estimates, and the town manager began soliciting input from the financial officers.

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<sup>3</sup> The exceptions being the town clerk/assistant town administrator, accountant, police chief, veterans' agent and town counsel.

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## RECOMMENDATION 1: STRENGTHEN FINANCIAL MANAGEMENT

We recommend that the manager form a financial management team that meets on a regular basis throughout the year. Members of the financial management team should include at least the accountant, treasurer/collector, director of assessing, and the school business manager.

The purpose of the financial team would be to assist the manager in compiling comprehensive financial information from a variety of sources to assist the town's policymakers in their decision-making process. The team can help develop financial analyses, explore the financial impact of future events and offer early strategies to deal with anticipated problems. It would provide input into the town's cash flow analysis, including the timing of major purchases and the issuance of new debt. Collectively, this committee should review financial documents (e.g., revenue and expenditure reports, balance sheet, audits, tax recapitulation sheet and town share costs for the schools) for completeness and accuracy. This information would provide a comprehensive picture of the town's financial health at any point in time. More importantly, the financial team's participation in general financial and budget activities would ensure that more than one person knows all facets that need to be gathered, analyzed, and monitored continually. Hence, the financial team would provide institutional continuity in the event any one of the town's financial officials left.

We also recommend that the town's policymaking boards meet periodically throughout the year to discuss financial issues. At least in the fall prior to beginning the budget process and again before spring town meeting, the manager should present updates jointly to the selectmen, finance committee and school committee on topics such as the prior year's performance, year-to-date activities and issues as they come up. These policymakers should use these meetings to discuss information presented, to develop consensus, and to plan for future needs.

## FINDING 2: ADOPT QUARTERLY TAX BILLING

Generally, Stoughton has been able to set its tax rate by September and avoid revenue anticipation borrowing. However, in FY02, the town completed its revaluation of property values by September 2001 but because the budget was out of balance, it could not set the tax rate or issue preliminary bills. The town finally balanced the budget, set the tax rate in December, and issued the tax bills on January 25, 2002. Because Stoughton issued its tax bills late, the town lost investment income, issued \$5 million in revenue anticipated borrowing, and incurred interest costs of about \$42,000.

Alternatively, a community may accept MGL Ch. 59, § 57C that allows a community to send out property tax bills on a quarterly basis. With collections occurring four times (August 1, November 1, February 1, and May 1) per year rather than two (November 1 and May 1), a community has access to its property tax revenue earlier in the year. Quarterly billing puts tax receipts in the community's treasury earlier to meet cash demands and to provide opportunities for increased investment income. This is of particular benefit to those communities that issue their tax bills late and have to borrow in the short-term. Some of the cost associated with quarterly billing is in the staff-hours needed during two additional tax collection periods, and with a combined collector/treasurer's office, there should be sufficient staff available to accomplish the task. Quarterly billing will increase printing costs (i.e., bill

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forms and computer time) and may require additional costs (i.e., envelopes and postage) if the community mails four times a year rather than two.

#### RECOMMENDATION 2: ADOPT QUARTERLY TAX BILLING

We recommend that the town convert to quarterly tax billing upon completion of the financial software conversion. Quarterly tax billing represents sound financial practice for any community, enhancing revenues and ensuring ample cash flow in the future. Adopting quarterly tax billing will require advanced planning and work in the treasurer's and assessors' offices. Because the town is in the process of implementing new financial software, we recommend the town delay this adoption until FY05.

#### FINDING 3: ESTABLISH CAPITAL PLANNING & MULTI-YEAR FORECASTING

By charter, the town manager is required to prepare a three-year fiscal plan for department operations and capital outlay. In other words, he is required to develop and maintain a multi-year forecast and capital improvement plan. While previous managers may have kept such internal documents, none were published in recent years' town reports or other budgeting documents.

Currently, capital requests are proposed by departments as separate warrant articles, which are recommended by the finance committee based on available revenues. The manager prepares a revenue and expense analysis for the proposed budget, however, he does not prepare a similar analysis on a multi-year basis. A multi-year forecast of revenues and expenditures is a useful management tool that many towns use to assist them in operating and capital funding decisions and in establishing financial policies.

#### RECOMMENDATION 3: ESTABLISH CAPITAL PLANNING & MULTI-YEAR FORECASTING

We recommend that the manager develop a comprehensive capital plan and submit an annual capital budget to town meeting. The manager, with the assistance of the financial team, should develop a multi-year capital plan and annual capital budget for all town departments. These documents should: (1) prioritize the various proposed capital projects; (2) estimate project costs; and (3) list the proposed method of payment (current revenue, debt or debt excluded from the limits of Proposition 2½) for each project. Regardless of funding ability, annual presentation of a capital budget to town meeting has merit. It serves to inform citizens of the community's capital needs and makes them aware of essential capital needs that may be deferred due to financial constraints. For more information on the capital planning process, we direct you to the Department of Revenue's workbook, "Developing a Capital Improvement Program" on our website ([www.dls.state.ma.us/publics.htm](http://www.dls.state.ma.us/publics.htm)).

We also recommend that the manager develop a multi-year revenue and expenditure forecast. Again, with the assistance from the financial team, the manager should produce this forecast for the general fund operations and the enterprise funds. It should be used by the selectmen and finance committee to evaluate budget requests with multi-year impacts and to develop long-range financial plans. Used in conjunction with a well-developed capital plan, multi-year forecasting will also help the town determine whether capital projects should be funded from current revenues, the issuance of new debt or new debt that is excluded from the limits of Proposition 2½.

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**FINDING 4: ESTABLISH FINANCIAL RESERVES POLICY**

To help fund unforeseen, one-time and capital expenditures, the town has reserves (Table 1). It has enterprise fund surpluses, but these funds may only be used to support the respective enterprise operations. The town has free cash, which is generally attributed to three factors: revenues in excess of estimates, budgetary turnbacks, and collection of receivables. Another traditional reserve is the Stabilization Fund. Because the town has not historically appropriated funds to the Stabilization Fund, it had a balance of \$4,059 as of 6/30/02.

Table 1: Stoughton's Reserve Funds, FY99-FY03

	<u>Free cash</u>	<u>Stabilization fund</u>	<u>Sewer surplus</u>	<u>Water surplus</u>	<u>Public Health surplus</u>	<u>Cedar Hills surplus</u>	<u>Ambulance surplus</u>
FY99	1,664,690	3,473	145,193	106,233	274,874	125,997	117,037
FY00	1,521,589	3,628	821,133	249,403	131,002	144,953	121,963
FY01	1,801,245	3,794	1,588,408	635,817	278,398	71,891	82,458
FY02	1,258,449	3,969	1,974,415	571,158	452,416	70,301	9,841
FY03	1,420,683	4,059	2,355,875	408,965	617,101	36,206	203,306

Reserve funds provide a community with the flexibility to fund extraordinary or unforeseen expenses after its tax rate is set. In addition, bond-rating agencies recognize the vulnerability of communities with few reserves and consider this lack of flexibility a negative factor when rating these communities. In Stoughton's January 2003 rating by Moody's Investors Service, it reaffirmed the town's A1 rating, however it cited concerns regarding the decrease in the town's general fund balance and the use of free cash for operating purposes. In response to Moody's comments about the lack of adequate reserves to address budgetary pressures, Stoughton appropriated \$278,930 to the Stabilization Fund at the 2003 annual town meeting.

**RECOMMENDATION 4: ESTABLISH FINANCIAL RESERVES POLICY**

We recommend that the town establish a financial reserve policy. 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 shortfalls in the town's projected revenue estimates. Reserves should not be used to regularly fund operating expenses unless provisions are made to replenish the reserves. Reserves are intended to allow a community the flexibility to review and correct its problems over the long run.

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## COMPUTER SYSTEMS

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Stoughton's computer systems have been developed based on requests by individual offices. These systems have evolved without any central planning and without the benefit of a computer department's oversight. Historically, each office requested funding for computer equipment, specialized network development, applications and services and managed its own affairs. Only recently have some of the computer service contracts and expenditures been transferred to the central purchasing budget under the town manager's control for better coordination and oversight of these services.

The town's financial offices use an assortment of computer systems and outside services. The accounting office uses a Sumaria system for general ledger and accounts payable. Because the Sumaria system does not have a collection and billing module, the treasurer/collector's office uses a consultant, MCS of Weymouth, to produce property tax and excise bills, and to maintain user accounts. For inquiries on an account, payment without a bill and/or to prepare a municipal lien certificate, the collector's office has a dedicated computer with on-line access to account information at MCS. The treasurer also uses Consolidated Mailing for mailing all bills; Century Bank for lockbox services; ADP software to produce non-school payrolls; and Excel spreadsheets for the cashbook. The assessing office uses a computer assisted mass appraisal system to value and manage property accounts, which resides on a server in the assessing department.

On a separate server, the water department uses Continental Billing Service (CBS) software to bill customer accounts for water, sewer and trash services and the collector's office has electronic access to the application to post collections. The school department maintains its own Compusense financial system and server, submitting reports to town hall for manual re-entry into the town's system. Most departments have access to the town hall via fiber optic or T1 data lines. Offices have access to Microsoft Office products, electronic mail and the Internet. In addition, the town is developing a Geographic Information System (GIS) with numerous layers of infrastructure, governmental and community information that may be used by all departments.

The town is in the process of transitioning from its current assortment of financial systems and vendors to an integrated financial system, KVS Information Systems. With the KVS system, the town will have in-house billing and collecting capabilities for the first time. The collector's staff will be able to accept lockbox data to review and post to the KVS system as well as scan payments made in the office without having to use an outside vendor any longer. The information may be electronically forwarded to the accounting office for review and posting to the general ledger, avoiding the need to make numerous journal entries, as is the current practice. The KVS system has the capability to print bills and produce payroll, but the town has decided to continue with these outside services and will prepare a cost analysis before making any changes. Despite not being a trained professional in computer systems, the accountant has been assigned the task of overseeing this conversion and providing general maintenance such as performing back-ups and installing future application updates. The accountant's and treasurer's offices are responsible for scheduling their own initial staff training on the KVS system, however, it is not clear who will be responsible for providing user support and ongoing training needs.

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Similar oversight and user support issues have arisen regarding other system applications, the townwide network, Internet access and use and electronic mail. Because the town does not have a computer department, these responsibilities either reside in independent departments or have been assigned to some individuals such as the accountant or the part-time contractor who manages the town's GIS system. For more technical issues, the town contracts with outside consultants for software, hardware and network support. Realizing that it has made nearly a million-dollar investment in technology in recent years and it has little consistency of operations or coordination of departments' activities, the town hired a consultant to review its computer operations.

The consultant found that the town owns a considerable amount of computer assets and there is no one in charge of the management and care of them. Most software applications are user-friendly; however, there is quite a bit of work necessary to manage all the facets in computer hardware and software that the town must currently outsource. Without an internal coordinator, Stoughton may have higher than necessary consulting and service contract costs, there is no consistent electronic mail and virus protections and oversight of Internet access, and there is no user support and on-going training available. The consultant suggests hiring a network coordinator or information systems manager for between \$50-80,000, depending on the qualifications, but whose focus on technology and its intricacies can create efficiencies and help Stoughton save money.

Seeing the value of this advice, the town manager has approached the school department about having its computer services department oversee the town's computer systems beginning July 1. This joint venture would require the town to fund a position to perform hardware and software tasks under the general supervision of the school's computer services director who would in turn report to the town manager on all non-school computer-related activities. Assuming the town manager is able to create a joint venture with the school department, addressing the issues of coordination, security, policy development and training raised in the consultant's report, the town still needs to review some operating procedures.

#### FINDING 1: TRANSFER SCHOOL FINANCIAL DATA ELECTRONICALLY

Using a Compusense system, the school department posts its budget and expenditures, processes invoices, and prepares payroll and accounts payable warrants. The printed warrants and backup documentation are submitted to the accountant's office for review and approval, and the printed payroll and vendor checks are turned over to the treasurer until the warrant is approved by the selectmen. The accountant's office must make numerous general journal entries weekly to post the payments processed through the off-system warrant into the town general journal and it must keep bulky paper files because the Sumaria system lacks the detail information. There is a T1 data line connection between the town hall and schools that is currently used for electronic mail only.

#### RECOMMENDATION 1: TRANSFER SCHOOL FINANCIAL DATA ELECTRONICALLY

Once the KVS conversion is complete, we recommend that the town explore the costs and advantages of electronically transferring readable financial data from the school's Compusense system to the town's system. Unless the two software vendors have already developed a program that facilitates the electronic transfer of data, the town should explore ways of making this possible.

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Once established, the electronic transmission of financial data will greatly reduce the amount of manual entry the accountant's office is performing currently.

## FINDING 2: CORRECT UTILITY BILLING AND COLLECTION ISSUES

Two years ago, the public works department acquired CBS software to manage its water and sewer operation. The application allows the department to import electronic readings, develop management reports on usage, produce bills, and create an exportable file for collection purposes. At the town's request, the vendor modified the CBS software so Stoughton may also post collections in the application rather than use another collections program.

The collector's office initially experienced some problems with the modified program that the vendor addressed; however, other problems have not been resolved. One is the calculation of late interest. In the CBS bill generation process, the water clerk reviews the readings for accuracy and then the collector's office accesses the CBS program to add late charges and calculate (14 percent per year simple) interest on past due accounts. During our review, we found instances of the software not properly calculating the interest. In one example, an account had an outstanding bill of \$663.13, which 34 days later would have incurred interest of \$8.65 ( $\$663.13 \times .14/365 \times 34$  days), but \$14.51 was added to the account balance. According to an account history statement, the same account had seven additional late interest postings, totaling \$795.12, added to the account over the next 33 days, bringing the account balance to \$1,472.76.

In most billing and collection systems, the interest on outstanding balances may be calculated (accrued to date) for inquiry purposes or to be printed on the bill. Typically, a per diem interest rate is also generated and printed on a bill to inform the user of the additional charges that will be incurred until paid. The interest should not be added to the outstanding balance. When the bill is paid, the system credits interest accrued to date first and then the outstanding charges.

Another problem is a redistribution of payments. Water, sewer and trash user charges are billed and collected using the CBS software. This software application has been programmed to apply the combined payment to the late charges and interest, and then the outstanding balances of each utility. After payments are posted, the collector closes and balances her books for the day and then reports each utility's collections to the treasurer (who in turn reports them to the accountant). Upon opening the application the next day, the staff run a balance report to determine if any previous payments have been "redistributed" by the software, thus changing the previous days reported collections and the resulting receivable balances. This requires one clerk to devote all her time to running this system and requires that the office maintain a spreadsheet of commitments, daily collections and receivable balances for internal reconciliation purposes. On suggestions that the collector's office was not closing accounts or using the software correctly, the staff received additional training and demonstrated the redistribution problem for the vendor who could not explain its occurrence.

The last problem deals with the commitment. According to the water clerk, once the collector's office applies late charges and interest, the clerk must quickly produce the bills in order to get them in the mail 30 days prior to the printed due date. Generally, the combined quarterly commitment is roughly \$2 million, however the March 2003 combined commitment was over \$13 million and an erroneous

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\$10 million bill was not discovered until the customer brought it to the town's attention. According to the water clerk, the system does not have a preliminary commitment report that would enable the water clerk or the collector's office to review the entries and totals for errors prior to finalizing the commitment and printing the bills.

#### RECOMMENDATION 2: CORRECT UTILITY BILLING AND COLLECTION ISSUES

We recommend that the town contact the vendor on the remaining problems with the application. The application should properly calculate simple interest on an outstanding account balance for informational purposes but not add the interest to the account balance. It is preferable that the per diem interest rate also be included on the bill to inform the customer of any additional charges that will be added until paid. A billing and collection system should recognize interest only when paid. The system should not redistribute payments posted because it will alter previously reported collections to the treasurer and accountant and affect the receivable balances. Lastly, the town should also inquire about the ability to print or review on screen the preliminary commitment amount before printing the bills.

If the vendor is not able to make corrections to the program to the town's satisfaction, the town may have to consider acquiring another utility program for collection purposes. With a new utility billing and collections application, the water department should be able to export a readable file to the collector's office. Similar to the process of transferring property value information for tax billing, the collector's office would be responsible for producing the bills and commitment and reviewing them for accuracy.

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## ACCOUNTANT'S OFFICE

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Since 1990, the town has had six different individuals fill the town auditor's position. Originally a combined town clerk/auditor, the position was split in 1972 when the town's charter was adopted and the title remained until 2003 when the voters changed it to town accountant. The current accountant took office in September 2002. Upon taking office, the accountant began performing the daily activities of the office as well as closing the prior year's books and completing the town's FY2002 Schedule A and balance sheet for submission to DOR.

Currently, an accountant, assistant auditor/computer operator, and clerk staff the accountant's office. The primary responsibility of the office is to maintain the town's general ledger and to perform the accounting functions. Typical accounting functions include preparing warrants; producing trial balances, revenue and expenditure reports; maintaining information on town debt; and reconciling cash and receivables with the treasurer and collector. The accountant's office prepares a costing report of indirect costs for the town's five enterprise funds and provides assistance during the budget process. In the absence of an information technology department or any individual responsible for its operation, the accountant also has been assigned the responsibility of overseeing the town's financial computer system and the conversion to new software.

The accounting office also is responsible for implementing the Government Accounting Standards Board (GASB) Statement 34. GASB Statement 34 is a new accounting and reporting standard that requires all governments to maintain a capital asset and infrastructure inventory which is reported on the entity's financial statements. Due to the amount of annual revenues, Stoughton is a "tier-two" community and has through FY03 to complete this project. The town has hired a consultant to collect and value the capital assets and infrastructure information needed to comply, including them in the FY03 financial statements as required by GASB Statement 34.

### FINDING 1: TIMELINESS OF REPORTS AND RECONCILIATIONS

Annually, the accounting office prepares reports required by DLS. The accountant prepares the town's annual Schedule A, a year-end fiscal statement of revenues and expenditures. Since FY96, Stoughton's Schedule A has been filed about five months after the due date. Shortly after taking office, the new accountant prepared the FY2002 report and filed it in January 2003, only three months after it was due in October. Reportedly, the accountant intends to file this report on time in the future.

The accountant also generates internal reports. The accountant generates monthly revenue and expenditure reports for the town manager and finance committee and monthly expenditure reports for department heads. The accountant performs monthly closings and trial balances of the town's books. These enable the accountant to perform reconciliations of cash and receivables with the treasurer. However, due to the turnover in staff and the computer conversion, the accounting office last reconciled the cash, tax receivables and departmental receivables (water, sewer and trash) with the treasurer/collector in June 2002.

The fire department manages the ambulance service and does not provide the accountant's office with a departmental receivable report or figures for reconciliation purposes. Reportedly, the

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department has amassed a large receivable balance that spans a couple of years and may be uncollectable. To address this situation and to ensure that the accountant receives a monthly reporting, the town recently hired a third-party billing and collection service.

Failure to complete or file certain reports timely can have an adverse effect on a community. Failure to file the Schedule A timely can result in the withholding of state aid distributions. Failure to reconcile cash and all receivables as of June 30 can result in free cash not being certified or certified but the amount approved by the Director of Accounts is adjusted downward for non-reconciling tax amounts.

#### RECOMMENDATION 1: TIMELINESS OF REPORTS AND RECONCILIATIONS

We recommend that a priority be placed on the completion and timely submission of required DLS reports. With the proposed joint venture with the school department to manage the town's computer systems under the oversight of the town manager, the responsibility of converting and overseeing the town financial system should be removed from the accountant's duties. With this responsibility out of the way, the accountant should be able to perform his work and prepare timely reports.

We recommend that the accountant and treasurer/collector reconcile cash and receivables monthly. Regular reconciliations of cash and receivables are essential to the system of checks and balances in local government. Regular reconciliations enable these offices to verify that revenues reported and resulting receivable balances are accurate, thereby ensuring the cash and assets of the community are safeguarded. As a practical matter, frequent reconciliations make it easier to locate and correct posting errors and exceptions, as well as minimize the work needed to prepare annual reconciliations required for free cash certification by the Bureau of Accounts.

#### FINDING 2: APPOINT AN ASSISTANT ACCOUNTANT

The assistant auditor/computer operator's responsibilities include examining original bills and vouchers for accuracy and legal authority, preparing the warrant for the selectmen's approval, and responding to any inquiries regarding payments. She prepares analysis of account expenditures, produces the Form 1099s annually, and assumes additional responsibilities as requested. She is not cross-trained to perform the clerk's tasks, does not make general ledger and journal entries, and does not participate in any reconciliation activities. This position is not authorized to sign warrants in the accountant's absence. In the event the accountant is absent, the warrant goes to the selectmen unsigned until the accountant is able to return to the office or the selectmen appoint a temporary replacement. Because the current assistant has no training to assume the responsibilities of the accountant, the town hired an outside consultant during the transitions between accountants.

To have an assistant accountant who is authorized to assume the department head's duties and to sign the warrant, the accountant must appoint an assistant with the approval of the selectmen (MGL Chapter 41 §49A). In 22 comparable communities based on population, equalized valuations and budget size, all but two have an assistant accountant that is fully trained to assume the responsibilities of the accountant for a brief or extended period or in the event the accountant were to leave.

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**RECOMMENDATION 2: APPOINT AN ASSISTANT ACCOUNTANT**

We recommend that the town create an assistant accountant's position in accordance with MGL Chapter 41 §49A. As assistant accountant, the individual would be trained in all aspects of the office, be able to supervise and/or perform the work of the clerk, and would have the authorization to act in the accountant's absence, including signing the warrant.

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## ASSESSING OFFICE

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A director of assessing, office manager, two full-time clerks, and a part-time<sup>4</sup> data collector staff the town assessing office. Hired in 2000, the director performs some fieldwork, inspecting all properties for which a sale has occurred or an abatement application has been filed; reviews the data collector's work; and oversees the town's appraisal contractors. The director maintains the town's assessment records and compiles property tax commitments. The office manager oversees the work of the clerks; handles betterments and mapping issues; processes deed transfers; and assists the director in completing required state reports and preparing the tax commitments. The clerks maintain all records; handle exemption and abatement applications; data-enter property information on the CAMA system; handle the motor vehicle excise accounts; and respond to public inquiries. The data collector measures and lists new and improved properties, and inspects additional properties for the town's nine-year, cyclical reinspection program.

The assessing office is responsible for maintaining assessment data on approximately 10,280 real property parcels, 500 personal property accounts, 31,000 motor vehicle excise accounts and 95 betterment accounts. In addition, the office processes approximately 100 abatements, 450 exemptions, 500 building permits, 1,000 deed changes (about half of which are arms-length sales) and two tax deferrals annually. The office recently updated its base maps and incorporated these into the town's GIS at a cost of approximately \$160,000. The staff operate under the supervision of the town manager and report on policy matters to an appointed, part-time, three-member board of assessors.

The town hires appraisal consultants to perform fieldwork, analysis, and triennial revaluation work. Historically, the town budgets about \$5,000 for consulting services to collect and value new personal property accounts, and prepare sales and income & expense statement analysis for interim year adjustments in values. Additionally, the town generally appropriates \$70,000 for revaluation work triennially, which includes updating, analyzing and valuing all properties and personal property accounts.

The town uses a CAMA system to manage its property database. There are four personal computers connected to the CAMA server for staff use and one stand-alone computer located on the office counter with property data information for public viewing. Currently, property tax commitment information is transferred to the collector's office with the assistance of a contractor who converts the data to be forwarded to another vendor who prints the tax bills. Exemption and motor vehicle abatements are reported to the collector's office manually. Once operational, the assessing office will have access to the KVS system and the property tax assessment, abatement, and exemption information may be transferred to the collector's office electronically with the appropriate supporting documentation.

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<sup>4</sup> This position works seasonally and at the request of the director. In FY04, this position is budgeted for \$9,500 or about 633 hours at a rate of \$15/hour.

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The assessing office prepares timely reports for DOR, including new growth, taxable parcel count and recertification of value reports. The director works with the accountant to prepare and submit a timely tax recapitulation sheet with adequate backup documentation.

#### FINDING 1: PERFORM IN-HOUSE RESIDENTIAL REVALUATION PROGRAMS

The director of assessing is a professional staff member with considerable experience – she served as director of assessing in Milford for ten years and she has served as an assessing board member for over 20 years in Sharon. Stoughton has a part-time data collector who inspects and recollects most property data, enabling the director to review data, analyze property sales and commercial/ industrial income and expense data for interim year property value adjustments, and inspects properties as needed. The community also has a CAMA system on which the community may produce in-house assessed values without the assistance of contractors, which it does in non-certification years. Yet, despite its experience and resources, the assessing office hires an appraisal consultant to verify the director's interim year property value adjustments analysis and to perform all valuation-related work in a recertification year.

#### RECOMMENDATION 1: PERFORM IN-HOUSE RESIDENTIAL REVALUATION PROGRAMS

DOR recommends that the town consider preparing its triennial revaluation of residential properties in-house. With the recent cuts in local aid and the declining fiscal environment, the town may want to assume more in-house valuation responsibilities with less contractual assistance. To do this, it will require additional analysis and data collection work of the in-house staff. Specifically, additional funding for the part-time data collector (e.g., \$2,500-\$3,500/year for the current position at \$15/hour) may be necessary so that all the permit, cyclical inspection and added revaluation work may be completed timely, enabling the director to focus on analysis and valuation matters. Assuming the town continues to contract the commercial, industrial and personal property data collection and valuation work, the town could reduce its triennial revaluation costs an estimated \$20-\$25,000 and enable the assessing office to be more directly accountable for producing property values.

#### FINDING 2: RECONCILE OVERLAY BALANCES FREQUENTLY

Annually, the assessors establish a reserve to fund anticipated tax abatements and exemptions. As abatements and exemptions are granted or Appellate Tax Board cases are settled, the assessing office reduces the appropriate year's overlay account and notifies the collector and accountant. For checks and balance purposes, the assessing office should periodically reconcile its overlay balances with the accountant's records. According to officials, the overlay balances are reconciled annually after the close of the fiscal year.

#### Recommendation 2: RECONCILE OVERLAY BALANCES FREQUENTLY

We recommend that the assessing office regularly reconcile the overlay account throughout the year with the accountant. At least quarterly, the assessing office should reconcile its overlay balances (by year) with the accountant. If there are any variances, the two offices should meet to determine the source of the difference and make the appropriate adjustments.

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## TREASURER/COLLECTOR'S OFFICE

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The town has a combined treasurer and tax collector's office. A treasurer/collector, assistant treasurer/collector and five clerks staff the office. On the treasurer's side, the office is responsible for payroll and cash management, including the investment, disbursement and borrowing of cash. The treasurer's staff makes bank deposits and prepares treasurer's receipts reports daily.

On the collection side, the office is responsible for collecting approximately 10,000 property tax bills semiannually, 31,000 motor vehicle excise bills annually, and 8,400 combined water/sewer/trash bills quarterly. During the normal course of business, the collector's office also prepares municipal lien certificates (MLCs). In recent years, the office has prepared between 1,300-1,700 MLCs annually, however, with the low interest refinancing rates, the office has already exceeded 2,100 as of April 2003. Currently, the MLCs are produced manually because of the various computer systems, however it will be almost fully automated (with the exception of utility charges on the CBS system) in the KVS system. The office uses electronic spreadsheets for maintaining the treasurer's cashbook and tracking tax title and foreclosure accounts.

The town receives payments by lockbox service and at the counter. According to town officials, approximately 85 percent of all property tax, motor vehicle excise and combined utility bills are sent directly to the lockbox service. Lockbox and office collections (as well as abatements, exemptions, and refunds) are reported to MCS of Weymouth, which maintains the town's detailed tax and excise account balances. The lockbox service also electronically sends utility payment information to the collector's office, which reviews and posts it to the CBS system. The lockbox service sends a computer tape of property tax and excise collection information to the town's billing vendor, who posts the information and then forwards detail and summary reports to the town.

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

The town's real and personal property tax collection rate (net of overlay) in the year of commitment is about 96 percent. For delinquent real estate taxes, the collector uses a series of remedies. Once a real estate bill becomes past due, a demand notice is sent to the taxpayer. If the demand notice does not result in payment, the office sends out a letter. If the letter does not result in payment then the collector initiates tax taking procedures by early fall. Once in tax title, the town uses an outside attorney to pursue foreclosure remedies.

### FINDING 1: RECONCILE CASH AND RECEIVABLES PROMPTLY

During our review, we found that the treasurer's office is internally reconciling the cashbook with all bank statements (using electronic spreadsheets) and its receivable balances with a receivable control<sup>5</sup> (hand written reports). However, the office has not reconciled cash or receivables with the

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<sup>5</sup> The receivables control is a record of original entry where the initial tax commitment is reduced by total collections (turnover reports), abatements, exemptions (from the assessors) and tax title transfers, and increased by total refunds.

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accountant's general ledger since June 2002. Reportedly, these offices generally reconcile cash at least quarterly and receivables annually. The lack of quarterly cash reconciliations is attributed to the turnover in the accountant's office and the conversion of the financial computer system.

#### RECOMMENDATION 1: RECONCILE CASH AND RECEIVABLES PROMPTLY

We recommend that the treasurer and accountant conduct prompt, monthly cash and receivable reconciliations. Prompt and frequent reconciliation is essential in order to maintain control over cash and assets. It is best that these activities be prioritized and completed immediately after the close of the month rather than putting them off to a later time, potentially facing non-reconciling items that could delay and/or impact the certification of free cash.

We also recommend that the treasurer/collector's office use electronic spreadsheets to prepare its receivable control and subsequent reconciliations with the accountant. Using spreadsheets with simple pre-programmed arithmetic functions, the receivable control totals can be calculated automatically. These spreadsheet results can be forwarded to the accountant to compare balances, thus determining if any variance(s) exists, without the accounting staff having to data enter the treasurer's work.

Ideally, the treasurer's and accountant's offices should create shared spreadsheet files for receivable reconciliation purposes. Soon after each monthly closing, each office should post its receivable balances into pre-prepared spreadsheets. Each spreadsheet should compare prior month's ending balances to the current month's beginning balances. For all receivable types by fiscal year, the spreadsheet should include columns for commitments, collections, exemptions and abatements granted, refunds and transfers to tax title, rendering an ending balance. Using electronic formulas, any variances between the balances (or the columns of reported activity) will be readily apparent and provide both offices with a good starting point from which to complete the reconciliation.

#### FINDING 2: STANDARDIZE DEPARTMENTAL RECEIPTS REPORTING

Generally, departments turnover all receipts with a detailed report weekly. Departmental turnover reports vary in format and provide vague descriptions of the types of receipts reported. The treasurer reviews each turnover, verifies the revenue source, and deposits the funds. The departments do not always provide a copy of the turnover to the accounting office. Rather, the accounting office has had to borrow the treasurer's copies, only to return them after general journal entries are made into the Sumaria System.

#### RECOMMENDATION 2: STANDARDIZE DEPARTMENTAL RECEIPTS REPORTING

We recommend that the treasurer instruct all departments to provide a copy of the detailed departmental turnovers to the accountant. This reporting will notify the accountant of the amounts taken in by department and allow the accountant to verify and reconcile the treasurer's cash receipts reports.

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We recommend that the treasurer, in cooperation with the accountant, standardize the departmental turnover reports. For each department, a turnover sheet should be created in an Excel spreadsheet which clearly lists all the revenues handled by that department or board, including a brief description, operating fund and the revenue account codes. These reports will enable the treasurer and accountant to process the information quickly without having to inquire with a department or board as to the source of the funds.

After the conversion to the KVS system, we recommend that the treasurer's office begin using the general receipts' module. The treasurer's office should be responsible for data entering all receipts in the KVS system, and internally reconciling these postings with deposit records, eliminating the need for the accountant to make general journal entries to input this information.

#### FINDING 3: CLEAR UP OLDER TAX RECEIVABLES

As of June 30, 2002, the town's balance sheet includes real estate receivables that date back to 1963. According to the treasurer, some of the older outstanding amounts have been researched and deemed uncollectable due to change in ownership, however, nothing has been done to clear them up.

#### RECOMMENDATION 3: CLEAR UP OLDER TAX RECEIVABLES

We recommend that the treasurer/collector begin the process of clearing up certain uncollectible accounts that date back many years. For those amounts that are determined to be uncollectable, the collector should work with the assessors and Commissioner of Revenue to have them abated and cleared off the town's books. If overlay accounts exist for the years in question, the abated amounts should be charged to them, otherwise they may have to be raised on the tax recapitulation sheet or appropriated at town meeting.

#### FINDING 4: RESOLVE TAILINGS

The town is in possession of over \$180,000 in returned or unclaimed checks, commonly referred to as tailings. While it is not clear what this figure specifically consists of, it may include checks issued to pay employees and vendors, refund municipal taxes or charges or pay other municipal obligations. Any check that is not cashed within three years of issuance is deemed abandoned under MGL Chapter 200A §5. A municipal treasurer holding abandoned checks as of June 30 may turn them over to the state treasurer (Chapter 200A §7) or opt to invoke a local notice, advertisement and hearing procedure for establishing claims (Chapter 200A §9A). In the latter case, unclaimed monies remaining after payments resulting following completion of the notice, advertisement and hearing procedures are credited to the municipality's general fund.

#### RECOMMENDATION 4: RESOLVE TAILINGS

We recommend that the treasurer research the composition of the town's tailings and pursue the local abandoned property claims procedure set forth in MGL Chapter 200A §9A. Once the procedure is completed, any unclaimed amounts may be cleared from the general ledger, closing to the general fund and included in the subsequent certification of free cash.

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## ACKNOWLEDGEMENTS

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This report was prepared by The Department of Revenue, Division of Local Services

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Robert Mullen, Selectman  
Antonio Souza, Selectman  
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Paul Dawson, Assistant Town Manager/Clerk  
John Kowalczyk, Finance Committee  
William Rowe, Accountant  
Elaine Rettman, Computer Operator  
Kandi Dupont, Accounting Clerk  
Paula Keefe, Director of Assessing  
Gloria Veale, Office Manager  
Michael Daley, Financial Advisory Assoc., Inc.  
Joanne Whittemore, KPMG, Auditor

Lawrence Barrett, Public Works Superintendent  
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Kathy Silva, School Business Manager  
Eric Milgroom, School Committee  
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Lucinda Ricker, Assistant Treasurer/Collector  
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Karen Peters, Treasurer/Collector Clerk

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