

Information Meeting

BLANDFORD'S FINANCIAL JOURNEY: 2003-2016

Agenda

INTRODUCTIONS

PRESENTATION

QUESTIONS & COMMENTS

- Please hold questions to the end of the presentation

HANDOUTS

COPIES OF THIS PRESENTATION

- Please request a copy at the end of the meeting

Purpose of the Meeting

FINANCIAL
ORGANIZATION

FINANCIAL
REPORTING CYCLE

- Expectations
- Reality

HISTORY

FY2015 CLEANUP

- Principal findings
- Changes in processes

THE WAY
FORWARD: FY
2016/FY2017

REPORT ON
INVESTIGATION TO
DATE

Blandford Financial Organization



Board of Assessors

BOARD OF
ASSESSORS

- Determines real estate and personal property values
 - External contractor
- Motor vehicle values received from state
- Reviews requests for and grant abatements
- Passes detail data files of values, tax rates and taxes due to Tax Collector
- Passes summaries to Town Accountant

Tax Collector

TAX COLLECTOR

- Imports files from the Board of Assessors
- Bills tax payers
- Receives payments
- Deposit payments in Tax Collector's bank account (2003-2016)*
- Records payments in software, create batch of transactions
- Transmit check and supporting documentation to Treasurer and Town Accountant*

* In FY16 eliminated Collector's bank account

Treasurer

TREASURER

- Receives check & documentation from Tax Collector, deposits check in Town bank account*
- Receives misc. money from departments
- Responsible for payroll
- Signs & issues all checks
- Responsible for various Town bank accounts
- Documentation to the Accountant

*Change FY2016 – Treasurer now receives all checks and cash for deposit from Collector

Town Accountant

TOWN ACCOUNTANT

- Prepares weekly expense warrant
- Responsible for maintaining financial records
- Financial reporting responsibilities
- Budget to actual monthly
- Support annual town audit
- Manage reconciliation between Tax Collector, Treasurer and Town Accountant records
- Manage annual closing

Finance Committee

FINANCE
COMMITTEE

- Five members
- Appointed by Nominating Committee
 - Three selectmen
 - Town Clerk
 - Town Moderator
- Responsibilities:
 - Develop and present budget at Town Mtg
 - Identify financial concerns & present recommendations

Financial team

EXPECTATIONS

VS.

REALITY

Monthly reconciliation between financial offices – discrepancies resolved

Financial modules integrated – electronic communication – reduce paper flow

Monthly Reports

Annual audit by external firm – with no issues of significance

Written Policies & Procedures

Timely payment of Town expenses

No monthly reconciliations:

- Between offices
- To bank statements

Financial modules not integrated – links not activated – depend on physical handoffs

No monthly reports i.e. Budget, revenue, cash

Annual audit 2003 – 2011

- Major financial control issues identified
- No action to correct
- Terminated audits – waste of money

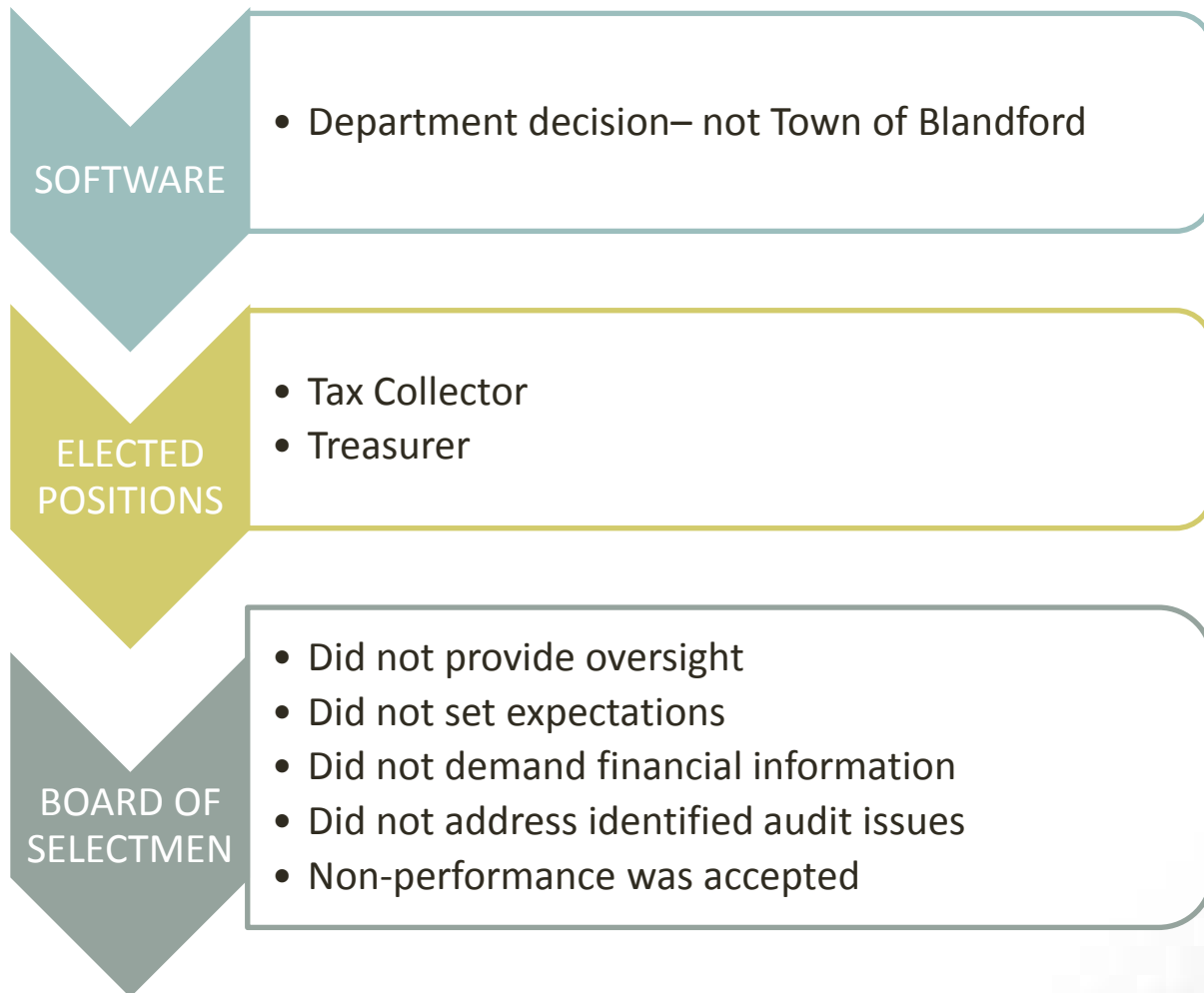
Do not exist

Expenses not paid on a timely basis with consequences

Observations

How did we get there?

BoS Chair: *“We trust that our financial officers will do their job”*



Financial History

EXTERNAL SOURCES OF INFORMATION



- Audit Reports – prepared by external audit firm
- Management Letters - Prepared by external auditors
- Financial Management Review – DOR team 2011
- Turnover Audit – limited analysis at time of new Tax Collector (2011)

AUDIT REPORTS



- FY2002 – Except for accounting for Fixed Assets, no significant issues
- FY2003 through FY2011 – significant issues identified with no resolution – samples follow
Audit reports and Auditor’s Management letters are available on line:
 <http://www.townofblandford.com/documents.html>

FY2003 Management Letter

- FY2003 – Collector established a bank account



“...unable to obtain a reconciliation of the bank balance to the Collector’s records.unable to obtain a schedule of deposits that were not turned over to the Treasurer as of June 30, 2003.”

- Unable to reconcile Collector detail receivable to the receivables on the General Ledger

FY2008 Management Letter



“.....accounts receivable are not reconciled on a regular (monthly/quarterly) basis.”



“Real estate taxes could not be reconciled to the Collector’s detail. The variance is material....”

FY2010 Management Letter



“.....accounts receivable are not reconciled on a regular (monthly/quarterly) basis.”



“Property taxes, including real estate and tax liens receivable could not be reconciled to the Collector/Treasurer’s detail. The variance was material....”



“Water use charges and water liens receivable could not be reconciled to the Water Department’s detail since the detail list of balances outstanding could not be located.”

FY2011 Audit Opinion

“Due to the existence of significant variances between the Town’s general ledger and supporting detail maintained by the Town Collector, Town Treasurer and the Water Department, we were unable to form an opinion as to the accuracy of the receivable balances for property taxes, excises, water user charges and water utility liens.”

Example of Variances

RECEIVABLES AS OF 6/30/2011 - ALL TAX LEVY YEARS

	COLLECTOR	ACCOUNTANT	VARIANCE	% VARIANCE
REAL ESTATE TAX	597,940	778,506	(180,566)	-30.2%
PERSONAL PROPERTY	62,458	58,994	3,464	5.5%
MOTOR VEHICLE	75,252	95,765	(20,513)	-27.3%
WATER	59,775	116,732	(56,957)	-95.3%
TOTAL	795,425	1,049,997	(254,572)	-32.0%

Financial Management Review

Division of Local Services, DOR

- Report date: August 2011
- Handout – Copy of the overview
- Complete report at:
<http://www.townofblandford.com/townclerk/DOR-FMR0811.pdf>



“Missing in the management of the town is any emphasis on sound practices or concern for financial controls, except among a few in Town government”

Corrective Efforts -2011 Forward

SEVERAL FALSE
STARTS – ISSUES
WERE GREATER
THAN EXPECTED

ACTIVE AND
PASSIVE
OBSTRUCTION

FINANCE
COMMITTEE
AND CURRENT
BOS CLOSELY
ALIGNED TO
ADDRESS
FINANCIAL
CHALLENGES

TREASURER
AND TAX
COLLECTOR
CHANGED TO
“APPOINTED”

HIRED
JOSEPHINE
SARNELLI, CPA
AS OUTSIDE
CONSULTANT

Josephine Sarnelli, CPA

RECOMMENDED BY OUTSIDE ACCOUNTING FIRM

BACKGROUND: Certified Public Accountant for over 30 years

Experience in Municipal Accounting

Forensic Investigator

Headed up Internal Audit for Friendly's for 8 years

Budget Analyst for West Springfield for 7 years

WSU graduate program Visiting Asst. Professor for Ethics, Fraud Investigation, Municipal and Fund Accounting

Josephine's various roles

VARIOUS ROLES IN BLANDFORD SINCE 2011

Tax Collector Turnover audit

Treasurer Turnover audit

Forensic investigation

Financial analysis in cleaning up General Ledger

Develop and implement reconciliation processes and internal controls

Coordinate Fiscal Staff and provide guidance for FY15 closing

Consultation in other municipal matters, such as indirect charges, etc.

Josephine's Comments on Blandford's Financial History



Financial Statements appeared irregular



Inconsistencies: large cash balances, but need for short term borrowings



Lack of oversight of financial function



Un-auditable by independent CPA firm

Tax Collector Turnover Audit

FINAL REPORT 12/4/2011– SCOPE OF THE AUDIT



Tax Collector Turnover Audit

FINAL REPORT 12/4/2011– CONCLUSIONS

SHORTFALL OF CASH IN TAX COLLECTOR'S BANK ACCT



NO BANK RECONCILIATIONS OF TAX COLLECTOR'S ACCT



NO RECONCILIATION OF OPEN PACKETS BETWEEN TAX COLLECTOR & TREASURER



LONG DELAYS IN PROCESSING AND DEPOSITING CHECKS



LONG DELAYS BETWEEN TRANSFERS OF FUNDS FROM TAX COLLECTOR TO TREASURER



OPENING TAX BALANCES ENTERED INTO NEW SOFTRIGHT SOFTWARE NOT IN AGREEMENT WITH CLOSING TAX BALANCES IN POINT SOFTWARE



NO 2009 OR 2010 BANK STATEMENTS FOR TAX COLLECTOR'S BANK ACCOUNT



TAX COLLECTOR'S CHECKS TO TREASURER DEPOSITED IN NUMEROUS ACCOUNTS



FY2015 Closing

RECONCILED RECORDS OF THE COLLECTOR, TREASURER AND ACCOUNTANT

RECONCILED REPORTED CASH BALANCES TO BANK STATEMENTS

MADE ADJUSTMENTS FOR:

- Write off non-existing cash
- Write off uncollectable receivables
- Adjust receivables to Collector detail

CORRECTED NUMEROUS ACCOUNTING ERRORS

FY2015 Closing

TAX RECEIVABLE WRITE OFFS	
Excise tax	\$5,492
Personal property tax	\$10,166
Real estate tax	\$272,941
	\$288,599

CASH WRITE OFFS	
General Fund	\$345,715
Water Enterprise Fund	(\$223,107)
Net Town Write Off	\$122,608

FY2016 Activity



FY2017 Projected Activity

IMPLEMENTATION OF FINANCIAL CONTROLS

```
graph TD; A[IMPLEMENTATION OF FINANCIAL CONTROLS] --> B[DOCUMENTATION OF WORKFLOW]; B --> C[JOB DESCRIPTIONS]; C --> D[LIABILITY FOR POST-RETIREMENT BENEFITS]; D --> E[INVENTORY OF FIXED ASSETS];
```

DOCUMENTATION OF WORKFLOW

JOB DESCRIPTIONS

LIABILITY FOR POST-RETIREMENT BENEFITS

INVENTORY OF FIXED ASSETS

Investigation Process

PRIMARY FOCUS
COLLECTOR'S
OFFICE

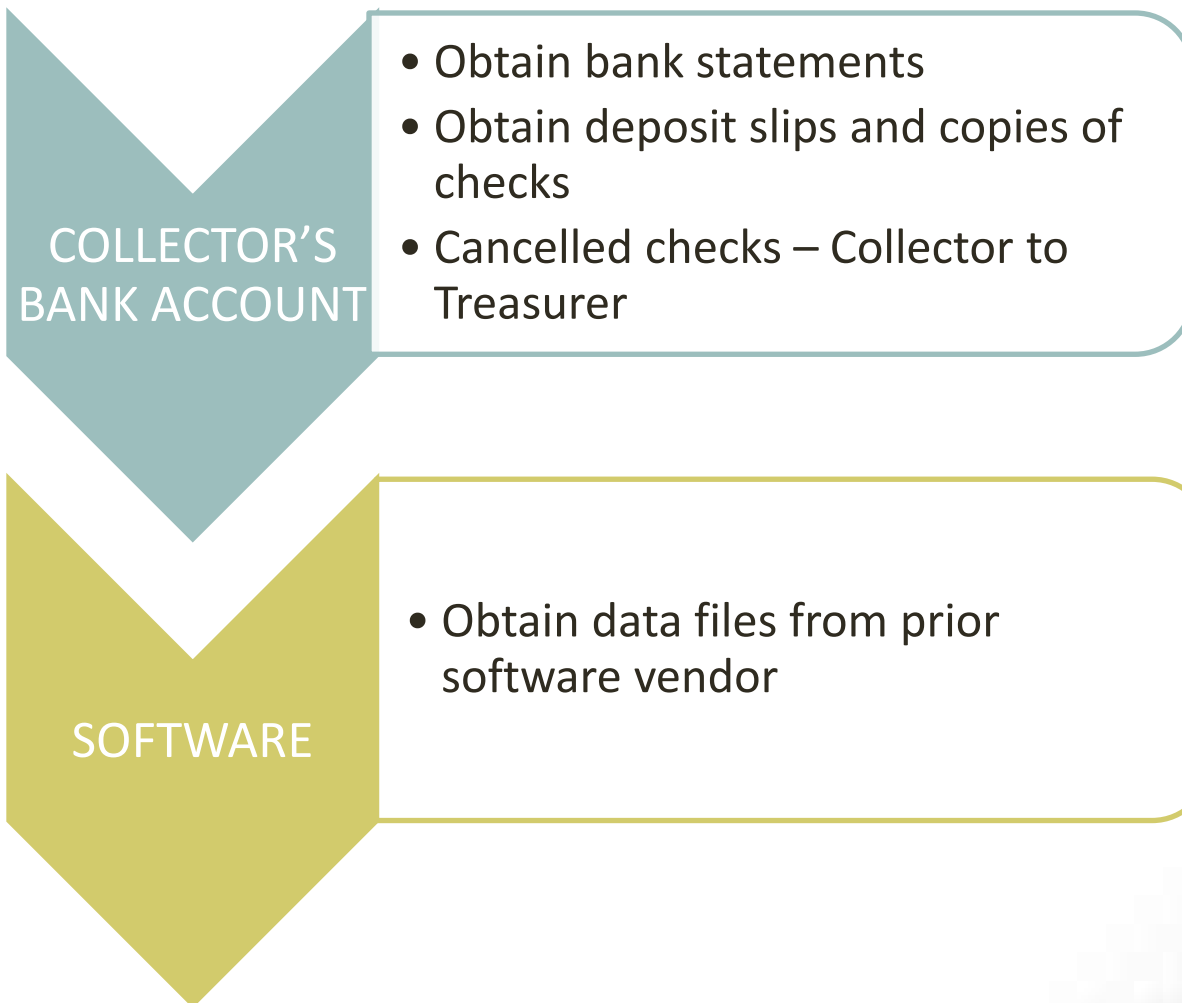
REVIEW ACTIVITY
PRIOR TO MAY 6,
2011

BANK STATEMENTS
– MISSING

CASHBOOK
(RECORD OF CASH
PAYMENTS) –
MISSING

Data Collected

External



Analysis Process

FOR EACH PACKET OF TRANSACTIONS:

1. Match cancelled checks in deposit to transactions
2. Principal findings:
 - ✓ Many instances – check did not match to whom it was credited
 - ✓ Many instances – single check credited to multiple people
 - ✓ Collector credited her own account with others money

Overview of Findings (1)

- Collections not turned over to Treasurer less Collector bank account balance.....\$181,259
- Total Payment Adjustments*\$94,706
- **Estimated Missing funds\$275,965**

*) Payment Adjustments – Tax payer has provided proof of payment, Collector records show “not paid”

ESTIMATED MISSING FUNDS BELIEVED TO BE INCOMPLETE & LOW ESTIMATE

Overview of Findings (2)

- Collectors personal RE, Excise and Water bills were covered with payments from other taxpayers
- Cash deposited in collector's bank account was minimal

Overview of Findings (3)

- **Process used:** Lapping
- **Effect:** A chain of transactions where current receipts are used to cover prior shortfalls
- **Description:** Lapping is a scheme whereby cash payments from taxpayers are stolen. To conceal the theft, other taxpayers' payments are applied to the open tax balance for which the cash was stolen.

9 years? How Missed?

DEPENDS
ON:

- Separation of duties
- Monthly reconciliations
- Outside audits
- Management reports
- Select Board oversight

REALITY:

- No monthly reconciliations
- No management reports
- Outside auditors could not complete audits, required information not provided
- **Financial officers did not question variances**
- Select Boards did not provide oversight

Where are we now

Investigation



Summary

- It took 9 years to create the financial situation reported in the DOR report
- It is taking years to correct the situation
- We need you, the tax payers & voters, involved
 - ✓ Hold Town officials accountable
 - ✓ Ask questions
 - ✓ Elect responsible people and hold them accountable