DRAFT

TOWN OF STOUGHTON, MASSACHUSETTS
REPORT ON RESULTS OF OPERATIONAL AUDIT
NOVEMBER, 2010
# Table of Contents

## Binder I

I. Introduction and Overview .............................................. 1
II. Administrative Process/Procedures ................................. 4
III. Other MLB Procedures .................................................. 8

- Review of financial books and records and of financial reports ................................. 8
- Tests of transactions .......................................................... 10
- Verifying of position control information ........................................ 11
- TIF procedures ...................................................................... 11

IV. Comments and Considerations ......................................... 12

A. Town-Wide Comments and Considerations ............................ 12
B. General Financial Management Comments and Considerations ................. 19
C. Results of Tests of Procedures .............................................. 24
D. Departmental/Functional Comments and Considerations ................. 28

## Binder II

V. Appendices

A. Financial review documentation ...........................................
B. Documentation on testing of transactions and attributes tested.  
   Payroll - Procurement/contracts - vendor invoices ....................
C. MLB compliance/internal control questionnaire/guidance ............
D. Town of Stoughton organization chart w/ departmental and position detail  
   (Town side only) ................................................................
E. Town employee listing as of June, 2010 with position control information. ......
F. Stoughton Public Schools 2010-2011 staff organization document .........
G. Stoughton Public Schools system generated position control report ....
H. MLB sample client internal control documentation ....................
I. MLB sample list of personnel policies and sample HR self-audit matrix. ....
J. Information from Division of Local Service ............................
I. INTRODUCTION AND OVERVIEW

Introduction

In the summer of 2010, the Town of Stoughton, via its Committee on Finance and Taxation issued a comprehensive Request for Proposal (RFP) to conduct an “operational audit” of various areas of the Town. Malloy, Lynch, Bienvenue, LLP (MLB) responded to this RFP and within our response provided the Committee a framework on how it could meet its goals and objectives, within the amount budgeted. Based upon our further discussions, the broad objectives presented in the RFP were narrowed, a time budget was developed and specific tasks were identified for our work to commence. These tasks included:

- General finance office review (including review of accounting ledgers, appropriations and special revenue funds)
- Review processing procedures of purchasing and accounts payable function (includes bidding and procurement)
- Review processing procedures of revenue/receipts and accounts receivable function (including review of status of Tax Increment Financing Agreements)
- Review hiring and payroll procedures and the payroll function (including HR function)
- Review existing financial reports
- Review administrative operations of the following departments:
  - School Department
  - Department of Public Works
  - Library
  - Police Department
  - Fire Department
  - Cedar Hill Enterprise Fund (Golf Course)
- Select a sample of employee payroll transactions for detail testing procedures
- Select a sample of contracts for detail procurement related testing procedures
- Select a sample of disbursements for detail expenditure testing procedures
- Present a report of our findings on performing the above procedures, considering various regulatory and statutory requirements, utilization of IT, personnel efficiency and best practices.

MLB has completed its work on the above tasks and herein is presenting our report of conditions, along with our comments and recommendations related thereto in the accompanying pages.

Part II of our report describes, in summary, the procedures generally used by Town departments in the processing of administrative information. This information is presented for the purpose of context and discussion when considering our subsequent comments.

Part III of our report describes additional work performed by MLB on specific areas requested to be covered by our work.
Introduction (continued)

Part IV of our report provides the Town with a list of our comments and recommendations based upon the work we performed. In summary, our comments include:

- 5 town-wide comments relative to administration and finance
- 10 general financial management comments and considerations
- Results of our test of procedures, including a potential recovery of approximately $20,000 for overpayments to an insurance provider
- 36 specific departmental and/or functional comments and recommendations

Part V of our report consists of several appendices, including summarized financial information which provide additional detail and context to the body of our report.

A report of this type is critical by nature because its purpose is to identify areas where compliance could be improved and other improvements could be made. Accordingly, we have not commented on the many positive attributes of the Town's financial and administration systems, its staff or their efforts. It is important to understand that it is generally not practical to achieve ideal internal control, nor 100% compliance with every law or regulation in the complex governmental finance and administration environment, although adopting, maintaining and monitoring a process and systems suited to the needs of your organization should be expected. Practical considerations, cost-benefit considerations, budget and available resources are all important factors in weighing the advantages and disadvantages of our comments and recommendations over the present practice and procedure.

Furthermore, it is important to emphasize that the objective of our work was to evaluate an organization and its processes, and not its individual employees. In our experience, all organizations and its employees are in need of continuous improvement. Our recommendations are directed at prompting discussion and consideration of ways to help your organization make those improvements.
Overview of the Town of Stoughton, Massachusetts

The Town of Stoughton, Massachusetts (Norfolk County) is a residential suburb located 19 miles south of Boston. The primary services of the Town include: public safety, including police, fire protection and ambulance; public works, including rubbish disposal; recreational services, including library and the Cedar Hills golf course; K – 12 education; human services including elderly and veterans services and public health services; and water and sewer service; as well as general government administrative services.

The Town operates under a Town Charter and is governed by a voter elected five-member Board of Selectman, who appoints a Town Manager. Town voters elect town meeting representatives on a precinct basis to form its representative town meeting. Voters also elect a five-member School Committee, who operate as the "Head of Department" for the public schools and appoint a School Superintendent.

In addition, voters elect representatives of the Stoughton Housing Authority, the Redevelopment Authority and the Southeastern Regional School District.

In April of 2010, Moody's Investor Services affirmed its long-term rating of A-1 to the Town's outstanding general obligation bonds. The 'A' rating indicates the Towns long-term obligations are "considered upper-medium grade and are subject to low credit risk." The '1' modifier, indicates the issues are ranked in the higher end of its generic category, while a '2' modifier indicates the mid-range and a '3' indicates the lower-end of the generic category. According to Moody's "The A1 rating reflects a narrowed but stabilizing financial position, a favorably located and large tax base, and a manageable debt position." Furthermore, Moody's reports "the Towns wealth levels approximate Commonwealth averages, as does the equalized value per capita of $146,137, but all indicators exceed national medians with satisfactory margins."

However, Moody's also anticipates "the town's $3.9 billion tax base valuation will continue to soften over the near-term reflecting ongoing weakness in the regional housing and commercial markets, but may stabilize in the long term given the town's proximity to Boston."

On a local level and similar to its neighbors, the Town enjoys a diverse tax base and a diverse mix of manufacturing, services, retail and commercial trades. In part because of this diverse tax base, the Town has opted to utilize a split-tax rate where a portion of the tax burden is shifted from residential to commercial and industrial property owners. In fiscal year 2010 the residential tax rate of $12.46 translated to an average single-family tax bill of $3,744, which is 14.7% less than the state-wide average single-family tax bill. The fiscal year 2010 commercial, industrial and personal property tax rate was $21.68.
II. ADMINISTRATIVE PROCESS/PROCEDURES

Through review of existing documentation, interviews with town staff, walk-through of procedures and tests of procedures MLB documented and evaluated certain Town procedures focusing on compliance with statutory and regulatory compliance, best practices, efficiencies and the use of information technology. The key administrative functions included:

1. Procurement/purchasing
2. Revenue/collection procedure, and
3. Human resources/payroll processing.

The following software systems/applications are generally used by the Town in processing and maintaining data:

- KVS Financial Management System (FMS), utilized to maintain a complete town-wide accounting ledger;
- KVS FMS, utilized to process warrants/accounts payable, and more recently purchase requisitions (integrated with ledger);
- KVS FMS, utilized to maintain tax billing and collection records (integrated with ledger);
- Budget Sense, utilized by the school department to maintain detail of the school departments accounting budget and to process school department payroll and vendor checks;
- Patriot Properties Software, used by the Assessing Department to maintain assessors field cards and assessment data;
- Continental Utility Billing Solutions for water/sewer meter reading, billing and collection;
- Automatic Data Processing (ADP), a third party payroll service provider used to process town payroll.
- Additionally, each department may have software or third party providers who provide services specific to that department's activity, for example Coastal Medical Billing for ambulance billing.
- Various versions of Microsoft Office products

Fiscal Year 2010 appears to have been a year of transition with regard to several administrative procedures of the Town. In our conversations with Town personnel and our walk-through of procedures, we noted distinct differences when evaluating and reviewing current procedures vs. the practices and procedures that had been in place at the beginning of fiscal year 2010 and previously. In previous years, administrative practices appear to have been highly decentralized, particularly with regard to procurement and human resource/payroll administration, with each department being largely responsible for its own administration and with some reporting to Town financial offices. Procedures currently in place indicate a movement to consolidating administrative functions and reporting at the town financial offices.
In our review of the Town’s administrative procedures we evaluated the Town’s current documented policies and procedures and conducted interviews and walk-through of procedures with the following departments and/or offices:

- Police Department
- Fire Department
- Cedar Hills Golf Course
- School Department
- Library
- Assessing Department
- Accounting Department
- Treasurer/Collectors Office
- Town Managers Office
- Department of Public Works

Based upon these procedures, following is a brief write-up of Town standard procedure for the above mentioned administrative functions.

**Procurement/purchasing**

Pursuant to the Town’s charter, the Town Manager is the designated Chief Procurement Officer for the Town. According to the charter, duties may be delegated to authorized representatives. The Town’s purchasing procedures manual requires certain positions to complete the Massachusetts’ Inspector General’s Public Contracting Overview seminar.

Beginning in July of calendar year 2010, the Town began to revise established procurement and purchasing procedures, essentially centralizing all procurements through the Town Auditor and Town Manager’s offices. Each department head is required to submit a purchase requisition electronically through the KVS accounting system, prior to incurring any expenditure. Generally, all purchases are required to have requisitions, with some limited exceptions for such payments as: debt service, utilities, tax refunds, and health claims. The Town Auditor reviews each requisition for reasonableness of the appropriation account being charged, and for each requisition’s compliance with appropriate procurement laws (bids, quotes, etc). All purchase order requisitions in excess of $3,000 must be reviewed and approved by the Town Manager. Both the Town Auditor and the Town Manager approve the purchase order requisition electronically through the KVS system. After a purchase order requisition is approved, a 3 copy purchase order is generated by the Town Auditor’s office. A copy is mailed to the vendor, a copy is provided to the department and the final copy is maintained on file in the auditor’s office.

Invoices for goods and services are generally received directly by each department. Each department head is required to review each invoice to the approved purchase order. Manual vouchers are then prepared listing the invoices and accounts to be charged. The department head is required to sign the voucher, and submit all original invoices to the Town Auditor’s office on Tuesday afternoon. Vouchers are reviewed and processed by the accounts payable clerk. A budget expenditure report is also generated to insure appropriations have not been exceeded. On Wednesday a detailed warrant is generated to be dated Thursday. All warrants are required to be signed by a majority of the Board of Selectmen, Town Auditor, and Town Manager.
Checks for the vendor warrant are generated and signed electronically by the Town Auditor’s office, and mailed by the Treasurer’s office after the warrant has been approved.

School department procurement and purchasing procedures are decentralized from the Town. The school department utilizes a separate accounting system Budget Sense. Currently, the Superintendent serves as Chief Procurement Officer for the school department. Purchase requisitions for the school department are not performed through the computerized accounting system. A manual requisition form is completed and forwarded to the school department’s Financial Coordinator for review and approval. Requisitions for the administration office are approved directly by the Superintendent. After the purchase order requisition is approved, the school department’s accounts payable clerk generates a 3 copy purchase order. One copy is mailed to the vendor, to the initial requisitioner and the final copy is maintained on file in the financial office.

Generally, invoices from vendors are mailed to the financial office. Personnel receiving goods or services are required to sign the requestor’s copy of the purchase order acknowledging receipt of the goods or services. This copy is forwarded to the financial office for review to the invoice, office copy and Budget Sense. A detailed listing (warrant) is generated, which is required to be signed by the Superintendent, and a majority of the School Committee. The signed warrant and the original bills are then submitted to the Town Auditor. The Town Auditor must post school department activity via journal entry into the town’s KVS accounting system. Checks for school department expenditures are generated at the finance office and submitted to the Town Treasurer to be disbursed after the warrant has been approved at the Town level.

Revenue/Collections procedure

The Town’s treasury function operates under the combined position of the Town Treasurer/Collector. Generally, all departmental receipts of the Town, excluding wire transmittal of state funds are collected at the various town departments and reported on a weekly basis to the Town Treasurer. Each department completes a manual “schedule of departmental turnover” which indicates the breakout of monies received. This is provided to treasury personnel, who in turn manually date-stamp the turnover, verify the amounts being turned over, and give a receipt to the department. A separate copy of the departmental turnover is provided to the Town Auditor from the department for input into the accounting system and use for reconciliation between the Treasurer on a monthly basis. Certain departments deposit directly into treasurer maintained bank accounts (including third party ambulance service, deputy collector, and food service). For these departments, deposit slips are provided with the departmental turnover, documenting the monies being turned over. The treasurer generally deposits funds on a daily basis, and maintains electronic cashbooks for recording activity. These cashbooks are utilized in preparing bank statement reconciliations and reconciling cash activity with the Town Auditor. The Treasurer indicated there are certain trust fund accounts which are solely in the custody of the school department.

At the departmental level, cash and checks are received for the departmental charges, fees, tax, etc. Certain departments, such as Cedar Hills, collector’s office, library, school lunch, utilize cash registers for the collections recording. Any payments made by check are required to be made payable to the Town of Stoughton. Generally, pre-numbered receipts are not utilized.
In some instances, receipts are issued but are not pre-numbered (Cedar Hill). The Collector’s office does not issue receipts, but rather the taxpayer’s copy of the bill is stamped “paid” and is utilized as the receipt to the individual.

The Town Collector’s office generally collects payments associated with real estate taxes, personal property taxes, motor vehicle excise and water and sewer charges. These payments are posted directly by the Town Collector’s office to the taxpayers’ accounts. Real estate tax, personal property tax, and motor vehicle excise accounts are maintained by the Town Collector’s office on the KVS system, amounts do not directly post to the Town Auditor’s general ledger. Rather, daily activity is batched electronically and must be electronically accepted by the Town Auditor. This provides the Town Auditor a control system which allows daily batches to be reviewed prior to being electronically accepted and imported to the general ledger for posting. Water and sewer accounts are maintained in another non-integrated computerized software, Continental Utility Solutions. The collector’s office has access to the water department’s separate computerized billing system, for posting payments as processed and abatements as approved. Reporting of these receipts is through the departmental turnover process. The Town Auditor and Collector reconcile receivables generally on a quarterly basis.

Human resources/payroll processing

Currently, the Town does not maintain a separate human resources department, which would typically be responsible for maintaining employment records, inclusive of step and grade documentation, withholdings and compensated absence information. Currently, town employee benefit records are maintained by the Treasurer’s office and school department employees’ benefit records are maintained at the school department’s finance office. In addition, the Town operates two distinct payroll systems for the town employees and the school department employees. The Town utilizes a third party payroll service, Automatic Data Processing (ADP) for the generation of payroll registers and checks. The school department generates payroll registers and checks internally through the Budget Sense system.

The Town’s payroll cycle is bi-weekly. Town employees’ payroll is currently being processed through the Town Treasurer’s office. Payroll vouchers are submitted to the Treasurer’s office on Wednesday, generally for the period beginning on Sunday and ending on Saturday. Payroll is to be paid on the following Thursday. Departments generally, submit applicable overtime hours up through Tuesday. The Library submits hours through Saturday, which includes scheduled hours for hourly employees who are not subject to any compensated absence accruals (i.e. sick, vacation). Recently, the Town has implemented a policy which requires an approved Personnel Action Form for all town employees to be on file to support the wage and benefits being provided. This form generally indicates hire date, step/grade status and other contractual rates (i.e. longevity, stipends, etc). This form is required to be signed by the department head, Town Auditor, Town Treasurer, and Town Manager. This form is to be utilized as the source document authorizing any changes to be made within the payroll system.

Each departmental payroll voucher is required to be signed by the department head. Payroll information from the voucher is reviewed, footed and input into ADP by the payroll clerk. Once complete, the information is transmitted to ADP for processing. Subsequently, payroll checks, payroll registers are delivered from ADP to the Treasurer’s office.
The payroll clerk reviews these registers to information originally transmitted, and also to the payroll warrant created by the Town Auditor’s office from a copy of the payroll voucher to insure all amounts reconcile. The payroll warrant is required to be signed by a majority of the Board of Selectmen, the Town Auditor and the Town Manager. Timesheets and attendance records are maintained at the departmental level and are not forwarded to the Treasurer’s office. Furthermore, compensated absences are currently not maintained in the ADP system. Each department head is required to maintain an accounting at the departmental level for their employees’ compensated absences as applicable.

School department employees’ payroll is processed internally at the school department’s finance office. Annually, teachers sign a contract acknowledging their respective step/grade in accordance with union contract. Other salaried individuals have their own contracts. Payroll for salaried personnel is salary by exception. Time cards are utilized for hourly employees. Updating the required pay rates, withholding etc., for school personnel is performed in the Budget Sense system by the Financial Coordinator as necessary. Compensated absences are maintained for school personnel within the Budget Sense system.

Once payroll has been entered, a payroll journal report is generated. This report is reviewed by the Financial Coordinator for accuracy. The payroll checks are then generated as well as a warrant summary. The warrant summary is submitted to the Superintendent and the school committee for approval. The checks and the warrant are submitted to the Town Treasurer’s Office for review and are disbursed upon approval of the warrant by the Selectmen.

III. OTHER MLB PROCEDURES

In addition to interviewing Town personnel; general inquiry and observation in order to gain an understanding of the Town’s administrative procedures, MLB completed additional procedures in performance of our work. This additional work helped to support, or verify our understanding of the flow of information and the various practices used by Town personnel, or was performed to gather additional information on matters we were asked to consider. These procedures included the following:

Review of financial books and records and of financial reports

As a basis for better understanding the Town, its operational structure and financial status, we completed a financial review. Documentation of this review is included in the appendices at appendix A. Performing this review was a key procedure in gaining a base-line understanding of Town financial operations and in accomplishing some of the goals established by the Committee on Finance and Taxation.

The financial review consisted of a thorough multi-year review of the Town’s accounting records beginning with budgetary documents and including a review of the tax rate recap used in setting the Town’s tax rate; a review of the Town’s chart of accounts; actual detailed general ledger of accounts; consideration of fund and account utilization and structure; a review of in house year-end financial reports used for certification of free cash; encumbrances and continued appropriations; as well as a review of issued annual audited financial statements and reports, Schedule A, and School Department End of Year Reports.
From this data, we performed a 3-year trend analysis of budget and actual data. It is important to note the goal of this review was to obtain information with regard to the advisory engagement at hand, not to perform an audit of the data contained therein. We do not express an opinion on any of the financial reports noted above.

As a result of our financial review, we have derived several comments and suggestions, which are identified in Part IV of this report. Notwithstanding these comments, however, we are pleased to report the foundation of the Town’s accounting and finance functions are solid.

The core finance functions of Accounting, Assessing, Treasury and Collections are directed by long-term, experienced employees who are well respected in their respective fields and appear to be fulfilling the statutory and regulatory duties associated with their offices.

The Town Auditor maintains a complete general ledger of accounts in accordance with relevant provisions of Massachusetts General Laws and Massachusetts Department of Revenue regulations and guidance. Key internal controls and accounting functions are in place and appear to be operating effectively. A review of the Town’s general ledger indicates an appropriate level of accounts. Various ‘funds’ are utilized in the ledger and appear to be properly authorized, either by a provision of MGL, or through Town Meeting Authorization. Required financial reports appear to have been filed and annual audits of financial statements are performed.

The Town Treasurer/Collector maintains, as required, a ‘Treasurers Cash Book’ of bank account activity and reconciles activity on an ongoing, periodic basis throughout the year. With regard to collecting and depositing departmental/town receipts, the Treasurer utilizes an acceptable system of ‘turnovers’ and procedures generally in compliance with provisions of MGL and DOR regulations. The Treasurer is active in cash management and in administering the Town’s outstanding indebtedness. Additionally, the Treasurer/Collector office is fulfilling the responsibility for administering the Town’s payroll process. On the Collector side, the Treasurer/Collector administers the Town’s tax collection process. Again, administration of this process appears to be in accordance with MGL and DOR regulation. In addition, to being compliant with laws and regulation, the Treasurer/Collector also appears to be effective in collecting town revenues. Collection rates on real estate, personal property and motor vehicle excise are very good to excellent and uncollected balances appear to be Iiened on a timely basis and appropriate collection methods extended. Substantial reconciliation of outstanding accounts receivable are reconciled with the Town Auditor on a periodic basis.

The Assessors office also meets its statutory and regulatory requirements. The Assessing office is carrying out several processes and procedures to ensure town property is assessed at “full fair and cash value” as contemplated under MGL. The Assessing office provides for maintaining the Town’s ‘tax maps’ and provides assessing field cards on each parcel. Interim year adjustments and a triennial certification plan are in place and follow acceptable valuation methods. Sales and market data are monitored and maintained by the Assessing office and the Town’s inventory of property appears to be properly coded in accordance with DOR regulations. Reporting of property information is readily available through the Patriot Properties software used by the department. The Assessing office is also responsible for the Town’s “overlay account” providing for abatements and for following cases through the Appellate Tax Board, if needed.
An annually, the Assessing office plays a key role in establishing the Town’s tax rate and its subsequent approval through the DOR. Various reports required in this regard appear to have been timely filed and accurately prepared.

Tests of Transactions

In addition to the financial review, MLB personnel also performed specific tests of transactions. Our summary test work papers are included at appendix B. The results and conclusions of these tests of transactions are documented at Appendix C.

In consultation with the Committee on Finance and Taxation, we picked a selective sample of 50 payroll transactions, (10 each from Fire, Police, School, DPW, and Library). For each of these transactions we tested the following:

1. Payroll of the period selected (per payroll register) agreed to the warrant/voucher authorized
2. Department properly authorized the payroll
3. Examined source documents (time cards/sheets/shift logs, etc.) to verify time worked and department head approval of additional time
4. Payroll charge was properly authorized via the warrant process
5. Traced warrant total to payroll register total for each department
6. Verify Personal Action Form is authorized and on file (Supt. Authorization for schools)
7. Trace step, grade, and pay rate(s) from PAF to the applicable bargaining agreement
8. Recalculate base (regular) pay and verify to bargaining agreement
9. Recalculate overtime pay (also see #3)
10. Recalculate aggregate gross pay to include other pays (i.e. shift differential, overtime, etc.) and verify (also see #3)
11. Recalculate employee benefit withholdings and verify to documentation on file (i.e. retirement, health and dental, etc...)

MLB staff reviewed the Town’s provider information report for vendors who received greater than $5,000 for fiscal year 2010. In reviewing this report, MLB picked a selective sample of 13 vendors who qualified to require written contracts and potentially required a formal procurement process. A general review of the contract and services provided were performed and the following procurement attributes were tested/considered:

1. Valid purchase order issued and authorized by Town Manager, School Superintendent and Town Auditor
2. Purchase order issued in a timely manner (2 weeks)
   - Purchase order was approved prior to the purchase of the goods/services
3. If applicable, documentation exists on receiving 3 written quotes for purchases between $5,000 and $24,999
4. If applicable, sealed bids or proposals were received for purchases over $25,000
5. Notate any process for exceptions
6. Contract on file with Town Auditor
   - Review additional bid documents for completeness
7. If applicable, review change orders for proper approval
8. If applicable, for multi-year contracts payment must be subject to available appropriation
9. Trace the appropriation to Town Meeting authorization
10. Trace the amount and appropriation charged from invoice to subsidiary and general ledgers and determine propriety
11. Invoices/bill schedules were authorized for payment by Department Head, Clerk of the Works, if applicable (also considered Architect and Engineering authorizations)
12. Determine if contract payment activity is being properly monitored within the terms of the contract by the Town Manager (or Superintendent) and Town Auditor
13. Determine if contract activity and provisions are being sufficiently monitored.
14. If applicable, verify prevailing wage rate provisions are being applied and verified by the contract monitor and/or Department responsible for overseeing the contract.

MLB selected from approved warrants 50 cash disbursements and reviewed each for the following attributes:

1. Warrant was properly signed and authorized
2. Traced and agreed amount reported on the warrant to the original invoice
3. Invoice (or voucher) has proper approval by Department Head
4. Appropriation account charged was reasonable for the goods/services provided
5. Invoice was paid timely and recorded in the proper period

Verifying of Position Control Information

As part of our work related to human resources and payroll processing MLB spent a good amount of time reviewing employee classification issues as well as budgetary approval issues concerning departmental staffing and salary appropriations. As a result of this work, we have comments relative to position control in Part IV of our report. A listing of municipal and school employees, their position, their bargaining unit and, step/grade information is included at Appendices D through G.

As part of our test of the data identified in the town-side position control information, we requested and reviewed from the Treasurer’s office a reconciliation of 5 employees reported W-2 wages for calendar year 2009 to the base wage appropriate for the listed step and grade. There were no exceptions noted.

TIF procedures

In addition to reviewing revenue and receipt procedures and inquiring of specific revenue transactions recording in the Town’s general ledger, MLB also undertook a cursory review of Town Tax Increment Financing agreements. This work included:

- Obtaining and reviewing each TIF agreement
- Reviewing TIF payment calculations provided by the Assessing office
- Reviewing and the process for billing and collection of TIF agreements
- Reviewing the disposition of TIF payments in the general ledger.
IV. COMMENTS AND CONSIDERATIONS

A. Town Wide Comments and Considerations

1. Documentation of Town-wide policies and procedures

Under the Town’s Charter, the Town Manager is the Chief Administrative Official of the Town and is responsible for the effective administration of Town business, which operates under various provisions of general laws, Town code, and provisions of collective bargaining agreements. Part of this responsibility is to ensure all municipal departments operate in accordance with appropriate rules, regulations and policies established by the Board of Selectmen, adopted by Town Meeting and/or considered reasonable for an effective level of management. Over the years, Town departments and operations have independently established formal and informal practices, policies and procedures with regard to financial management of their department. Due to the growth in the Town, increased oversight, increased regulatory and compliance responsibilities, as well as increasing expectations, the financial management of municipal departments and operations has become more challenging.

In general, the purpose of a comprehensive set of financial management policies and procedures is to communicate to all Town personnel, and in particular financial staff, the basic procedures and requirements that must be observed and considered in administering the financial activities of the Town and its departments in order to meet the requirements and expectations of the Town, and the statutory and regulatory requirements applicable to the Town. More specifically, these policies and procedures should:

- Provide a standard of performance for the effective financial management of Town operations.
- Provide guidance to staff in achieving the performance standards
- Document key systems and procedures used in the financial management of Town operations
- Document the flow of information through key systems and procedures
- Identify key internal controls and monitoring procedures

We recommend that all key financial systems, functions, activities, tasks and practices be documented. This provides for continuity of process; and serves as the basis of the Town’s system of internal control, as well as a basis for continual improvement in operational efficiency and effectiveness.

For review, we were received the following administrative documents relative to the Town:

- Town Charter;
- Town Code, update July 1, 2010;
- Town of Stoughton Board of Selectmen Policies, dated November 23, 1993;
- Purchasing Procedures Manual;
- Annual Town Meeting Warrants;
- Draft version of organizational charts and job descriptions;
- Draft version of a Human Resource Manual containing sample policies of other towns.
We recommend the Town undertake a process of updating/revising its current policy and procedure documents and have these approved at the proper level. Specifically, we recommend:

a) The Town finalize the draft of Town organizational chart and job descriptions. In reviewing the draft organizational chart and job descriptions it appears that some of the job descriptions are several years old, while others may have been recently documented. In any event, documentation of employee positions within the Town, each of their expectations, including major and minor duties and responsibilities is a key administrative and financial function and control.

b) The Town adopt formal personnel policies, which establish standard administrative practices for Town employees, particularly those not covered under collective bargaining agreements. Such policies should include an update to Town-wide employment policies such as: harassment; ADA compliance; Equal Employment Act; Affirmative Action Commitment; conflict of interest; ethics; Whistleblower act; vehicle use; employee expense reimbursement; internet and computer use; acceptance of gifts; drug free workplace/drug testing policies; employee procurement, and others.

Typically, towns also develop “employee manuals” from their personnel policies, and are typically distributed to all employees and an acknowledgement received from employees on a periodic basis confirming its receipt and their understanding.

c) The Town complete the draft of the human resource manual documenting the administrative procedures to be followed in the hiring, retention and termination of employees. During fiscal year 2010, the Town implemented a Personnel Action Form (PAF), which is now required to be used to document any change in employment related status. The use of a PAF is a positive step, but should be utilized in the context of a complete human resource policy. A human resource manual should include, but not necessarily be limited to, providing for:

- Providing for proper budget authorization
- Hiring process
- Process for payroll and benefit administration
- Process for payroll classification
- Performance reviews (may be subject to collective bargaining)
- Discipline and grievance procedures
- Termination procedures
- Post-termination practices

d) The Town adopt formal, documented financial policies and procedures. Generally, we recommend three levels of financial policies and procedures.
The first level of financial policies represents Town-wide financial goals and objectives, which provide guidance and a framework for discussing budgetary and financial discussions. These generally consist of several broad based policy objectives, such as:

- Fund balance policy
- Financial reserves
- Capital planning policy and a capital plan
- Debt policy
- Financial projections and plans (currently a three year “fiscal and program plan” is required per Town Charter)
- Internal audit
- Risk assessment

The second level of financial policies and procedures represent documentation of key functional areas of municipal finance and administrative procedure. This documentation covers the process most managers would use in the financial administration of their departments, identifies key internal controls used in the process, as well as documents statutory or other authority. Some examples of functional policies and procedures include:

- Procurement and purchasing
- Accounts payable procedures
- Accounts receivable and cash receipt procedures
- Payroll processing procedures
- Human resource/personnel actions
- Revenue policies and a “revenue manual”

The third level of financial policies and procedures represent departmental documentation on key financial activities. The aim of this documentation is to document administrative procedures for employees, while at the same time identifying key internal control used in the process. This documentation is specific to each department and depends upon the financial activities undertaken in each. We have included in appendix H a sample Departmental Internal Control Documentation form, which can be used to document the extended operations of each department’s key financial activities.

2. Give Consideration to Integrating Financial Software Applications used by the Town.

Currently the Town utilizes multiple software applications in the administration of its duties. For example; the Town Accountant utilizes KVS Financial Management Software to maintain the Towns general ledger, and more recently to administer purchase requisitions in accordance with Town policy. Concurrently, the School Financial Coordinator utilizes Budget Sense financial software to maintain the school budget accounts and for school payroll administration, including position control information.

Likewise, although the School Department processes its payroll in-house, the Town Treasurer utilizes a third-party payroll service to process Town payroll. This situation results in additional work to complete payroll tax return compliance, and defeats a major advantage of utilizing an outside payroll provider.
The water and sewer department utilizes Continental Utility Solutions software for meter reading and utility billing and collection. The Treasurer's office has access to this system to post payments received, however the software is not otherwise integrated with KVS and therefore duplicate effort is spent to prepare a manual departmental receipt turnover, which is subsequently manually entered into KVS by the Town Auditor.

The Town Collector's office does utilize KVS tax collection module, however other Treasury receipts are communicated to the Accountant via a manual turnover process. The Treasurer's cash book is maintained 'offline' using excel workbooks.

Taken individually, each of the above mentioned applications are viable solutions for the tasks being accomplished, however, on the whole result in a disrupted workflow and inefficient processing of information. We recommend the Town more fully evaluate its financial management software utilization and needs and consider integrating the various financial software applications into one financial management system maintained throughout the Town. Transition to this type of environment will require further evaluation of its current systems, and likely significant additional cost to achieve if undertaken all at one time. However, it is typically practical to implement integration of financial management applications on a long-term basis as technology and software capabilities change and as updates to the current software become more expensive.

Currently, not utilizing a Treasury module as part of the financial management system requires the Treasurer to maintain a separate offline, manual cash book, as well as requires duplicate entry and manual preparation of receipt turnovers. Utilization of a traditional treasury function would enable the cash book to be integrated within the financial management system, as well as for entry and coding of receipt turnover information directly from the Treasurer's office for subsequent review and acceptance by the Town Auditor.

Another obvious area of integration is with the water and sewer billing and collection software. Again, in this instance running concurrent systems requires some degree of duplication of effort in entering and processing data and additional time in reconciling accounts and ensuring data in each system reconciles to each other. Separate concurring systems also give rise to additional internal control risks, and potentially increased costs in maintaining and providing training on multiple systems.

Likewise, with the School Department, use of different financial systems results in some duplication of effort in processing of invoices, warrants and payroll and decreases financial internal control and ease of financial reporting. It is important to note, this comment is not recommending "consolidation" of the school finance function, but rather the administrative systems utilized to carry out both the Town and school's finance responsibilities in order to streamline procedures and eliminate duplication of efforts and improve Town-wide financial reporting capabilities.

Finally, we recommend the Town pick one method of administering Town payroll for both school and Town employees. See our comment under section D for further detail.
3. Expand the utilization of the financial management system

As a follow up to comment 2 above, once there has been integration of the core financial management software applications, it becomes possible, and most times practical to push the utilization of common financial functions, such as accounts payable processing (warrant entry), receipts turnovers and payroll entry to each department, therefore capturing information at the source of entry and minimizing subsequent duplication of effort. Subsequent processing of departmental data is generally for verification and review purposes.

Benefits of pushing applications to larger departmental users are generally an increase in available staff time, redistribution of labor efforts to more appropriate staff, additional cross-training opportunities, as well as the adoption of standardized procedures. Additionally, in this type of environment, departments feel more in control of their budget and current financial status, as they are entering financial transactions locally. Treasury staff becomes more efficient in reviewing standardized electronic receipt turnovers. Accounting staff become more efficient in processing requisitions, vendor invoices, warrants and subsequent payment.

Currently, Town departments (not including School Department) are utilizing decentralized, shadow systems to process and maintain human resource, payroll and employee attendance records. This is an area where additional expansion and integration of the financial management system should be considered.

We recommend the Town pursue expanding the utilization of its financial management system to selected departments and consider implementing payroll and human resource management.

4. Complete a Revenue Manual

As part of our work, we reviewed various receipt collections of certain Town activities, which included reviewing the disposition of the receipt into various Town funds and accounts maintained in the Town’s general ledger. On the whole, we found funds and accounts were established in accordance with the DOR’s Uniform Municipal Accounting System, and where needed were properly authorized either through a provision of MGL or through Town Meeting authorization.

However, we did question the source or basis of some of the amounts being collected which required some follow up by Town personnel. We also noted departments maintain various fee schedules and the procedures required to be followed in setting departmental fees may vary from department to department.

Furthermore, we have noted in recent years, a higher degree of scrutiny being leveled at the charging of municipal fees. To be valid, a fee may be charged to recover the cost of providing a service or benefit, not just to enhance revenues (Emerson College v. Boston, 391 Mass. 415 (1984)) The charging of a fee may occur when the use of a service is by choice, but is not appropriate for general services that are mandatory or supplied to the public at large.
We recommend the Town develop a revenue manual. A revenue manual documents all of the Town's revenue sources and the relevant factors to measure current and future levels of the respective revenues. A revenue manual documents specific information, including, but not limited to:

- Description of each revenue source
- Legal authorization, or any legal limitations to the revenue
- Costing information utilized to develop the charge
- Accounting information, i.e. fund and accounts being credited with the revenue

Once developed, the revenue manual can be updated regularly with actual results, building a trend analysis that can be used as the basis for financial projections.

In addition, we recommend the Town follow up on identifying the basis of two current revenue sources. In our review, we inquired about the source/activity undertaken that generates construction demolition and recyclable rebate fees that are credited to the general fund. We did not receive a complete explanation of this revenue source, or the basis for which these fees are generated and received. (i.e. transactional, contractual, etc.)

5. Continue Effort to Centralize Core Administrative Functions

Over the past several months, it is evident the Town has worked hard to begin centralizing core administrative functions, particularly human resources and purchasing. We recommend the Town continue its efforts in this regard. Further centralizing of these functions will allow the Town to:

- Improve administrative efficiency
- Relieve department heads of administrative burdens, allowing them to focus on their primary responsibility.
- Improve budgetary and financial internal control
- Lessen risk of non-compliance with a growing list of applicable laws and regulations
- Improve financial and other reporting capabilities
- Save money in the long-term

Among the current effort underway to centralize some administrative practices, much of the subject of our review and testing procedures took place or were a by-product of procedures in place previous to the current Town Manager. So to some extent, some of our comments in this regard may already have been considered or are in the process of being implemented. However, as we understand it, historically several administrative functions, particularly, parts of the human resource process, procurement and purchasing process were largely decentralized at the departmental level and were the responsibility of department heads to manage and to ensure compliance with various provisions of laws and regulations.

For example: personnel files; employee benefit records; time reporting records; records on attendance and compensated absences; and employee step and grade determinations are mostly maintained at the departmental level. The standard of maintenance of these various files may vary from department to department and do not follow a standardized form or retention schedule.
Based on their internal data, departments prepared their bi-weekly payroll requests and submitted their payroll to the Treasurers office for processing with little, or no supporting documentation for further verification or review.

Recently, the Town Manager has required the use of “Personnel Action Forms” to document changes in employment status and benefits. This is a positive step to gaining some control, and ability to manage, the human resources of the Town.

With regard to purchasing and procurement, we understand this function has improved and become more centralized recently as well. As indicated in our summary of process and procedures, as of July 1, 2010 the Town now requires the utilization of purchase requisitions and purchase orders for substantially all purchases. In addition, our review of contracts indicates, with some exception, that all contracts are now being authorized by the Town Manager. As we understand it in previous years this was not always the case, which resulted in contracts and/or change orders to contracts being authorized by departmental officials, or items not being properly procured in accordance with MGL.

Centralizing maintenance of contracts and procurement records/documentation, as well as ongoing contract monitoring is another core purchasing function. Based upon our work, it appears the Town now has substantially all contracts and supporting documentation on file in either the accounting or Town Manager’s office.

As part of the process of centralizing human resource and purchasing, additional consideration needs to be given to the current assignment of duties among Town Hall staff. This engagement was not intended to be, and is not, a staffing study. However, it is quite clear that the recent additional requirement of the personnel action form, purchase requisitions and purchase orders has added a significant amount of “new” work to some Town Hall staff. Implementation of additional procedures noted in this report, or elsewhere will only increase that work.

For example, through discussions with the Town Auditor, it is estimated approximately 40% of his time is devoted to purchasing/procurement issues; 20% of his time is devoted to payroll/HR issues, leaving approximately 40% of his time to perform his primary job responsibilities as Town Auditor. As indicated throughout this report, there are several areas where the Town Auditor could be focusing his efforts to better fulfill his primary role and improve the financial operation of the Town.

Clearly, the hiring of a Human Resource Director should relieve the Town Auditor, and others, of some payroll/HR issues that have by necessity fallen to them, while at the same time providing an opportunity to improve efficiency and internal control. Given the significance, complexity and depth of the Town’s purchasing needs, purchasing process, and procurement requirements similar benefits would likely be identified in this area as well and further consideration should be given to further staffing of this function after the Human Resource Director is hired and the reassignment of responsibilities of that function are settled.
B. General Financial Management Comments and Considerations

1. Approach estimates on local receipts more conservatively

In fiscal years 2009 and 2010 the Town had revenue shortfalls on estimated receipts. FY 2010 was particularly difficult with shortfalls experienced in motor vehicle and hotel/motel excise; penalties and interest on taxes; investment income and on departmental charges and fees; as well as state aid, which was expected to some degree. In fiscal year 2009, the Town voted to utilize sewer fund retained earnings that ultimately were not available to fund the budget, resulting in a retained earnings deficit in the sewer fund of $215,309 that was required to be funded by the FY 2010 tax rate.

See appendices for financial review documentation.

Fortunately for the Town, general fund revenue shortfalls in these years were covered by receipt of one-time, non-recurring receipts and by budgetary savings returned on appropriations. Unbudgeted and unexpected receipts of $809,869, $975,600 and $555,975 were received in each of the three previous fiscal years, respectively.

In an environment where budgets are constrained by limited tax levy capacity, it is understandable how officials involved in the budget and tax rate setting process would like to utilize the most optimistic revenue estimates. However, care must be taken to not be too optimistic otherwise the Town runs the risk of having a true revenue deficit that the Commonwealth requires to be funded resulting in structural operating problem in future years.

2. Avoid utilization of non-recurring revenues/sources to fund the operating budget

In our review of the Town’s budget process we noted the Town has been utilizing non-recurring revenues approximating 3.2% of the budget to balance its operating needs over the previous three fiscal years. Utilization of Town reserves to fund operating budgets in lean times is the primary reason to build up financial reserves in the first place, however, after three years of utilizing these reserves the Town runs the risk of these available funds drying up and being unavailable.

The Town still has an ability to make adjustments and utilize alternative funding for some items to improve budget flexibility. For example, we noted the Town typically does not appropriate large amounts from current available resources for departmental capital items and equipment, but rather requests a borrowing authorization to fund the cost of these items and removing their cost from the most immediate budget. Generally, for departmental equipment and smaller capital items, we recommend communities utilize their non-recurring revenue sources to fund those expenses in order to minimize borrowing costs and debt service and to ensure the operating budget does not start to build up a structural deficit.
3. Minimize Enterprise Fund Subsidies

In our review of the Town’s budget, we noted the Town’s enterprise funds are not all self-sufficient. Tax rate subsidies from the general fund totaling $1,283,831 for the sewer enterprise; $14,705 for the golf course enterprise; and $1,747,839 for the ambulance enterprise fund have been paid over the last three years.

In addition, we noted the Town has utilized the provisions of MGL Chapter 59, Section 21C in order move debt service of the water and sewer fund out of the enterprise fund and into the general fund by increasing the Towns property tax levy. These amounts represent additional taxpayer subsidy of enterprise fund operations and amounted to $513,176 in FY 2010; $91,314 in FY 2009 and $258,000 in FY 2008.

Given the Town’s budgetary requirements, declining estimated receipts and state aid and tax levy limitations under Proposition 2 ½ the Town needs to consider the long-term prospect of continuing to subsidize its enterprise funds.

4. Perform formal rate studies to assist in determining utility rate structures

As indicated in the previous comment, the ability of enterprise funds to be self-sufficient would make a significant impact on the general fund budget and the utilization of the Town’s primary revenue source: property taxes. As part of our work we reviewed the process utilized in setting water and sewer rates and noted utility rates are set based upon an informal analysis from the Town Auditor identifying previous year rates and currently expected operating costs. To the knowledge of the DPW Director and Town Auditor, a formal costing or rate study has never been performed.

A formal rate study analyses not only includes current costs, but also capital costs. It also analyses consumption and the various users of the utility, for example high use commercial enterprises vs. low use senior citizens, who are currently offered discounts from current rates. Typically, this data is developed into a tiered rate structure based upon consumption levels and requiring large consumers to pay higher amounts than the typical residential user. A formal rate analysis can also be used to support the propriety and reasonableness of municipal fees in the event they are challenged, especially for being too high.

Given the significance of the water and sewer activities in Town and the amount taxpayers are subsidizing the sewer enterprise we think it is prudent for the Town to have a formal rate study performed that can be used as a baseline on which to make informed decisions and to bolster the credibility of informal analysis that may be used in the future.

5. Evaluate fees and the level of surplus of the Public Health Fund

With regard to the Public Health Enterprise Fund, the Town does not have to worry about taxpayer subsidies. Quite the opposite, in this case the enterprise operation is profitable collecting revenues of $1,195,071; $1,178,645; and $1,159,875 in fiscal years 2010, 2009 and 2008 respectively.
This performance has resulted in operating surplus in each year and the continued use of approximately $375,000 from Retained Earnings to supplement the enterprise operations budget. Retained Earnings of the fund are over $2.5 million representing over 200% of the annual operating expenditures.

Despite the success of the operation, the surplus generated is not available for general use of the Town and must remain in the fund unless a legitimate general fund expense is identified and can be charged to the fund. We understand some consideration has been given to requesting special legislation to utilize a portion of excess Retained Earnings. We recommend the Town monitor the financial performance of this operation and consider its various options in the disposition of excess Retained Earnings.

6. **Adopt position control and include data within annual budget presentation**

Representing 54% of operating department budgets, municipal salaries represent the single largest expense of the Town's budget. However, these salaries represent more than just a number; they represent people who are in place to perform specific functions with regard to the Town's service delivery and administrative goals. Given the funding constraints facing most municipalities, it is logical to apply cost-control or cost-cutting measures to departmental salaries in order to realize any significant reduction to the budget as a whole.

Until recently, the Town's human resource function has been decentralized at the departmental level. Although the Town's payroll clerk could provide a record of current employees and department heads could provide a record of current positions filled, no centralized record existed that identified all positions authorized within municipal government (The School Department does use position control). Although specific requests regarding employees, positions and related salaries could be made, no centralized record existed to associate each identified position with the appropriate collective bargaining unit and the related step and grade, as well as incentives available to the position. Not having this information makes it difficult to monitor payroll expenditures past the supervisory level. It also makes it difficult to forecast payroll expenditures and evaluate budget requests.

In order to provide for stronger internal control; improve the ability of Town officials to monitor, forecast and manage payroll expenses; we recommend the Town adopt a system of position control for Town side employees. Under the current arrangement of using a third party payroll provider, the Town does not have the necessary software in place to adopt an adequate system of position control. However, the Town's current financial management system does offer a payroll and human resource module that could be adopted for use. We also recommend the Town provide for presenting position control information as part of its budget presentation. Typically, we like to see not only the specific positions authorized as part of recommendation and authorization of departmental budgets, but also the change in positions from one year to the next.

Utilization of a position control system helps to centralize payroll and HR data into one system and requires authorized positions to be created within system. Provisions and pay scales of collective bargaining agreements are also entered into the system, and finally each employee is entered into the system and assigned to a specific position; appropriate step and grade and other incentives are assigned.
Typically, position control systems will also provide for tracking FTE’s, funding sources of positions and will monitor whether positions have been frozen or eliminated, are vacant or overfilled, among other data points. Typically position control systems are also integrated with the Town’s payroll and human resource system, allowing one time data entry to process payroll transactions and maintain time and attendance records.

In addition to the centralized ease of administering payroll and human resource information, position control systems are also very useful in forecasting remaining payroll expenditures, and projecting “what if” scenarios. Furthermore, it provides managers and policy makers with the additional oversight needed to ensure salary appropriations are spent in accordance with the intent of Town Meeting and not simply reallocated for other uses by department heads once received.

With the hiring of a Human Resource Director, we believe implementing a position control system is one of the key areas where a significant difference can be made. However, implementation should be carefully planned and integrated with considerations indicated elsewhere in this report. As commented elsewhere, the Town is using disparate systems of payroll processing. Adopting position control and integrating with the payroll process to improve efficiencies typically makes a lot of sense, but will likely require a change in the current payroll processing procedure.

7. Consider Allocation of indirect costs and employee benefits to Grants and Special Revenue Funds

In our review of Town financial operations, we noted the Town has well documented its methodology of allocating costs to its enterprise funds. However, with the exception of the School Lunch Revolving Fund (which has received a flat cost allocation of $124,000 in each of the last several years) the Town has not allocated costs attributable to revolving funds and grants (where reimbursable).

For example, salaries funded by grant revenues or revolving fund activities could be charged for the allocation of the related fringe benefits: activities that utilize facilities could be allocated a portion of the expenses for maintaining the facilities, i.e. building use, athletic revolving funds, etc.

We recommend the Town review its opportunities to reimburse the general fund for costs incurred on behalf of non-general fund activities.

8. Institute long-term planning to address Other Post Employment Benefit Costs

In issuing the Town’s fiscal year 2009 financial statements, the Town was required to implement the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, which require the Town to now report in its financial statements the actuarially determined liability for Other Post Employment Benefits (OPEB), essentially the Town’s obligation to provide health insurance in the future to its retiree’s.

The Town hired an actuary to perform the required study and received its report dated September 29, 2010. The report estimates the Town’s “Actuarial Accrued Liability” of its OPEB obligations as of January 1, 2009 to be $117,348,576.
It is important to note, there is no requirement to begin funding OPEB other than paying the costs of retiree health insurance on a pay-as-you go basis. However, given the size of the liability being recognized by governments across the country municipalities and labor unions have begun long-term planning to address these future and current needs.

The actuarial report provides the Town with recommendations and comments. We concur with the actuaries suggestions and also recommend the Town move forward with a planning group to review and consider the relevant financial and benefit issues being raised, not only for your retiree’s but also for active employees. Areas for considerations noted in the actuarial report include reviewing:

- Funding Policy
- Plan Design
- Contribution Levels
- Eligibility
- Maintenance of Data

9. Consider Health Insurance Options, Annually

One of the Town’s largest operating expenditures is the cost of employee benefits, representing approximately 15% of the Town’s budget. Given the size of this annual expenditure, it is continuously examined as part of the budget process. Currently, the Town offers its health insurance benefit to employees on a self-insured basis and maintains a separate fund to account for amounts contributed by both the Town and employees and to account for claims and other expenses associated with the activity. Based upon our discussions with the Town Treasurer and our review of the Town’s health insurance rates and status of the trust fund, it appears the Town has done well.

We understand the Town in the last couple of years considered an option to join the Commonwealth’s Group Insurance Commission and we understand Town officials are currently reviewing the roster of benefits being provided its employees. Given the number of changes emerging with regard to group health insurance we recommend the Town annually consider its options. In addition to the GIC, the Town also has opportunities to join regional joint purchase groups, purchase premium based plans, as well as remaining self-insured. Each option has its own set of positive and negative attributes, but also represents an opportunity to facilitate changes that may be desired by both employee’s and the Town.

10. Consolidation of Town Services

Although a thorough examination and development of data to provide recommendations and conclusions relative to the consolidation of Town services is beyond the scope of our engagement. As part of our work we did inquire with Town officials and staff regarding steps that may have already been taken in this regard; or that may be suggested. For example, we have noted the Town and School departments have already begun sharing IT services.
Discussion of consolidation of services, and more recently, regionalization, has been a growing trend, particularly in communities hardest hit in the current economic downturn, and at a state-wide level. Some common examples of consolidation of services among Town departments include:

- Consolidated Information Technology functions
- Consolidated Public Facilities
- Consolidated Human Resources
- Consolidated Finance Office

Additionally, the Commonwealth has been actively trying to identify areas/services where regionalization makes sense. The Regionalization Advisory Commission, formed specifically to address regionalization issues, issued a report dated April 30, 2010 commenting on the current status of regionalization efforts and identifications where perhaps progress could be made.

In any event, consolidation of services and/or regionalization of services require careful long-term planning and analysis, which should not be taken lightly. Coordination and agreement among multiple, sometimes competing interests, is required. Based upon our discussions with municipal officials and our observations, the Town of Stoughton needs to develop a shared sense of commitment and vision regarding the benefits of consolidating and/or regionalizing services, among its various stakeholders before exploration of these possibilities are brought to the table.

As a long-term recommendation, we recommend the Town work on developing areas where improved services can be realized through consolidation and/or regionalization. If not already read, we recommend Town officials become familiar with the Report of the Regionalization Advisory Commission, dated April 30, 2010.

C. Results of Tests of Procedures (Appendix B for Tables)

1. Summary of Procedures and Results of Payroll Test of Attributes

a. As a result of our procedures, we noted that as of October 1, 2009, the vendor providing dental insurance to enrolled employees had been charging the Town premiums in excess of the contractual amount and thus, in excess of the amount being withheld from employee’s wages. Furthermore, we noted (2) employees for which documented enrollments were different than enrollments being billed.

Our initial estimate of the potential excess for the entire year could be as much as $20,000. We have been informed that the Town is in communication with the vendor to calculate the actual excessive billing for the year in order to receive a refund accordingly.
We recommend the Town review its policies and procedures to insure reconciliations of all health and dental invoices are reviewed not only for proper enrollment "head counts", but also premiums being charged. We recommend the Town Treasurer and Town Auditor reconcile any balances in withholding accounts on a monthly basis.

b. Of the (40) samples of Town personnel selected, we noted the newly implemented Personnel Action Form had yet to be approved by the Town Auditor, Town Treasurer, and Town Manager. Town personnel indicated the approval process for these forms is currently proceeding.

We noted of the (10) DPW employees selected for testing, actual timecards documenting the hours and areas of work as documented on the approved payroll voucher were not maintained. Per our discussion with town personnel, these timecards are disposed of once the payroll voucher has been prepared.

We recommend all timecards be signed by the employees, approved by a supervisor, and be maintained on file. We understand, going forward, Personnel Action Forms will be required to be approved prior to changes being implemented.

c. Of the (10) DPW employees tested, we noted (5) employees for which overtime hours as indicated on the payroll voucher were supported only by manually written notes indicating the employee’s name and total hours.

We recommend more formalized documentation be maintained to support hours worked, and that this documentation be signed by the employee, foreman, or supervisor as appropriate. All such documentation should be maintained on file.

d. Of the (10) DPW employees tested, we noted (1) employee for which their “out of grade” pay was documented solely by a handwritten note.

We recommend more formalized documentation be maintained indicating the day/shift etc, and which is signed by the employee and appropriate supervisory personnel.

e. Of the (10) DPW employees tested, we noted (1) seasonal employee for which the Personnel Action Form and appointment letter on file indicated the hourly wage to be paid as $10/hr; yet for the period tested the individual was paid an hourly rate of $15.90. Per discussion with town personnel, the employee worked on trash pickup, and was paid the same hourly wage that other seasonal employees are paid for trash pickup. Personnel indicated due to the uncertainty in seasonal help scheduling individuals are moved between jobs as necessary.

We recommend the Town establish a consistent policy/procedure be established that indicates for seasonal personnel a new Personnel Action Form be completed for each new position, or include appropriate language within appointment letters, with Town approval, for any "out of grade" changes at the department head’s discretion. All such changes and reason should be clearly and formally documented.
f. For the (10) Library employees tested, we noted the Library payroll voucher is signed solely by the Library Director. During our procedures, we noted the Board of Library Trustees is signing the vendor expense vouchers for the Library. MGL Chapter 41, Section 41, "payment of compensation, oath" indicates that approval by a "commission, committee, or board of trustees may for the purposes of this section designate (1) individual member to make oath to a payroll." We recommend the town evaluate its compliance accordingly.

g. Of the (10) Library employees tested, we noted (2) hourly/part-time employees for which the subsequent payroll had to be adjusted for "scheduled hours" initially paid for which they ultimately did not work.

While we noted the correction was accounted for, we recommend the Town evaluate the use of a pay period requiring employees to estimate hours.

h. Of the (10) Police department employees selected for testing, we noted (1) employee tested was paid for "court time" incurred in the Stoughton court. Currently, the slip completed by the prosecutor in the court to document the time the officer worked is not signed. A more formalized slip is utilized for court time at the Dedham courts, requiring a signature.

We recommend consistency in documentation, requiring clear documentation of hours worked and signature of the prosecutor.

i. Of the (10) Police department employees tested, we noted (2) employees for which the documented education incentive on the Personnel Action Form on file with the Town Auditor's office had not been updated to correspond with the personnel documentation approved by the Chief at the police station. We were informed an updated form was being furnised.

j. Of the (10) school department employees tested, we noted (1) employee for which authorization for the rate being charged could not be traced to a signed contract or Superintendent authorization. This employees rate however, was traced to a School Committee authorized rate for non-union employees.

2. Summary of Procedure and Results of Contract Review

The following summarizes the results of the (13) Town and (7) school contracts selected for review:

a. In accordance with MGL Chapter 41, Section 57, "the Town Accountant shall have custody of all contracts of the Town". We noted school contract and bidding information is maintained at the school department. In addition, we remind Town personnel that grant awards and contracts also fall under this requirement.
b. We noted (4) of the procurement files were incomplete for all required documentation (i.e. copy of advertisement, copy bid package, copy of award letter, list of bidders and copy of acknowledgment from the Secretary of State of posting in the Goods and Services Bulletin if over $100,000. (2) of the selections contained only a copy of the advertisement. (1) of the selections had only the advertisement and the award letter. (1) of the selections had none of these documents within the file.

Additional information needed to complete these files may have been available at the departmental level.

c. Of the (5) contracts selected for which prevailing wage requirements were applicable, (1) contract had detail payroll registers submitted along with the invoice to allow monitoring for prevailing wage requirements.

d. We noted (1) instance in which the purchase order (PO) was issued after the invoice date. The invoice was dated 3/8/2010 and the PO was dated 6/22/2010.

e. We noted (1) instance in which the actual posting of the expenditures did not agree to the accounts as indicated on the bills payable schedule.

f. We noted (1) instance in which the Town Auditor did not approve the PO/warrant. The expenditure was subsequently approved by the Board of Selectmen for payment.

3. Summary of Procedure and Results of Vendor Invoice Test of Attributes

a. Of our sample of (50) invoices selected for testing, we noted (1) invoice which was not made from an original invoice.

One exception in this sample size does not indicate this is prevalent issue, but generally we recommend all payments should be made from original invoices. In the event of an original invoice has been misplaced, or lost, we recommend the reason for a copy be “attested to” by the appropriate department head.
D. Departmental/Functional Comments and Considerations

1. Student Activity Funds are not administered in accordance with MGL.

   During our review we noted student activity accounts are not recorded or maintained on the Town’s general ledger and that the Student Activity Agency Account is not under control of the Town Treasurer. MGL is relatively clear as to the requirements for maintaining student activity funds, in addition MGL allows for the Treasurer and Town Auditor to provide administrative procedures related to Student Activity Funds.

   We recommend the Town Treasurer, Accountant and School Department work together to ensure the Student Activity Funds are accounted for and operated as provided under MGL.

2. Not all Bank accounts in custody of Town Treasurer

   During our review, we learned the Treasurer is aware of some bank accounts, primarily scholarship accounts that are established with the Town’s tax identification number, but are not under the custody of the Town Treasurer.

   We recommend the Treasurer work with the owners of these accounts to bring the accounts under the custody and oversight of the Treasurer, close the accounts, or move them to the control of a more appropriate entity.

3. Custody of Blank Check Stock and Signing of Vendor Checks

   During our walk through of procedures and internal control evaluations, we noted the Town uses blank check stock, which is maintained by both the Town Auditor and School Financial Coordinator. Both the Town Auditor and School Financial Coordinator print vendor checks and have the ability to electronically apply the Treasurers signature.

   Under the normal process used by the Town, vendor checks are printed and signed as part of processing the warrant by the Auditor and Financial Coordinator and then delivered to the Treasurer for disbursement (generally via mail) once the warrant is approved. Although, we did not note any current problematic transactions, and we certainly understand the practical reasons for the current process, the ability for the Auditor and Financial Coordinator to apply the Treasurers signature and essentially sign checks, while at the same time having the ability to post to the general ledger is an example of “incompatible duties” and an internal control weakness the Town may want to consider changing.

   We recommend the Town Treasure secure his signature and restrict the ability for others to use it to authorize transactions. Furthermore, we recommend the Town review its accounts payable process and consider shifting some of the duties so a proper segregation of duties is maintained.

   Another way to approach this issue is for the Treasurer to maintain custody of the check stock, and to maintain a log of pre-numbered checks issued to each department to ensure no unauthorized checks were issued.
4. Secure Treasurer’s signature stamp

As we understand it, the Treasurer maintains a signature stamp in the vault. The stamp is accessible to Treasury employees, as is a checkbook of manual checks.

We recommend the Town Treasurer secure his signature stamp in order to minimize the possibility of its unauthorized use.

5. Payment of certain obligations prior to approval of expenditure warrant

As part of our review we noted the Treasurer sometimes executes electronic payment of certain Town expenses, such as debt service payments and payroll tax obligations, prior to being officially authorized on an approved warrant. Under the current procedure, the Board of Selectmen are required to approve each expenditure warrant, however, sometimes these payments come due before the opportunity for the Selectmen’s meeting occurs.

Nevertheless, we recommend the Treasurer not issue payment until an expenditure warrant has been fully authorized and approved. This may require some advance planning to ensure expenditures are properly authorized before due, or sometimes may require the warrant be authorized prior to the meeting occurring.

6. Utilize pre-numbered or system generated receipts to acknowledge and verify over the counter cash transactions of Collectors Office

As part of our review of the Collectors office procedures we noted Town personnel typically do not provide a receipt to taxpayers who pay their tax bills over the counter. Generally, the office staff date stamp the taxpayers copy of the tax bill as paid. While this does provide the taxpayer with a receipt, it does not provide a record for the Collectors office in which to verify against the cash drawer at the end of each day.

Internal control would be improved if pre-numbered or system generated receipts could be issued that could be used to verify all payments have been deposited into the cash drawer. The risk of not using an accountable method of receipt is that cash payments are diverted and not identified as part of the daily close out procedure. We recommend the Collector’s office use either a pre-numbered or system generated receipt to acknowledge cash payments. The Collector’s copy of the receipts should be verified to the cash drawer at the end of each day and the documentation maintained as part of the offices daily cash work.

7. Provide for a formal reconciliation of amounts assessed for Retired Municipal Teachers

During our financial review, we noted the Town is assessed, directly through the cherry sheet, for retired municipal teacher’s health insurance. This assessment was $2,032,067, for fiscal year 2010. Based on our inquiries with finance personnel, we noted Town staff has not reviewed the basis, or calculation of this assessment for accuracy.
It has been our experience that from time to time amounts reported on the cherry sheet (for either receipts or assessments) could be miscalculated or other errors made. We recommend Town personnel review the calculation of the retired teacher’s insurance assessment, as well as other cherry sheet items, to ensure their accuracy.

8. Conduct an enrollment audit of Health Plan participants

In our review of Town procedures over employee benefits, in particular health insurance, we noted the Town has not conducted an enrollment audit of participants in its plan. Although, Town staff do review the enrollment listings each month to determine the employee/participants in the plan; these procedures do not give consideration to more stringent criteria to eligibility that would be considered under an enrollment audit. In addition, generally the review of enrollment and participant records by the Town staff have more to do with ensuring the proper amounts have been contributed by the employee, and not the eligibility of participants, particularly dependents.

The benefit of an enrollment audit is not only that it may save the Town the cost ineligible monthly premiums, but potentially significant claims costs. We are aware of a local case in which a self-insured Town unknowingly provided coverage to an ineligible dependent of a Town employee. This participant in the Town’s plan incurred significant medical claims in which the Town believed would be reimbursed under the Town’s stop-loss insurance. However, the reinsurace provider reviewed the claims and refused to reimburse the Town due to the participant being ineligible to have received coverage.

Given the new eligibility requirements of recent federal legislation now would be an opportune time to undertake such an evaluation. We recommend the Town provide for an enrollment/eligibility audit of its health insurance plan participants. Generally, these can be performed for relatively small amounts or even on a contingency basis, and can be charged as an expense of the claims trust fund.

9. Reconcile withholding accounts

During our procedures and internal control review, we noted the Town Treasurer and Auditor do not reconcile amounts reported on the general ledger in withholding accounts on a monthly basis. Withholding accounts record amounts received from employees, retirees and others and are being held as an agent for future transmittal to a third party. Withholding accounts include items such as payroll tax withholdings, employee share of health insurance expense, union dues and other employee benefits.

In theory, withholding accounts should always be able to be reconciled to a zero balance because amounts that come into the account should always be subsequently paid to the third party. However, at any given time, such as at month end, there will be a balance in the account because of timing differences of when amounts are received to when they were paid. Amounts may also be recorded to withholding accounts in error, which is why we recommend these accounts be reconciled. For example, reconciling of the Dental withholding account should have indicated amounts being contributed by employees was not covering the cost being charged by the dental plan administrator.
In order to improve internal control and identify potential errors sooner, we recommend the Treasurer and Auditor work together to reconcile withholding accounts to zero at the end of each month.

10. Segregate duties and invoice over the counter payees of health insurance benefits

During our review of Treasury procedures, we noted the same person in the office is responsible for collecting payments from retirees (not all retirees, only a few self-pay retirees) and COBRA participants as well as responsible for reviewing the monthly participant listing and the payment to the health claims fund. We also noted self-pay retirees and COBRA participants do not receive a bill from the Town for their share of the health insurance costs.

We recommend the Town provide for a mechanism to generate a monthly invoice to health insurance self-payers. This provides a documented method for keeping track of billing/payment issues and improves internal control. Furthermore, we recommend the Treasurer separate the collection function of self-payers from the billing and monthly review of eligible participants.

11. Maintain an ongoing cash flow projection

During our financial review and discussions with Town officials we understand in recent years cash flow has been tight at times. This has resulted in the Town borrowing in anticipation of revenue in order to bolster cash reserves. Although interest rates are currently very low, these borrowings do cost the Town money. Additionally, we understand there is no formal cash flow projection maintained by the Town Treasurer.

We recommend the Town Treasurer maintain a cash flow projection to aid in managing cash deposits and identifying times when excess funds may be available for deposit or conversely, required to meet periods of reduced receipts.

12. Consider quarterly tax billing to improve cash flow

Currently the Town bills its taxpayers semi-annually, which generally is administratively easier than issuing tax bills four times per year. However, given the recent requirement to borrow in anticipation of revenue, perhaps consideration to quarterly tax billing is in order.

We recommend the Town further evaluate the merits of quarterly tax billing, which should take into account the results of a formal cash flow projection (recommended previously).

13. Perform reconciliation of outstanding balances maintained by the Deputy Collector

During our internal control review we noted the Town relies on an outside ‘Deputy Tax Collector’ to collect delinquent motor vehicle excise bills. Utilizing an outside Deputy Tax Collector is a common practice, however these activities do need to be monitored and reconciliation of outstanding lists between the Deputy and the Tax Collector is a key internal control in this monitoring process.

We recommend the Tax Collector provide for periodic reconciliation of outstanding receivable balances held by the Deputy, to the outstanding balances maintained by the Tax Collectors office.
14. Maintain documentation of property tax bill verification and issuance

Currently, the Town utilizes the services of a third party provider to generate real estate and personal property tax bills. With the printing and mailing of the bills the Town does receive documentation on proof of mailing (key information which needs to be maintained on file as it serves as the start point for collection procedures). Town personnel also perform procedures to verify the proper amounts were committed and all the bills were printed and mailed, however a hard copy of this documentation isn’t maintained.

We recommend the Town maintain a record of its property tax bill commitment verification, along with its proof of mailing in the event legal challenges relative to collection procedures were ever to arise.

15. Continue efforts to implement on-line and/or credit card payment for payment of town taxes and fees

Currently the Town does not offer taxpayers the ability to make payments on-line via the Town’s website nor pay by credit card. These payment options have been useful to other Towns to increase collections and ease the administrative requirements associated with processing payments over the counter or mail.

We recommend the Town support and continue the current efforts underway to implement these payment options.

16. Give further evaluation to centralizing payment of Town fees in the Collectors office

To minimize internal control issues over cash receipts, improve cash flow and monitor requirements that recipients of certain permits and licenses have paid all taxes, some Town’s have moved towards centralizing the payment of all Town fees to the Town Collectors office, as opposed to individual departments.

In conjunction with evaluating our recommendation at section IVA 3 concerning recording of cash receipts, we recommend the Town also consider this comment as a possible alternative.

17. Consider realignment of payroll periods

As part of our payroll/human resource review we noted the Town’s current pay cycle runs through Friday (or Saturday), however departmental payrolls are submitted on the previous Wednesday, requiring employees and/or department heads to estimate hours or classification (vacation, sick leave, holiday, etc.) of time worked. Pay checks are paid the subsequent Thursday. MGL Ch. 41, S. 56, provides that services must actually be rendered to, or for, the Town before payment can be made. While not being paid early, employee timesheets are completed, approved and submitted before the week is complete. This frequently requires adjustments be made in future pay periods to correct the estimates made that turn out to be incorrect.
We recommend the Town work towards aligning pay periods to a bi-weekly basis that has subsequent reporting and payment dates. Furthermore, we recommend the Town maintain a split-payroll at year-end where the pay period that crosses between fiscal years is properly allocated between the two fiscal years, thereby eliminating the issue of additional pay dates within a fiscal year that periodically occur.

18. Centralize employee personnel files

As noted in our review of procedures in Part II, interviews with Town personnel and tests of payroll transactions we consistently noted the decentralized nature of employee personnel files.

We recommend the Town begin to centralize employee files under the direction of the Town Manager and the new Human Resource Director. These files should be maintained in a standard methodology. In addition to employee wage and benefit documentation, complete files will include copies of position advertisements; job descriptions; resume’s and applications, all PAF’s, COR1 and reference checks; employee acknowledgments of Town policies; documentation on employee reviews, commendations and reprimands; resignation/termination letters and agreements; as well as any other required communications.

19. Utilize one method of administering Town-wide payroll

As noted in our review of procedures and in our comment at Part IV. A.2 the Town utilizes two separate payroll systems. The Treasurer uses a third-party provider to process payroll, while the school processes its own payroll in-house. One of the key advantages of using a third party provider is transferring of the administrative liability for preparing and filing payroll tax returns and filings. This advantage is eliminated and complicated because the Treasurer’s office has to manually prepare these filings by combining the school data with town data.

We recommend the Town and School further pursue implementing a common methodology for processing payroll. Both alternatives currently in place; outsourcing vs. in-house processing have their advantages and disadvantages. With the introduction of a Human Resource Director, change in HR and payroll procedure, and implementation of some of our other recommendations with regard to payroll and human resources, we suspect Town officials will find now is an opportune time to re-evaluate, consolidate and streamline this function, no matter which method of processing payroll is used going forward.

20. Consider “incompatible duties” with respect to the input of wage data by Payroll Clerk

Currently, the payroll clerk is responsible for setting up employee records, including wage rate and benefits. The input is now documented via the personnel action form, but is otherwise not reviewed by supervisory personnel. The payroll clerk is also primarily responsible for preparing the payroll and submitting it to the payroll service, as well as interacting with department heads and employees on questions.

In an ideal environment, the person responsible for preparing the payroll and for responding to payroll questions would not also be the person responsible for accessing each employee record to update or otherwise change wage and benefit information.
Rather, the payroll clerk position is better suited to a review and verification function and does not have the ability to change rates or benefits directly.

We recommend the Town consider segregating these payroll duties and have employee wage and benefit records updated and changed by the Human Resources function and subsequently reviewed and verified by the payroll clerk in the processing of the payroll.

21. Maintenance of time and attendance records and tracking and reporting of compensated absences

Historically, each department was responsible for maintaining supporting documentation, i.e.: time records to support payroll being charged. Time and attendance records are maintained to different standards from department to department. In addition, each department keeps track of compensated absences of employees using varying methods. Recently, the Town Manager has required summarized time and attendance records to be submitted to the Town Manager’s office, as well as compensated absence information.

We recommend the Town improve its maintenance of time and attendance records, specifically we recommend all department payroll submissions be accompanied by the supporting time record to the Human Resources Director and payroll clerk, who can properly summarize the data and maintain the source documents. Furthermore, we recommend time and attendance records be communicated using a standard format Town-wide, and not be determined on a department to department basis.

We recommend the Town centralize its monitoring, tracking and reporting of compensated absence information. Preferably, the accrual, use and balance of vacation, sick and personal leave, etc would be processed as part of the payroll preparation and be communicated directly to each employee on their pay stubs.

As an alternative, in lieu of including compensated absence information on pay stubs, we recommend the Town centralize the departmental reporting, monitoring and tracking of compensated absences with the Human Resource Director. This data should be collected each pay period and reports of unused compensated absences provided to department heads, employees, and others on a periodic basis (i.e. quarterly) for review. Once implemented the Town should adopt a policy with regard to the amount of time an employee has to contest the balances being reported by the town.

Monitoring of the use and accumulation of compensated absences to each employees respective collective bargaining agreement should also periodically occur.

22. Review administration of worker’s compensation, disability and unemployment claims

We understand the Town manages a self funded worker’s compensation fund. For the last three years this fund has been level funded at $100,000 per year. We noted the Town budgets this appropriation in its general fund and does not allocate this expense to enterprise funds, or to the School Department.
Instead of budgeting workers compensation costs on the basis of past budgets, we recommend the Town work with its administrator to develop an appropriate funding rate to cover expected worker’s compensation claims each fiscal year. The Town can allocate the cost of funding workers compensation to enterprise funds and/or departments based on employment of the respective departments.

With the hiring of a Human Resource Director, this also represents an opportunity to further centralize employment records with regard to worker’s compensation, disability (including 111f cases) and unemployment claims.

23. Employee Reimbursement of Expenses

As part of our work, we reviewed the Town’s procedures with regard to employee reimbursement of expenses. For the most part, we found reimbursement of costs was provided in accordance with the various collective bargaining agreements and in accordance with IRS regulations.

We did note one exception. We understand DPW employees are reimbursed for certain expenses under a “non-accountable” plan. This means the employees are reimbursed without having to provide evidence, i.e. receipts of items purchased that at least total the amount of the reimbursement. This type of arrangement is permissible; however, IRS regulations require reimbursements under non-accountable plans to be added to employees compensation reported on form W-2 at year-end.

We recommend the Town add reimbursements under all non-accountable benefits to the respective employees W-2’s in accordance with IRS regulations.

In addition, we understand the Town provides several employees with cell phones. The policies and regulations in effect regarding the use and reimbursement of Town provided cell phones were not clear to our staff. We recommend the Town follow up on the applicable policies in use and the applicable IRS regulations.

24. Policy needed on participation of Town employees in “outside activities”

As part of our review of Library procedures, we noted the Library supports fund raising activities of the “Friends of the Library”. This is not unusual in municipal settings, and it is likely other “Friends of” groups exist in Town of which we were not made aware. However, it is important for the Town to have clear policies in place regarding employee participation in “outside activities” that could affect their work for the Town, particularly with “Friends of” groups.

In the case of the Library, as was explained to us, the Friends of the Library maintain a bank account in the social security number of the President and the Library Director is a signer on the account. The Friends of the Library also sell fundraising items at the library, such as T-Shirts, bike locks, head phones, etc. As we understand it, these items are purchased by the Friends of the Library, with their own funds.
The sale transactions, however, are completed by library staff and payments are processed through the library cash register like any other cash receipt of the library, although these sales are separately tracked by a department code programmed into the cash register. To the extent the daily cash is ever over or short the variance is either accounted for utilizing the monies from the Friends of the Library.

While we certainly understand the importance of community involvement and the support these types of groups provide to municipalities, we also believe it is important to have established policies and procedures in order to not only protect the Town and its taxpayers, but also employees who generally are just trying to do their best for the Town. We recommend the Town adopt and implement policies regarding employee participation in outside activities. Such policies should address and include, but not be limited to:

- participation during working hours;
- access to financial accounts
- solicitation of revenue and/or donations whether directed to the Town or private group
- provisions of conflict of interest statutes
- approvals required to undertake non-municipal activity on or in Town property
- Identification of tax-status of the supporting organization

25. Approval of motor vehicle excise abatements

In our review of the Assessor’s office we noted Assessing staff process applications for abatement of motor vehicle excise over the counter. Under MGL, the Board of Assessors is required to authorize and approve abatement requests. Currently, assessing staff use signature stamps of the Board of Assessors members and affix their signature to abatement applications.

We recommend abatements be approved by the Board of Assessor prior to issuance. Furthermore, we recommend the Assessors sign, either in summary total or individual abatement applications and not provide signature stamps to office staff for this, or any other matter that requires the attestation or authorization of the Board.

26. Maintenance of Police Detail Receivable Records

Currently, the Police Department uses a software program to create invoices for billing of police details. As we understand it, the software is capable of recording receipts and maintaining balances for vendor accounts, however that is not currently done as part of the detail billing and collection process. At any particular point in time there are outstanding detail invoices that are due to the Town.

We recommend the Police Department utilize their billing program to maintain a complete record of billings, payments and outstanding balances for each detail. We recommend billing, receipt and balance information be communicated to the accounting office and outstanding balances be reported on the Town’s general ledger and reconciled to the Police Departments record on a monthly basis.
27. Maintenance of vehicle violation receivable records

The Police Department utilizes a third party provider to process motor vehicle violations and receipt of payments. The Town's general ledger records the receipt of payments, but does not record violations issued or the outstanding balance.

We recommend the Police Department communicate all changes in motor vehicle violations to the accounting office, i.e. violations issued; payments; abatements and/or other changes, as well as outstanding balances at the end of each month. We recommend this information be recorded in the Town's ledger and outstanding balances be reconciled to reports of the third party provider on a monthly basis.

28. Improve Library daily cash out procedures

As part of our review of Library activities we noted internal control could be improved by making small changes to the daily "cash out" procedure. We recommend the Library consider:

- Requiring monies in the register be counted at the end of each day (as opposed to waiting) and attested to on the daily cash sheet.
- Having someone not involved in the sales transactions close out the register and run the "Z tape" at the end of each day.
- Maintaining all daily cash sheets on file and attaching each daily Z tape and cash sheet to the departmental turnover.
- Accounting for all cash register activity (i.e. friend receipts), including overages and shortages on cash sheets and turnovers to improve transparency.

29. Review of golf course procedures

As part of our work we performed a review of procedures in place at the Cedar Hill Golf Course, as well as meeting with golf course staff. We understand the course has some longstanding practices, however the operation of the course, policies, procedures and associated duties of the staff have not been documented. We also noted the golf course has several transaction points including golf cart rentals; league play; greens fees of differing types; and various merchandise sales. In addition, we noted the golf course does receive periodic reporting from the Town Auditor with regard to budgeted expenditures, but does not usually receive reports on revenue or overall financial position.

We recommend the golf course document its policies and procedures regarding the operation of the course as well as staff roles and responsibilities. Consideration should also be given to improving internal control over cash receipts and sales. Where possible all sales should be accompanied by a receipt (preferably pre-numbered or register generated). Payments for events or league play should be documented and reconciled to formal rosters.

With regard to cash procedures, we recommend the golf course consider utilizing separate cash register codes for each type of sales transaction, i.e. greens fees, merchandise sales, etc. As we understand it, the golf course only began to pay sales tax during 2010 on taxable sales, the ability to identify total sales, by type is important in order to properly report on sales tax collections as well as an improvement to financial reporting and internal control.
We recommend course personnel cash-out at shift change and at the end of the day, utilizing a documented process that would include preparation of turnovers, identification of cash vs. credit card payments, reconciliation of turnovers to cash register tapes and identification of personnel completing the work.

With regard to financial reporting, we recommend the course adopt more detailed accounting practices and chart of accounts (in consultation with Town Auditor) in order to receive periodic, detailed reports on revenues and expenditures from which it can measure performance and financial position. This will require the course to provide more detailed receipt turnovers, which it should keep on file, in order to verify the results received from the Town Auditor periodically.

Finally, we recommend the golf course maintain a perpetual inventory of merchandise and report these amounts, monthly to the Town Auditor for inclusion in the general ledger.

30. Charging of Town for Water/Sewer Service

In our review of municipal expenditures we noted the Town pays usage charges related to the water/sewer enterprise funds. The Department of Revenue's position is that it is not appropriate for an enterprise fund to charge another town department usage charges because enterprise funds are not separate legal entities. It is appropriate to consider municipal usage as part of the rate setting and budget process.

We recommend the Town review its billing practices with regard to municipal operations and modify its budget practices accordingly.

31. Authorization and maintenance of contracts and grants

Based on procedures now in place, it appears the authorization of municipal contracts has improved dramatically in the last several months. However, in our conversations with Town personnel we noted historically the authorization of contracts and change orders was a decentralized process. Additionally, it appears the Town Auditor now has access to most contracts, when previously this was not always the case.

We recommend the Town continue its efforts in authorizing vendor contracts, and change orders thereto, through the Chief Procurement Officer. We also note that grant awards often come with certain obligations and are also contracts that should be authorized by the properly designated municipal official and provided to the Town Auditor.

32. Filing of CPO designation/delegations with Inspector Generals Office

As we understand it the Town Manager is the designated Chief Procurement Officer of the Town. In addition, we understand this authority has also been delegated to the School Superintendent for school department purchase. MGL Chapter 30B requires the designation of municipal officials as Chief Procurement Officer, and any subsequent delegations of that authority to be documented locally, and also submitted to the Inspector General’s office.
Although these designations are apparent locally, we were informed that these designations have not been filed with the IG’s office. We recommend the Town ensure documentation of its CPO designations is properly maintained locally and with the Inspector General, as required under MGL Chapter 30B.

33. Monitoring of TIF receivables and activity

As part of our work reviewing TIF agreements and processing of TIF transactions we noted areas where improvements could be made.

Currently, the Assessor is responsible for maintaining the agreements and for annually calculating the amount to be billed to the holder of record. These billings are approved by the Town Manager, who then issues the bill. Amounts paid under these TIF agreements are processed through the Town Collector, although the Collector does not maintain any record of outstanding receivables and simply receives the cash without regard to the total amount that may be due and payable. Likewise, the Town Accountant only records the receipts as provided by the Town Collector and does not maintain a receivable account to report any outstanding balances still due.

The Town has a Special Revenue Fund, created under special legislation, in which TIF payments are recorded. However, we were told the payments related to one of the TIF agreements are credited to the General Fund, although we could not find the provision supporting this assertion. Documentation of these arrangements in a Revenue Manual, as recommended earlier, would better document these assertions.

Furthermore, in conversations with the Assessor, we understand there has been a question raised on the ability to transfer the provision of the TIF agreement to subsequent owners of the property. As we understand it DOR guidelines require TIF agreements to contain such a provision (See IGR No. 94-201). However our cursory review of TIF documents did not identify the provision in the agreements reviewed.

In addition, in reviewing TIF agreements, we noted there are some conditions in the agreements that would require some degree of monitoring or verification (i.e. garaging of vehicles used at facility in Town to be subject to motor vehicle excise), as well as some required reporting of behalf of the TIF recipient (i.e. annual reports describing job creation, job retention, local tax impacts and new investments, etc.). We were not made aware of any monitoring or subsequent recipient reporting that may have taken place.

We recommend the Town provide for a billing and collection process that ensures all TIF agreements have been properly billed and amounts due collected. Outstanding amounts should be maintained by the Town Collector and reported by the Town Auditor on the general ledger. To begin this process, a review of TIF amounts billed and received for each agreement from inception may need to occur.
We recommend the Town document and/or confer with Town Counsel, if necessary regarding the question on the ability to transfer agreements to subsequent owners. Finally, we recommend the Town verify any additional benefits available to the Town through these agreements are being provided and establish some mechanism for monitoring these benefits and the required financial reporting from the recipients.

34. Consider pursuing PILOT agreements with non-taxable entities

As indicated in our review of the Town’s taxable property, the Town does have a moderate amount of exempt property in its tax base (nearly 7%). As we understand it, the Town currently has one payment in lieu of taxes (PILOT) agreement in effect with the Stoughton Housing Authority. Perhaps a review of utilization and occupancy of exempt property would identify uses that may justify the Town approaching the exempt property owners about entering into a PILOT agreement.

We recommend the Town review the utilization and occupancy of exempt property and determine if it would be worth pursuing PILOT agreements with these property owners.

35. Consider Red Flag and Data Security Requirements

The Federal Trade Commission (FTC) issued new “Red Flag” rules that apply to municipalities that have utility accounts such as water, sewer or electricity. These rules may also apply to the Town’s self-insured health insurance fund. Currently, these requirements are effective January 1, 2011 and affected organizations have until then to develop written programs to identify, detect, and respond to patterns, practices, or specific activities (referred to as red flags) that could indicate identity theft. Examples of red flags include alert notifications, or warning from consumer reporting agencies, forged or inconsistent customer identifying information, as well as others that are described in the FTC rules.

We recommend the Town review the FTC regulations and establish the required documentation in order to be compliant with these new requirements.

36. Energy Cost Management

In our review of Town expenditures, we noted a significant amount is paid for energy costs. Our engagement was not to evaluate the Town’s energy usage or costs; however we did analyze the Town’s expenditure trends and noted energy as a significant non-salary component of some of the larger departmental budgets.

We understand the Commonwealth has instituted programs addressing municipal energy costs and the Department of Revenue has issued a technical assistance bulletin regarding energy cost management (included in the appendices of this report). We recommend the Town review this guidance and available resources to see if there are any opportunities available to the Town of Stoughton to help reduce its costs in this area.