



Municipal Resources, Inc.  
www.municipalresources.com

### **EXECUTIVE SUMMARY**

The Town of East Greenwich hired Municipal Resources, Inc. as a consultant to accomplish the scope outlined on page 7. Municipal resources interviewed Public Officials and members of the Finance Department of the Town to gather sufficient information to render findings and recommendations for improvements to the operating procedures, internal controls, financial reporting and staffing relative to the Finance Department.

We would like to express our appreciation to the Staff and Public Officials of the Town of East Greenwich for their full cooperation and assistance as we conducted our assessment. We were provided with all of the documentation that we requested and received the information in a relatively timely fashion. Our report will provide specific detailed findings and recommendations with supporting documentation being detailed in the Appendices of this report.

The Finance Department of the Town of East Greenwich functions with seven full-time employees, inclusive of the Finance Director. The Staff of the Finance Department are well intentioned and dedicated employees of the Town.

This "assessment" of the Finance Department was precipitated by a number of errors occurring and being detected over the past six months to a year. The Town Council was concerned that a few significant errors were made and wanted to conduct this assessment to determine the reasoning behind the errors occurring and to find a solution to prevent further occurrences.

We conducted a number of interviews with Public Officials and the Staff of the Finance Department. We reviewed the policies and procedures of the Finance Department in depth. Our report will outline the positive and the negative aspects of the Finance Department's abilities, policies and procedures.

To summarize our findings we offer the following:

- The overall internal control structure of the Finance Department and other areas of the Town's financial operations need improvement.
- The Staff of the Town's Finance Department are capable to perform their functions. They would benefit greatly if the Finance Director would provide additional training and oversight.

- The Town should seriously consider adding an Information Technology position and strengthen the position of Chief Accountant focusing that position entirely upon accounting/finance related work. The Town needs to have the present employee serving as Chief Accountant return to full-time hours or consider replacing the employee with one who can work full-time.
- The Finance Director needs to address and resolve issues that are brought to his attention in a timely manner (i.e. Workers Compensation, duplicate payments, Audit findings and recommendations, etc.).
- The Town needs to immediately improve its documentation of policies, procedures, employee reviews, training program (including cross-training of employees) and monitoring of day-to-day financial activities of the staff of the Finance Department.
- The Financial condition of the Town is very healthy and the Management of the Town should be commended for doing a good job.
- The financial condition of the sewer fund should be closely monitored in FY2005 and FY2006. A large user will be leaving the community thereby necessitating a rate increase for all other users most likely. Also, the assessment fees for FY2005 should, according to the Finance Director, increase the net assets of the Sewer Fund approximately by the amount of the loss experienced at the end of FY2004.
- The Town and School Finance Departments should seriously consider combining under one management structure. The Town and the School should seek outside assistance in planning the potential restructuring of the two Finance Departments into one.
- The Town needs to improve upon the operational procedures and policies associated with accounts payable and purchase order processing. The current system is not functioning properly.

It was a pleasure being able to serve the Town of East Greenwich. Specific details that support the information in this executive summary are documented within the body of the entire report, including the appendices. We hope that this report will assist the Town in improving the operating policies and procedures and the overall internal control structure.



## **EAST GREENWICH, RI**

The Town of East Greenwich is an affluent, suburban community on the border of a metropolitan area in central Rhode Island. Located about fifteen miles south of the City of Providence, it is primarily a single-family residential community with the highest median family income in the State, and a widely acclaimed school system. East Greenwich is an extremely small and manageable area (16 square miles), but it also has a rich heritage with rural agricultural estates dating to the mid-eighteenth century, and an urban historic district fronting on Narragansett Bay.

The Town of East Greenwich was established in 1677. The Town is located in Kent County, south of Providence. It has a population of 12,948 residents according to the 2000 census. The Town operates under a Home Rule Charter adopted in 1972 providing for a Council/Town Manager form of government with a five-member Town Council headed by a Council President. All legislative powers of the Town except such powers as are vested in the Financial Town Meeting are vested in the Town Council by the Charter. Powers of the Financial Town Meeting include the ordering of any tax, making appropriations and transacting any other business pertaining to the financial affairs of the Town. The Financial Town Meeting must approve the annual budget of the Town and may also authorize the issuance of bonds subject to the 3% debt limit as set forth in Section 45-12-2 of the General Laws.

The Members of the Town Council are elected at-large for a term of two years. The Charter grants to the Town Council all powers to enact, amend, or repeal rules, ordinances and resolutions relating to the Town's property, affairs and government including the power to create offices, departments or agencies of the Town. The Town Council also preserves the public peace, health and safety of its citizens, and is responsible for establishing and maintaining personnel policies.

The Town Manager is appointed by a majority vote of the Town Council for an indefinite term. The Town Manager is the chief operating officer and head of the administrative branch of government. The Charter grants the Town Manager the authority to appoint or remove all officers or employees of the Town, subject to the Town Council approval for Department Head positions, and to prepare and submit to the Town Council the annual budget and annual report of the Town. The Town Manager also recommends to the Town Council the pay schedules for Town employees and recommends the adoption of such measures as he may deem necessary for the health, safety and welfare of the Town.

## **MUNICIPAL RESOURCES, INC.**

Municipal Resources, Inc. (MRI) is a company located in Meredith and Salem, NH. MRI provides municipal consulting services to all types of governmental agencies throughout New England.



## **THE PROJECT TEAM**

The following MRI personnel participated in this project:

### **PROJECT MANAGER**

**Jeffrey C. Towne, CPA**, obtained his BS in Accounting and Business Administration from Gordon College. Mr. Towne has 17 years of professional finance and management experience in both the public and private sectors, having served as a Senior Municipal Auditor for Plodzick & Sanderson of Concord, NH; Finance Director and Welfare Director for the Town of Meredith, NH; and Finance Director for the Town of Salem and was later promoted to the position of Salem Town Manager. While Town Manager for Salem, Mr. Towne was responsible for the planning, organizing, staffing, directing, and administration of a Town of 230 full time employees and an additional 50+ seasonal employees, oversaw federal and state grants in excess of \$3,000,000, and managed an annual Town budget of \$32,000,000. Mr. Towne was President of the New Hampshire Government Finance Officers Association and also served as committee chairman of training for many years. Mr. Towne was appointed by Governor Craig Benson to serve on the Board of Directors of the New Hampshire Municipal Bond Bank. In addition to working with clients on financial and municipal operational matters, Mr. Towne is also responsible for management and day-to-day operations of MRI.

### **MRI ASSOCIATE**

**Darren A. Towne, MBA**, obtained his Master in Business Administration from New Hampshire College and his BS in Business Administration from the University of New Hampshire. Mr. Towne has over 17 years of experience in sales and purchasing. Mr. Towne passed the Certified Purchasing Managers (CPM) examination in 1991. Mr. Towne has extensive experience in computer technology and specializes in assisting clients with achieving greater efficiencies through improved policies and procedures.



## **BACKGROUND OF THIS PROJECT**

The Town Council requested bids for consulting firms to conduct an "Accounts Payable Audit." Municipal Resources, Inc was one firm that responded to the request for proposals and we interviewed with the Town Council and others. The Town Council requested that this "Accounts Payable Audit" be conducted because a number of errors in the work product of the Town's Finance Department had been detected. The Town Council was concerned that there may be additional items that they are not aware of and wanted to correct whatever was causing the errors in order to reduce, if not eliminate, them from occurring in the future. At first, the Town Council wanted to have an outside consulting firm perform an audit of the accounts payable functions of the Town. During discussions with MRI the scope of the project shifted to doing a performance assessment of the Finance Department, with special emphasis on the accounts payable functions.

The Town of East Greenwich contracted with Municipal Resources to provide the following services:

## **GOALS AND OBJECTIVES**

The objective of the assessment for the Finance Department is to identify cost savings measures, if any, and make recommendations on department functions, including procedures, staffing, outsourcing of functions and work processes. This work shall include:

### **1. AN ANALYSIS OF STAFFING AND JOB DESCRIPTIONS**

The objective of this task is to develop a baseline of the Finance Department staffing. To achieve this objective, MRI will:

- Obtain current information regarding:
  - a. Number of full-time and part-time equivalents, including salary and fringe benefits.
  - b. Job descriptions and functions.
  - c. Other information related to the staffing functions.
- Review the current FY Town Budget.
- Interview Finance Department management and Town leaders regarding their opinions of the staffing function in the Finance Department.
- Review the various levels of management and administrative positions.
- Present findings and recommendations.



2. **AN EVALUATION OF MANAGEMENT REPORTING AND CONTROL SYSTEMS WITH SPECIFIC ITEMS OF BUDGET/FINANCE, PERSONNEL, ACCOUNTS PAYABLE, AND JOB ASSIGNMENTS**

The objectives of this task are to determine the extent to which the East Greenwich Finance Department maintains sufficient internal controls and procedures over budgeting/finance, personnel, accounts payable, job assignments and to make recommendations thereto. To achieve these objectives, MRI will:

- Obtain information about:
  - a. Laws, policies and procedures guiding the budget, finance, personnel, accounts payable and job assignments of the Finance Department.
  - b. Cash Management practices related to the Finance Department and other Town Departments.
  - c. Management of Town Finance Department employees.
  - d. Management of job assignments within the Finance Department.
  - e. Management's responsibility to report on these matters.
  - f. Goals, objectives and performance measures associated with these functions and related accountability controls and reports.
- Evaluate the system for efficiency and efficacy.
- Develop conclusions related to the Finance Department's performance in establishing sound control systems and reporting on the systems performance.
- Present the extent to which the Finance Department maintains sufficient internal controls and procedures over budget/finance, personnel, accounts payable, and job assignments.
- The accounts payable portion should conform to the Government Auditing Standards issued by the Comptroller General of the United States to obtain reasonable assurance of proper payments.
- Present findings and recommendations, including proposed policy and procedures, if necessary.



### 3. RECOMMENDATIONS FOR REASSIGNMENT AND/OR CONSOLIDATION OF DUTIES FOR IMPROVEMENT

The objectives of this task are to identify implemental cost savings for the Finance Department to include potential reassignments and consolidations. To achieve this objective, MRI will:

- Obtain information about:
  - a. Workload information by job category.
  - b. Work standards, if available.
  - c. Performance measures, if available.
- Interview management and staff, as well as Town management to determine if there are perceived problems with productivity.
- Observe daily operations and interactions.
- Analyze the results of data review, observations and empirical study.
- Present cost savings that can be implemented for the Finance Department regarding reassignments and consolidations.
- Present findings and recommendations.

Included in our proposal was the following scope of work:

#### SCOPE OF WORK

MRI designed a complete internal controls assessment review process. We reviewed all the internal controls associated with the Finance Department procedures in East Greenwich. Our assessment was designed after the national accounting and auditing internal control standards and will be extremely beneficial to the Town.

The next step was to review any written, documented processes and procedures relative to accounts payable. We then reviewed the processes and procedures and compare them to industry standards.

At this stage of the project we interviewed the staff of the Finance Department. We reviewed the day-to-day responsibilities by shadowing the staff. We tested documented procedures to actual operations to determine if variances and/or exceptions exist. We found on many occasions that documented procedures are not well written or followed which lead to errors or inappropriate shortcuts that lead to inaccurate results. MRI documented the training that has been provided,



educational background and experience of the staff. We performed all necessary functions to meet the objectives outlined above. MRI has unique techniques that will benefit the Town of East Greenwich. Our staff's experience in auditing, municipal finance, and management of a similar size community will be of major benefit to accomplishing the requirements of this project.

We concluded this project by presenting a thorough, well written and easy to understand report. We will present our findings to the Town and provide well-documented recommendations for improvements.

### **BACKGROUND INFORMATION**

The following is a list of already known errors that precipitated conducting this assessment of the Town's Finance Department:

1. 9 properties were taxed for land only by the Town but should have been billed for the buildings on the land also. The building values were for some reason left off the tax billing. This error occurred prior to the present Finance Director's employment with the Town of East Greenwich;
2. The sewer bills for a particular quarter were not dated correctly and were sent out with the wrong billing period on the bill;
3. The 2003 tax bills were sent out to the public with the old tax rate printed on the bills; and
4. A duplicate payment was made to a vendor for the amount of \$179,415 and the amount was not recovered for several months.

We began our assessment of the Finance Department by collecting all written policies and procedures that are in effect pertaining to the staff or procedures of the Town's Finance Department. It is important to note that the current Finance Director, Thomas Mattos, has not modified or created any policies in the six years he has been the Finance Director for the Town. All the policies and procedures were created, according to Mr. Mattos, by his predecessors. The only policy that was worked on, mostly by the Finance Board, was the "Investment Policy" which has still yet to be adopted and placed into effect. Two years have past since the policy was worked on by the Finance Board but it has not been finalized by the Finance Director to this date.

The policies presented to us date back into the 1980's and 1990's. The policies have not been utilized by the staff in some time. Past practice dictates current operations. There were no positive comments received when we inquired of the staff whether they had day-to-day documented procedures that they follow to conduct the Town's business. Most of the policies are outdated and ineffective. Very little, if any, training has been provided to the Finance Staff by the Finance Director regarding policies and procedures. Most of the Staff indicated that their positions have been "self taught" and that training was and is non-existent.



## **INTERVIEWS OF PUBLIC OFFICIALS**

We provided an opportunity for each Town Council member, current and immediate past members, and current Finance Board members the exact same questions. We wanted to provide an opportunity, through our one-on-one interviews, for each public official to share any concerns, criticisms and comments regarding the efficiency and effectiveness of the Finance Department with us. We also asked them to share with us the positive aspects of the Finance Department as well. The questions can be found in Appendix A. The information obtained during the interview process is summarized below.

### **SUMMARY OF COMMENTS – INTERVIEWS**

**Question 1: Background information of those interviewed (omitted from report).**

**Question 2: On a scale of 1-10, with 10 being great, how would you rate the efficiency and effectiveness of the Finance Department?**

The average score, from those who believed they had enough information and/or knowledge to answer the question, was a seven (7). Comments were flavored by a true concern about not really knowing the full extent of what level the Finance Department staff is or is not capable of performing at. Most of those interviewed stated that they were not very familiar with the day-to-day operations of the Finance Department. Most agreed that the disposition and the responsiveness of the Finance Director are very good. One other comment that was made by a few of those interviewed was that the Department does not seem to be very pro-active in making positive changes or improvements.

**Question 3: What does the Finance Department do well?**

The Finance Department is responsive when asked for something specific and the Finance Director responds timely to Council requests. One responded to say that this years budget was well done by the Finance Director and was glad for the detail and time that went in to preparing it.

One responded by saying that Mr. Mattos was very helpful on the subject matter of elderly exemptions a few years ago. Mr. Mattos apparently provided financial information regarding that subject that assisted greatly.

Most said they were satisfied with the monthly financial reports that were provided by Mr. Mattos. They also indicated that they would like to be better informed as to what financial reports are available and would like the Finance Director to explain how to interpret the reports that are currently being provided. One person indicated that the information provided by Mr. Mattos was always forthright and timely.



There were several that indicated that nothing came to mind when asked this particular question. They couldn't come up with anything that they thought the Department did particularly well.

**Question 4: What does the Finance Department do poorly?**

The responses to this question were the most lengthy of all. The respondents think that the Finance Department has been "status quo" for too long. Many responses resounded a strong desire for improvement on documentation. The following comments were received: "the investment policy hasn't been finalized; there is no employee manual; job descriptions haven't been upgraded in a long time; and annual reviews are not done on Town employees." There was an underlying commonality in the responses regarding the lack of forward thinking when it came to the finances of the Town. There were many concerns over the lack of appropriate oversight of the details thus leading to many of the errors that caused this review to be conducted. Several believed that neither the Town Manager nor the Finance Director have the ability to implement policies and procedures.

One person indicated that the bidders that respond to Town "requests for proposals" never change. This person feels as though the Finance Department doesn't do enough to attract more competition which might lead to lower costs for the Town.

Comments were received regarding the way in which taxpayers are treated by the current Assessor. They feel as though the Assessor comes across to the taxpayers as discourteous and abrasive. They feel as though she is doing a much better job than her predecessor but needs to work on how she reacts and responds to taxpayers. Those commenting indicated that she has "cleaned up" many of the previous Assessor's errors and are pleased with the progress that she has made. All who commented regarding this thought that the Town Manager and the Finance Director should "coach" the Assessor regarding how the public should be treated.

All who knew about the large overpayment, \$179,415, were very upset that it occurred and that it took so long to correct the problem. Of major concern was the length of time that it took the Finance Director to react to the situation and recover the funding. Most are curious if this assessment process will discover others that they have not been made aware of. Some blamed the School Department and believed that it was a poor reflection on them.

Some of the new members are not familiar with the monthly financial reports. A comment was received from two public officials regarding the timeliness of receiving the monthly financial reports. An orientation of what reports are available and also an overview of what is provided now would be helpful to all. An orientation to the finance department and how it operates would be appreciated.

Although one public official thought the budget process was done well this past year, one public official indicated that it was not done well nor presented well. Information pertaining to the request for an Information Technology position was not well designed nor presented leading to it being rejected by the Town Council. The justification for the position and cost of the position was not clearly articulated and therefore not supported.



One particular public official thought that there was no vision for the Department or frankly for the community. This particular person thought a long range plan would be extremely beneficial. This person doubts that the current Administration can provide that vision.

Mistakes such as overpayments or for paying health insurance for someone who shouldn't receive it was of concern to several of those interviewed. Also, repeat audit findings are of growing concern to several of those interviewed. Complacency regarding the same audit findings year after year seems to be acceptable to the Town Manager according to one person who was interviewed.

One interviewed thinks that the Finance Director is overwhelmed and believes that the mistakes that have occurred because Mr. Mattos has too much on his plate and can't get it all done.

Mr. Mattos apparently only attends Town Council meetings when requested to be there or during budget meeting time. It was suggested by one person interviewed that he attend more meetings if he can.

A concern regarding the apparent lack of cross-training of employees was also mentioned. If an employee leaves the Town's employment would it cause the operations of that persons tasks to not function timely because no one else has been trained to do those particular duties was the question that was raised by this individual.

**Question 5: Can you provide any specific instances whereby the Finance Department has made an error, mistake, or shown a lack of due diligence in performing its duties properly?**

The general consensus of those interviewed was that they were not aware of any other issues besides those mentioned at the beginning of this report which led to the report being conducted.

As far as due diligence is concerned, there were several that believed that budgetary requests for positions (IT and Welfare) were not adequately justified or explained and that there was a lack of due diligence in preparing the Council with adequate information for them to act upon.

Comments regarding the apparent lack of "attention to the details" by the Finance Department led to this study being performed.

**Question 6: Does the Finance Director keep the Council well informed on matters of importance?**

Those interviewed had various opinions on this matter. Most feel as though Mr. Mattos does a good job at keeping the Council informed in a timely fashion. One recommended that an executive summary be prepared on a monthly basis that highlights the important financial items that the Council should be aware of. As a side note, during our review we noted the Mr. Mattos does provide a "one-page" style summary of the highlights of that particular month to the Town Council with the financial reports.



**Question 7: If you were the Finance Director what would be your first priorities to accomplish change, if necessary?**

This also was a question that drew a lot of responses. One interviewed thought that the structure of the finance department needed to be reviewed and possibly changed. It was suggested that there are too many clerks and not enough paraprofessionals to get the job done. A long-term vision for the department needs to be established and progress towards achieving that goal should begin.

One suggestion was that the Finance Director and the Town Manager should educate the newly elected Council members regarding the financial operations of the Town. An overview of each department and how each operates would be of benefit to newly elected Council members.

Strong opinions regarding the lack of policies and procedures were given by most, if not all. Stronger internal controls over processing of accounts payable transactions were mentioned by many as well.

Comments regarding the combination of the Town and School Finance Departments were received. This subject has apparently been discussed in the past and is now on the table for discussion once again.

One person suggested that a "bid review committee" be established. The intention would be to review all aspects of the bidding process, up to and including making recommendations on awarding bids. Several projects apparently had been put out to bid but the costs for the projects have been much higher by the time the project was completed. The concern was that no one is paying attention to the details once again and furthermore that the Town was not holding companies to the amount bid to complete the project or that the Town did not do a good job at putting accurate information out to bid in the first place.

A priority for one person interviewed would be to explore creating a "grants administrator" position for the Town and the School. Several audit comments over the past years had to do with the improper handling of grants sometimes resulting in the returning of money to granting agencies. This position could research and apply for additional grant funds for the Town and School.

**Question 8: Did you make any recommendations or suggestions that the Finance Department has not followed through on?**

The Finance Board made suggestions regarding the Investment Policy and short-term cash investments, the timing of bond issuances and budget timelines. This person was not aware that anything had been done regarding the specific recommendations that were made.



**Question 9: Are there any employees of the Finance Department that you felt were not entirely candid and responsive to you?**

The only response to this question, other than those items that may have been mentioned as a result of previous questions, related to the issue of the investment policy not going anywhere even after the Finance Board reviewed it. The "Investment Policy" states on the cover that it was updated in April 2002. It has yet to be instituted by the Finance Director.

**Question 10: Are the Finance Personnel capable of performing the required tasks?**

This question drew a significant amount of responses from the interview process. One person stated that "it is a concern and that is why we are here, we had a lot of problems that surfaced in the past year." This person went on to indicate that nothing seems to get corrected when problems are pointed out. "Management passes it off as it won't happen again but it does" was the comment made. The defense mechanism kicks in rather than the corrective action being taken to prevent things from occurring again in the future.

One of the responders indicated that the Finance Director can handle the day-to-day functions but can't handle the big picture. The Finance Director can apply a band-aid to a situation only. "Mr. Mattos could use more structure and coaching possibly in 'managing' the finances" was a comment received. This person believes that Mr. Mattos is not capable of additional growth within his position.

One person responded by stating "there is something lacking in the Finance Department." "The Finance Department lacks any innovation or creativity."

A majority of those interviewed did think that Mr. Mattos and his staff are capable of performing the required tasks associated with running the Finance Department but they need to spend more time attending to the fine details of their work. They believe that too many mistakes are occurring and it doesn't appear to a majority of those interviewed that anything other than "finger pointing" is the solution offered by the Town Manager and the Finance Director.

**Question 11: Do the Finance Personnel have integrity?**

The answer from all was a resounding yes. There is no concern on anyone's part regarding the Finance Personnel's integrity.

**Question 12: Does the Finance Department have adequate staffing?**

Most of those interviewed responded by stating that they weren't familiar enough with the day-to-day operations of the staff in the Finance Department to adequately answer this question. Several commented on the Finance Departments request to add an Information Technology position in a previous budget cycle. The request, as was stated earlier, was denied.



There was a statement made regarding the need for someone to take responsibility for the grants for both the Town and the School and this person indicated a willingness to entertain a staff increase if the case was well made for the need.

**Question 13: Does the Finance Director put in the appropriate number of hours to get the job accomplished?**

Most answered in the affirmative. A few indicated that they weren't familiar enough with the operations to be sure. One responded by stating that a 35 hour work week is not enough in general and employees of the Town should work a "regular 40 hour week."

**Question 14: What accomplishments has the Finance Department achieved in the past few years?**

A majority of those responding could not point to any significant accomplishments that have been achieved in the past few years. Others mentioned the Town's bond rating as an accomplishment worthy of noting. A few stated that the Town should be proud of the financial condition that it is in – which in their opinion was exceptional.

Also, one commented that the tax collections rate at year end was 97% recently which was a positive reflection on the Finance Department.

**Question 15: Looking at the big picture – Is the Finance Department getting the job done?**

There was a mixed response to this question. Some of the responses received were positive regarding the ability for the staff, primarily the Finance Director, to get the job done. It was the opinion of others that the Town's independent auditors have made a lot of comments and not much effort is put forth to correct the findings and implement the recommendations made by the auditors.

**Question 16: Would you politically entertain the concept of a combined Town and School Finance Department?**

"If there aren't the resources to do the job now then how could we combine the two? The school is more complex, more payrolls. To combine the two departments when we aren't confident about the current structure doesn't make sense," was one person's reaction to this question. Another person expressed similar concerns and wanted to hear the results of this assessment prior to giving his opinion as to whether it made sense. This person believed that the School should undergo the same type of review that the Town is conducting now.

Several responses keyed in on eliminating redundant systems and staffing thereby saving money for the Town of East Greenwich as a whole. Also, it was important to several people that the "finger pointing," when issues arise between the management of the Town and the School, end. The combination of the Town and School's Finance Departments into one Finance Department would, in their opinion, help to reduce the "finger pointing" and work towards better efficiency and effectiveness for both the Town and the School.



Many responses indicated the need, if this was going to happen, to thoroughly consider all aspects, including staffing changes, union issues, the ability of one person to manage the “newly formed” finance department, budgetary considerations, etc.

**Question 17: Do you feel that the Finance Department handles information technology well?**

The overall response to this question was that there was a lack of knowledge on the part of those responding and therefore they couldn’t answer this question. There were a few responses that indicated that the Town should utilize the IT staff at the School if help is needed. There were a few answers of “no” without an explanation as to why.

**Question 18: What should the Finance Department be doing that it isn’t presently?**

Most felt this question was answered by previous responses or had no response.



**Town Manager  
William Sequino**

**Finance Director  
Thomas Mattos**

**Tax Assessing Department**

**Finance Department**

**Tax Assessor  
Janice Peixihno**

**Fiscal Clerk  
Marcia Greene**

**Chief Accountant and  
System Operator  
Ken Burgess**

**Human Resources  
Coordinator/Fiscal Specialist  
Kathleen Mansfield**

**Fiscal Clerk/Collections  
Mary Stroup**

**Fiscal Clerk/Accounts Payable  
Audrey Amryan**

**Municipal Court Clerk  
Roberta Quinlan**

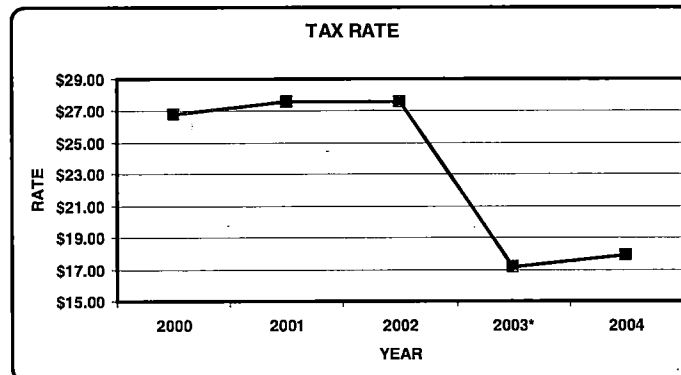


### Finance Department Current Payroll and Benefits

| <u>Position:</u>  | <u>Salary</u>    | <u>Benefits</u> | <u>Total</u>     |
|-------------------|------------------|-----------------|------------------|
| Finance Director  | \$73,992         | \$17,080        | \$91,072         |
| Tax Assessor      | \$52,856         | \$5,178         | \$58,034         |
| Chief Accountant  | \$44,062         | \$14,704        | \$58,766         |
| Fiscal Specialist | \$33,144         | \$16,740        | \$49,884         |
| Fiscal Clerk      | \$29,065         | \$3,358         | \$32,423         |
| Fiscal Clerk      | \$29,065         | \$12,894        | \$41,959         |
| Assessing Clerk   | \$29,065         | \$6,696         | \$35,761         |
| <b>Totals</b>     | <b>\$291,249</b> | <b>\$76,650</b> | <b>\$367,899</b> |

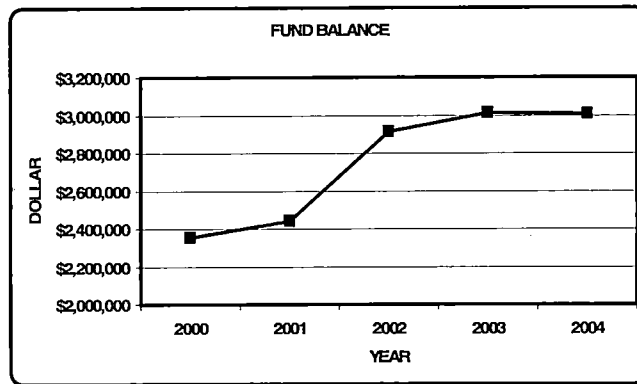
### Financial Condition of the Town of East Greenwich

The Town of East Greenwich is in very good financial condition. The following charts exhibit the Town's financial measurement factors:

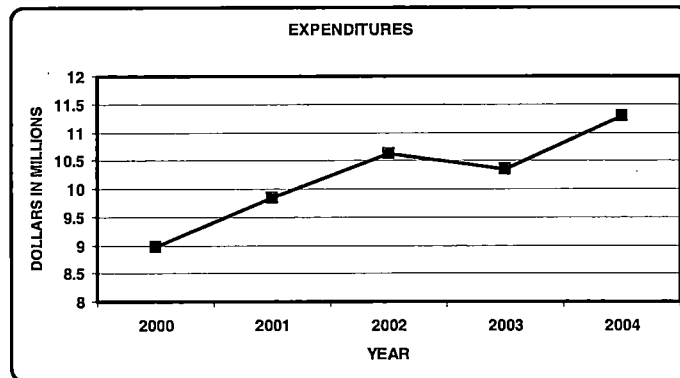


The "Tax Rate" Chart indicates a decrease in 2003. That decrease was due to the Town's revaluation of property assessments. Overall the tax rate has remained relatively stable over the past five years.

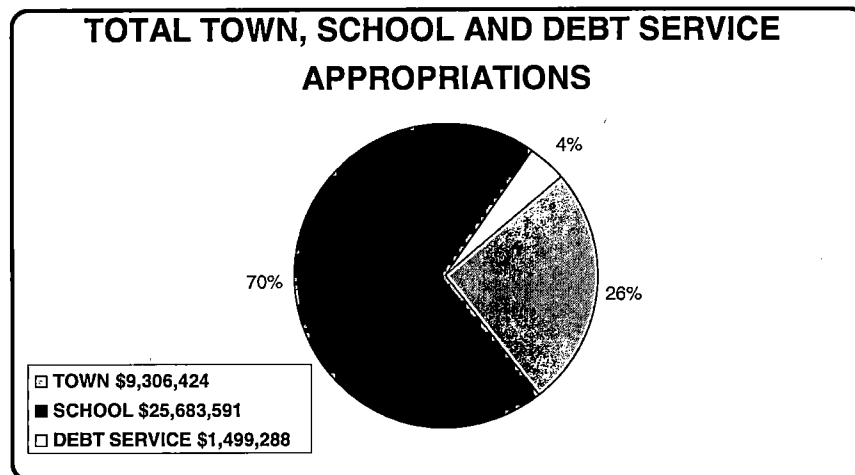




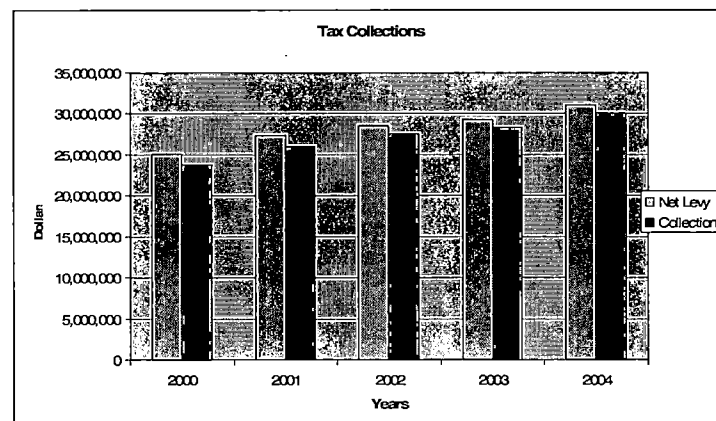
The "Fund Balance" chart is a great indication of the financial health of the community. The general fund undesignated fund balance is depicted above. The Town also maintains a healthy designated fund balance that is set aside for capital improvements.



The "Expenditures" chart shows a steady increase in total appropriations by the Town. The community continues to expand and offer additional services thereby requiring additional appropriations to support all of the departments.



The amounts in the chart above represent the fiscal year 2003-2004 appropriations.



The net tax levy and the collections are increasing. The percentages of collections against the net tax levy appear to be stable and very healthy. The percentage of collection for 2004 was 96.9% which is very good.

The financial indications, other than the sewer fund which is discussed further in this report, show that the Town's overall financial health is very good. The Town enjoys a very healthy fund balance, a relatively stable tax rate and a good tax base.

The sewer fund experienced a significant decrease in net assets in FY2004. The Town is also going to lose a significant sewer client that provides a large portion of the user fees for the sewer fund. The Finance Director estimated that this one user provides 30% of the total user fees. The customer has chosen to relocate to another community. The Town contracted with another company to conduct a "sewer rate study" which was completed in July 2003.

## **INTERNAL CONTROLS**

After we conducted the interviews with the Public Officials, we began the process of reviewing the Finance Department's daily operations. We conducted interviews with all of the staff of the Finance Department, including the Finance Director. We reviewed the internal control structure of the Town as it relates to the operational components of the Finance Department.

The following information will describe the generally accepted internal control standards that governmental entities should have in place:

### **Control Environment**

The first internal control standard is the control environment. It is important for management and employees to establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and responsible management. There are several key factors that affect the accomplishment of this goal. The Town's leaders and managers should consider each of these control environment factors when determining whether a positive control environment has been achieved.

The control environment established by the Town Council, Town Manager and Department Heads sets the tone for how the Town's staff conducts its business. The factors that should be focused on include: integrity and ethical values, a commitment to competence, management's philosophy and operating style, organizational structure, the assignment of authority, and human resource policies and practices. These areas are not all-inclusive and not every item will apply to every municipality or activity within the community. Even though some of the functions are subjective in nature and require the use of judgment, they are important to achieving control environment effectiveness.

The integrity and ethical values of the Town should be established from the top of the organization and it should be communicated throughout the entire operation. Formal policies communicating appropriate ethical and moral behavioral standards and acceptable operating practices should be established and firmly adhered to. Dealings with employees, suppliers, insurers, auditors, the public, and others should always be conducted on a high ethical plane. Appropriate disciplinary action should be taken in response to departures from approved policies and procedures or violations of standards.

The Town's commitment to maintaining competence of the workforce should be clearly communicated to all employees. Management should identify and define tasks required to accomplish particular jobs and fill the various positions. Analysis of the knowledge, skills and abilities needed to perform the duties of each position should be performed and documented. Areas of deficiencies that are recognized in employee performance or knowledge should be rectified through on-the-job training or another form of training to ensure continued competence. Employees should be encouraged to seek assistance when needed.

Management's philosophy and operating style is important to the success of an organization. It is critical for management to have an appropriate attitude toward risk-taking, and to proceed with



new ventures, missions, or operations only after carefully analyzing the risks involved and determining how they may be minimized or mitigated. Management should strongly consider endorsing the use of performance-based management techniques.

Management should have a positive and supportive attitude toward the functions of accounting, information management systems, personnel operations, monitoring, and internal and external audits and evaluations. Valuable assets and information are to be safeguarded from unauthorized access or use. Frequent interaction should occur between senior management and operating/program management, especially when operating from geographically dispersed locations. Finally, management needs to have a supportive attitude toward financial, budgetary, and operational/programmatic reporting to its constituents.

It is key to focus on the organizational structure of the Town as a whole. Determining that the organizational structure is appropriate for its size and the nature of its operations will help to ensure that the organization is as efficient and effective as possible. Key areas of authority and responsibility are to be defined and communicated throughout the organization, and appropriate and clear internal reporting relationships should be established. Management should periodically evaluate the organizational structure and make changes as necessary in response to changing conditions.

The Town needs to appropriately assign authority and delegate responsibility to the proper personnel to deal with organizational goals and objectives. Each employee should know how his or her actions interrelate to others considering the way in which authority and responsibilities are assigned, and employees should also be aware of their related duties concerning internal control. Management should make sure that the delegation of authority is appropriate in relation to the assignment of responsibility.

The Town should have policies and procedures in place for hiring, orienting, training, evaluating, counseling, promoting, compensating, disciplining, and terminating employees. Background checks need to be conducted on candidates for employment. Once hired, employees should be provided a proper amount of supervision for the level of responsibilities and duties they hold.

Oversight should occur within the Town so that there are mechanisms in place to monitor and review operations and programs. Insufficient oversight leads to errors not being detected in a timely manner. This is a major weakness within the Town of East Greenwich. For example, even when the error of the duplicate payment of \$179,000 occurred and was pointed out to the Finance Director by the Fiscal Clerk, apparently it still took a number of months to recover the funds from the vendor.

### **Assessing and Managing Risk**

The second internal control standard addresses risk assessment. A prerequisite to risk assessment is the establishment of clear, consistent goals and objectives at all levels within the Town. The goals and objectives should provide guidance on how best to regulate activities to meet legislative and local government body regulations. The objectives should include



measurement criteria. Management should identify and clearly communicate to employees the things that must occur or happen if the Town's objectives are to be met.

Once the objectives have been set, then risks can be identified that could impede the efficient and effective achievement of those objectives. Internal control should provide for an assessment of the risks the Town faces both internally and externally. Management should discuss regularly how these risks could occur within the context of its short and long-term forecasting and planning.

Once risks have been identified, they should be analyzed for their possible effect. Consideration should be given to risks arising from the changing needs of the organization and its constituents. Risks posed by new legislation should be continually identified and mitigated as much as possible. The Town should also consider risks resulting from the potential change in operating practices and procedures before implementing the changes.

Management should then create an approach for risk management and decide upon the internal control activities required to reduce those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

### **Control Activities**

The third internal control standard addresses control activities. Internal control activities are the policies, procedures, techniques, and mechanisms that help ensure that management's directives to reduce risks identified during the risk assessment process are carried out. Control activities are an integral part of the planning, implementing, and reviewing processes. They are essential for proper management and accountability for resources, and for achieving effective and efficient results.

Control activities occur at all levels and functions of the organization. They include a wide range of diverse activities, such as approvals, authorizations, verifications, reconciliations, performance evaluations, security, and the production of records and documentation. Management should ensure that the control activities are being performed and that management's directives are being carried out. Management should assess the adequacy of internal control activities by considering if the proper control activity has been established, whether they are sufficient in number, and the degree to which those activities are operating effectively.

Internal control activities are only effective if they are followed once determined necessary and reviewed continually. Timely action needs to be taken on exceptions, implementation problems, or information that requires follow up. For instance, management should institute a budget-to-actual reporting control activity. Regularly, management should review the actual performance against budgets, forecasts, and prior period results. Variations not expected should be reviewed thoroughly and errors or inaccuracies should be fixed right away. If the variation is not an error, but an actual deviation from expectations, then operational activity should be reviewed to



determine why the variation occurred. It could indicate other problems within the organization that will need to be addressed immediately.

Another important control activity involves the physical control over vulnerable assets. Policies and procedures for safeguarding inventory should be developed, implemented, and communicated to all employees. Assets that are particularly vulnerable to loss, theft, damage, or unauthorized use, such as cash, inventories, and equipment should be secured and access to them tightly controlled.

Control activities are too numerous to list and they are different depending upon the entity. All control activities do have one common goal and that is to protect against actions that are contrary to the goals and objectives of the organization. A number of other important control activities are performance measures and indicators, segregation of duties, execution and recording of transactions and events, access restrictions, and documentation of controls.

### **Information and Communication**

According to the fourth internal control standard, for a Town to run and control its operations, it must have relevant, reliable information, both financial and non-financial. The information should be recorded and communicated to management and others within the organization who need it, and in a form, and within a time frame that enables them to carry out their internal control and operational responsibilities. In addition, the Town needs to make sure that the forms of communications are broad-based and that information is useful, reliable, and provides for continuous communication at all levels of staff and management.

Employees' specific duties, for instance, should be clearly communicated to them and they need to understand the relevant aspects of the internal control, how their role fits into it, and how their work relates to the work of others. Employees should be informed that when the unexpected occurs in performing their duties, attention must be given not only to the event, but also to the underlying cause, so that potential internal control weaknesses can be identified and corrected before they can do further harm to the Town.

Mechanisms should be in place for employees to recommend improvements in operations. Management should utilize effective communication methods to inform employees of changes that come from internal or external sources that are to be placed in effect. Those methods may include a policy and procedures manual, management directives, memoranda, bulletin board notices, etc.



## **Monitoring**

Monitoring is the final internal control standard. Internal control monitoring should assess quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. In considering the extent to which the continued effectiveness of internal control is monitored, both ongoing monitoring activities and separate evaluation of the internal control system should be considered. Ongoing monitoring occurs during reconciliations, and other actions people take in performing their duties. It includes ensuring that managers and supervisors know their responsibilities for internal control and the need to make control and control monitoring part of their regular operating processes.

Ongoing evaluations are a way to take a fresh look at internal control by focusing directly on the controls' effectiveness at a specific time. In addition, monitoring includes policies and procedures for ensuring that any audit and review findings and recommendations are brought to the attention of management and are resolved promptly.

Internal or external complaints to management are excellent tools to utilize in monitoring the activity of the organization. Complaints can be unfounded, but all should be taken seriously and reviewed as appropriate. Any legitimate findings should be dealt with in a timely fashion so as to avoid any further complications or inappropriate actions from taking place in the future.

The financial data of the organization should be periodically but regularly compared with physical assets and discrepancies should be examined and corrected immediately.

## **FINDINGS RELATIVE TO THE TOWN'S INTERNAL CONTROL STANDARDS**

### **Control Environment**

In our opinion, the Town of East Greenwich is very weak in all of the internal control standards mentioned above. The Finance Director understands the concepts of establishing an internal control structure and the implications of a weak one but has not taken the initiative in the six years he has been the Finance Director to create and implement an effective internal control structure. Mr. Mattos indicated to us that he has not implemented a single policy since he has been the Finance Director for the Town of East Greenwich.

As was stated above, the factors of an internal control environment that should be focused on include: integrity and ethical values, a commitment to competence, management's philosophy and operating style, organizational structure, the assignment of authority, and human resource policies and practices.

There is no doubt that the staff of the Finance Department has integrity and ethical values. The Public Officials that were interviewed gave the Town's staff the highest compliments in this regard. We received the full cooperation of all of the Town's Finance Staff and did not find any issues regarding this aspect of our assessment.



The commitment to competence has to come from the Town Manager and the Finance Director. Errors will occur in any organization but action must be taken to instill a commitment to competence and we did not see that during our assessment of the Finance Department. Each erroneous circumstance found seemed to be answered by the Finance Director as if each were an isolated incident.

Management's philosophy and operating style set the tone for how the staff reacts when issues arise. The operating style of the Finance Director is to allow the employees to do their work without a "micro-managing" approach on his part. The Fiscal Clerk / Accounts Payable staff member keeps a file folder of duplicate invoices that are sent to the Finance Department from other Departments to be paid (twice). These are mistakes that she has identified and prevented prior to duplicate payments being issued. We found no evidence that the Finance Director or the Town Manager has taken any corrective action to train or educate the responsible Departments staff in order to prevent the recurrence of this type of mistake. Duplicate payments will continue to happen if Management does not do something to find a solution. Areas of deficiencies that are recognized in employee performance or knowledge should be rectified through on-the-job training to ensure competence. Employees should be encouraged to seek assistance when needed.

Human resource policies and procedures are outdated or non-existent. The Town does not have an employee handbook or personnel manual. The purpose of these documents is to outline the wages, benefits and expectations of the employees of the Town. It sets the tone for expected behavior and consequences of unacceptable behavior or actions. The Town needs to adopt these guidelines as soon as possible. We have developed a draft copy for the Town to begin the process. We advise that documents of this nature be reviewed by the Town's legal counsel prior to adoption. The draft copy is located in Appendix B.

Every employee of the Finance Department stated to us that they received little to no training on how to perform their essential job functions. The most training that we heard of from one individual was two hours. From our interviews with the staff, it appears as though all employees of the Finance Department have "self taught" themselves in performing their day-to-day tasks. The Finance Director indicated, when asked by us, that he does not have meetings or training sessions with the staff unless a problem arises that needs to be addressed. The Finance Director disagrees that little or no training has occurred but agrees that more training can be done. The Finance Director needs to establish a training program for each position, evaluate the operational components of each function and meet regularly with the staff to communicate policies, procedures, to listen to concerns and receive input from the staff on a regular basis, not only when an issue arises.

Each employee should know how his or her actions interrelate to others considering the way in which authority and responsibilities are assigned, and employees should also be aware of their related duties concerning internal control. Management should periodically evaluate the organizational structure and make changes as necessary in response to changing conditions.



## Assessing and Managing Risk

A prerequisite to risk assessment is the establishment of clear, consistent goals and objectives at all levels within the Town. The Town does not have a strong internal control system in place, therefore it is nearly impossible for Management to assess or manage risk factors that do not exist. The fact that there are major weaknesses in the internal control structure alone indicates that the risk factors are extremely high which could lead to something not being detected in a timely fashion or at all for that matter.

Again, once the internal control structure is in effect, and risks have been identified, management should then create an approach for risk management and decide upon the internal control activities required to reduce those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

## Control Activities

As stated above, internal control activities are the policies, procedures, techniques, and mechanisms that help ensure that management's directives to reduce risks identified during the risk assessment process are carried out. Control activities are an integral part of the planning, implementing, and reviewing processes. They are essential for proper management and accountability for resources, and for achieving effective and efficient results.

Control activities include a wide range of diverse activities, such as approvals, authorizations, verifications, reconciliations, performance evaluations, security, and the production of records and documentation.

On several occasions during our review, we found that this area is in desperate need of improvement. We examined the file kept by the Fiscal Clerk – Accounts Payable that details duplicate invoices submitted for payment. Examples of duplicate payments with duplicate approval signatures by a number of persons in charge indicate that the controls are not working. Various Departments have authorized duplicate payments to be made by submitting paperwork twice. The controls exist in the Town's software system to not enable the same vendor invoice number to be processed without be alerted. Therefore, on each occasion either an error in data input was made or an internal processing procedure was not followed and those authorizing the payment to be made again were not paying close enough attention to catch the duplicate payment.

The Fiscal Clerk - Accounts Payable has made improvements in the way in which vendor invoice numbers are entered into the system as a result of some of the issues that have arisen in the past six months. By narrowly defining how invoice numbers are entered, mainly the consistency in which the invoice numbers are entered, the Fiscal Clerk has detected a number of potential duplicate payments and has prevented them from occurring. By utilizing the software system to its greatest potential, the risk that duplicate payments can be made is dramatically reduced. Samples of the Fiscal Clerk's efforts to avoid duplicate payments are found in Appendix C.



The Town, at the time of our inquiry in March 2005, had not fully performed the general ledger reconciliations for as far back as September 2004. August 2004 reconciliations of the bank accounts to the general ledger and other reconciliations had been performed. We determined that the Town's Chief Accountant was six months behind in reconciling the bank statements. When we discussed this with the Finance Director, he was not aware that the Chief Accountant was so far behind. Revenues and expenditures appeared to be up-to-date, with the exception of interest earned as best we could determine. The Finance Director does have a good handle on the general ledger activity. He satisfied our inquiries as to what was and was not up-to-date as far as revenues and expenditures were concerned. The Town's Chief Accountant also services all the Town's Information Technology needs.

The Chief Accountant stated to us that "both the IT work and the financials aren't getting done properly" because he was overloaded trying to handle both functions. He also indicated that "the operations aren't efficient or effective because we are behind the eight ball." He is concerned that he simply can not continue to function the way things are and be effective.

On another note, performance evaluations apparently are not done on a timely basis either. Some employees indicated that they have not had a review for some time. This is a critical component of the third standard of internal controls. If an employee's abilities and conduct are not critiqued and reviewed with the employee on a frequent basis, at least annually, management will not be able to communicate goals and objectives to the employee. The employee will not be made aware of areas in their work habits that need to be improved or corrected thus perpetuating any problems that are occurring.

Another important control activity involves the physical control over vulnerable assets. Policies and procedures for safeguarding inventory should be developed, implemented, and communicated to all employees. Assets that are particularly vulnerable to loss, theft, damage, or unauthorized use, such as cash, inventories, and equipment should be secured and access to them tightly controlled.

The Town's Independent Auditors indicated that the blank check stock is not stored in a safe place out of the access of those not authorized to use it nor is it controlled well. We did find that the Town has corrected this situation by establishing a check register log. The blank check stock is also locked up with access controlled by the Finance Director. Our review of this situation has determined that the practice now seems to be working effectively.

Another area of concern is that cash is kept in the "back room" in the Finance Department in a safe that is kept unlocked at night. The Town Hall could be broken into and the door that secures that area could also be broken into and the funds stolen out of the safe. The safe should be locked at all times and only unlocked as items need to be placed into it or removed from it. The safe and the door to the "back room" are kept unlocked during the day.



### **Information and Communication**

Information and communication represent the fourth internal control standard. A part of this standard is that employees should be informed that when the unexpected occurs in performing their duties, attention must be given not only to the event, but also to the underlying cause, so that potential internal control weaknesses can be identified and corrected before they can do further harm to the Town.

The Finance Department has recently begun looking at the internal controls over accounts payable, payroll, collections and financial reporting. The Finance Director is awaiting the results of this project so that he can begin making improvements to the internal control structure. The Finance Director has a number of good ideas as to how to improve the internal control policies and procedures of the Finance Department.

### **Monitoring**

Our most critical findings relate to the minimal amount of monitoring that is occurring by the Finance Director over the duties and responsibilities of his staff. We have no doubt that the Finance Director has the knowledge and abilities to perform the duties of his position. The Finance Director has to apply a greater degree of time and emphasis on monitoring the internal control structure and the day-to-day activities and work product of the Finance Department. The fact that so many errors occurred and went undetected is a clear indication that monitoring is weak and needs drastic improvement.

Numerous duplicate payments, unbilled properties, being six months behind in bank reconciliations without knowing it, sewer bills with wrong dates on them are just a few examples that support the reality that the monitoring process is not being done effectively.



## **SPECIFIC FINDINGS AND RECOMMENDATIONS**

### **Finding 1:**

The Finance Director began emailing monthly financial reports to the Town Manager and Town Council. He has not forwarded a hard copy to the Town Clerk as required for historical recordkeeping purposes. The Finance Director indicated to us that he should have been sending the Town Clerk a copy of the information.

### **Recommendation:**

We recommend that the Finance Director review the data on file in the Town Clerks office to determine what documents should be provided to get the historical data up-to-date.

### **Finding 2:**

The Finance Department bills vendors on a monthly basis who utilize the Police Department for outside details. The Finance Department pays the Police Officers for the hours worked and then bills the vendor to reimburse the community. The Finance Director has not established an internal control procedure to double check to make sure that all hours paid to the Police Officers are billed 100%. We did not find any particular issues with the way in which the process is working but the controls over billing could be stronger.

### **Recommendation:**

The Finance Director should review the revenue in the general ledger and compare that to the amount of hours paid to Police Officers to make sure that all the billing to vendors has occurred. This can be accomplished in a number of ways. The hours reported could be tallied and multiplied by the billing rate(s) and compared to revenue that is posted to the revenue line item in the general ledger. An excel spreadsheet could be prepared weekly to enable better tracking of the billable hours. We recommend that the Finance Director develop a control procedure to monitor the revenue.

The Finance Director indicates that the Town does reconcile the detail account to the general ledger on a quarterly basis. We recommend that it be done as payroll is processed to avoid any delays in processing.

### **Finding 3:**

The Financial Reports are provided to the Town Manager and the Town Council before the general ledger is reconciled. The Finance Director indicated that he provides the Town Manager a copy of the financial reports for approval around the 15<sup>th</sup> of each month. The Town Manager approves the report and then they are sent to the Town Council. The general ledger is not typically reconciled until at least the 10<sup>th</sup> of each month.



**Recommendation:**

The Finance Director should ensure that the general ledger is fully reconciled prior to submitting the financial information to the Town Manager and the Town Council. By doing so he will make sure that the reconciliations are being accomplished in a timely fashion as well.

**Finding 4:**

The Fiscal Clerk in charge of processing accounts payable has only received 2 hours of software training in four years. The training was done in January 2001. The Finance Staff stated during our interviews that they have not received any substantial amount of training.

**Recommendation:**

The Finance Director should establish a training program, whether in-house or through outside sources, for the entire staff. The training should include finance related topics specific to each job function. The training should also include updating the staff on changes to the Town's software programs, if any.

**Finding 5:**

The Fiscal Clerk in charge of processing accounts payable does not check the accuracy of the detail on the invoice prior to processing it for payment. The invoice does not appear to be "footed" down and across to make sure the invoice is totaled properly by any employee of the Town or School.

**Recommendation:**

Every invoice should be added down and across to make sure of the accuracy of the invoice totals.

**Finding 6:**

The Fiscal Clerk in charge of accounts payable sends the invoices to the Town Manager for approval prior to the Finance Director approving them for payment.

**Recommendation:**

The Finance Director should proof and sign off on all invoices and check warrants before sending them to the Town Manager for approval. The Town Manager should be able to rely on the Finance Director's signature that all items on the invoice have been checked by the staff of the Finance Department.

**Finding 7:**

The Finance Department does not have anyone cross trained to perform the accounts payable functions in case of an extended absence of the Fiscal Clerk.

**Recommendation:**

All positions, with the exception of the Finance Director, should be cross-trained to perform the essential functions of other positions that are not in conflict of duties with their own positions. A cross-training program would document the necessary daily duties that are required to process transactions in a timely fashion in case of the absence of a particular individual. The Finance Department should not allow work to pile up until someone returns from being out of the office.

**Finding 8:**

The Town utilizes wire transfers to pay payroll transactions and debt payments. Neither the Finance Director nor the Town Manager approves the wire transfer payments for payroll transactions. This is a material weakness in internal controls. The Finance Director indicated that the control function is at the Form 941 level, which is approved and signed by the Finance Director.

**Recommendation:**

All expenditures, whether through wire transfer or check or other means, should be approved by the Finance Director and/or the Town Manager. All wire transfers, especially, should be reviewed and approved prior to initiation of the transfer.

**Finding 9:**

The Town Manager approves payments on the "Direct Disbursements Form" but does not indicate the date of his approval.

**Recommendation:**

There is a place on the form for the Town Manager to date his signature. We recommend that all authorization signatures are accompanied by a date.

**Finding 10:**

The Policy Manual for the Town of East Greenwich has not been updated for quite some time. The individual policies are not dated as to when it was approved by the Town Council. We frankly could not tell if most if not all of the policies had ever been approved by the Town Council or if they were in effect at all. Certainly there is very little regard for any written policies on hand presently in the Finance Department. One staff member said "I could find them if I had to" which made it pretty apparent that it wasn't of much value to this person.



**Recommendation:**

All policies and procedures that are adopted by the Town Council should indicate the date that the Town Council authorized its usage. All policies should then be thoroughly reviewed with the staff to make sure they understand them and will abide by them in the future. We would recommend that the Town institute the policy located in Appendix K.

**Finding 11:**

The Town's cash and investments balances above and beyond the FDIC insurance amounts are not collateralized. According the 2004 Audit Report by Lefkowitz, Garfinkel, Champi & DeRienzo P.C., the total amount of deposits considered as "category 3," uninsured and uncollateralized, was \$6,036,348. The Finance Director indicated that all invested funds are in U.S. backed securities.

**Recommendation:**

The Finance Director should take immediate steps to determine exactly how much of the Town's cash balances are not covered by FDIC insurance presently and further determine the risk of potential loss should the Town's financial institution(s) close unexpectedly. The Finance Director should establish collateralization of the Town's cash balances at 102% of the amount of bank balances at minimum. The securities are most likely not in the Town's name and therefore are still subject to risk. The Finance Director should inquire if the Town is adequately safeguarded.

**Finding 12:**

The packing slip is not retained along with the invoice. By not retaining a copy of the packing slip no one knows who signed for the goods to be received.

**Recommendation:**

The Fiscal Clerk – Accounts Payable should attach the packing slip that was signed for by a Town Employee to the paid invoice for historical purposes.

**Finding 13:**

The purchase order process for the Town is not efficient or effective. The way in which it is being processed a majority of the time is a waste of paper and time. The purchase orders are more often than not issued after the fact. The invoices are dated prior to the purchase order date. The internal control over whether an appropriation exists in order for the goods or services to be purchased is obviously not working. The authorization of the purchase by the Finance Director and Town Manager is obviously after the purchase has been made. If the Town Manager or Finance Director did not approve the purchase order it would be too late most of the time.



Furthermore, when we inquired of the Fiscal Clerk – Accounts Payable what the requirement was for when a purchase order is to be issued she didn't know the answer. The person who is in charge of processing the purchase orders and payments against the invoices received should be made aware of what the requirements are otherwise how can she make sure that the requirements are being met? The fault does not rest on the Fiscal Clerk because the Finance Director indicated to us that there really isn't a policy that clearly states what necessitates the issuance of a purchase order.

The purchase requisitions are apparently discarded after the purchase order is issued. It should be kept for historical purposes detailing who requested the purchase order.

Also, the purchase orders, once printed, are sent to the various Departments to mail to the vendors. They most likely are never mailed to the vendors if they are approved after the invoice has already been received. A properly functioning purchase order process would have the Finance Department mail the purchase orders directly to the vendors.

**Recommendation:**

We recommend starting new with a comprehensive overhaul to the way in which the Town handles purchase orders. We would recommend that the Town institute the policy located in Appendix D.

**Finding 14:**

During our "shadowing" of the Fiscal Clerk – Account Payable position, an invoice was processed in order to demonstrate the process to MRI and an offered discount was not entered until we pointed it out to the Fiscal Clerk. The amount was only for \$6.40; however, the point is that even as the process was being detailed for our review a mistake was made due to trying to process the invoice too quickly.

**Recommendation:**

By improving the way in which purchase orders are issued, it will save the Fiscal Clerk – Accounts Payable position a lot of time. The additional time saved should be used to proof and process work more effectively. Careful attention to detail can't be overstressed enough. Management relies on the employees to process their jobs accurately and efficiently.

**Finding 15:**

The invoices for good and services received by the Town are mailed directly to the individual Town departments that ordered the goods or services. The Finance Department frequently receives those invoices within days of when payment is actually due to the vendor. This necessitates a quick processing of payments and oftentimes can lead to errors being made or discounts being lost.



**Recommendation:**

All invoices for goods and services received should be directed straight to the Finance Department for processing. All invoices should be date stamped as to when they received and sorted by department for coding. The invoices should be placed in separate bins for the Department Heads, or their designees, to come to the Finance Department to code and authorize for payment. The invoices, once coded and authorized, can then be entered into the system for payment. The Town will experience less time delays and the control over the invoices would be much greater. This process is a proven way to save on interest being paid due to late processing or receipt of invoices from the departments.

**Finding 16:**

When we inquired as to how many 1099's are issued by the Town at year end the answer we received was 30 according to the Fiscal Clerk – Accounts Payable. The School only issued 17 at the end of 2004. The number of 1099's frankly appears to be very low for the size of the community and the types of vendors that do business with Town and the School.

**Recommendation:**

The Finance Director and the Fiscal Clerk – Accounts Payable should review the vendor history and send W-9's forms to any and all vendors who may be required to receive a 1099 from the Town and have them fill it out and return it to the Town for processing.

**Finding 17:**

If an invoice for services comes in over the amount of the authorized purchase order, an adjustment is made to the purchase order in the computer software system but additional authorization of the Town Manager is not sought. The invoice, if the amount of the overage is not excessive, is signed for by the Department Head and paid. The amount of the overage and whether or not it is excessive apparently is determined by the Department Head, according to the Fiscal Clerk – Accounts Payable. The Town Manager and Finance Director both insist that this is not the case and that every invoice is approved by either the Town Manager or the Finance Director, or both.

**Recommendation:**

The recommended purchase order policy addresses this issue.

**Finding 18:**

During the interview with the Chief Accountant, we were informed by this person that he is seven months behind in performing his monthly reconciliation processes. The last month that had been fully reconciled from the subsidiary records to the general ledger was the month of August 2004.



The Finance Director was not aware that the Chief Accountant was so far behind on reconciling the bank statements to the general ledger. The Finance Director stated that there are a number of job duties that he has assumed to help the Chief Accountant.

The Chief Accountant, due to personal reasons, has a decreased work week in terms of the number of hours. He is also allowed to bring work home with him if need be. The Chief Accountant stated that he very rarely does that and if he has brought work home it didn't amount to more than a few hours of work. The reduction in work hours, albeit for good reasons, has had a negative effect on the Town.

The Chief Accountant has two functions. He also serves the Town in the capacity of information technology coordinator. These two functions, due to the size and complexity of the Town, are very important to the Town. The Town would benefit by having more than one person perform these essential functions. Presently having only one person perform both functions in 25 hours per week is not working. Even at 35 hours per week it would be difficult to perform both functions well.

#### **Recommendation:**

The Finance Director needs to review and approve the monthly reconciliation process and sign off on it. This would ensure that the Finance Director is aware of the status of the reconciliation process on at least a monthly basis. Forms are already available and being used. The Finance Director should ask to see a copy of the checklist done by the Chief Accountant and initial that he has seen them completed.

The Town should seriously consider adding an additional position to its Finance Department staffing. The Town Manager was correct in requesting a new position that would be dedicated to information technology needs of the Town. The Town has multiple servers, computers, printers, networks, software programs and other important technology and communication needs. The Town has reached the size, in our opinion, that it needs a position to focus solely on information technology and communications (telephones, cabling, etc) needs.

Also, the Town Manager and Finance Director need to make the difficult decision of making sure that the Chief Accountant position returns to normal full-time hours as soon as possible. Internal controls and accounting procedures have suffered in recent months and it is of vital importance that this position is functioning at full capacity. In part, many of the issues of time relate to the fact that this position presently is wearing two very important hats. Having the hours diminished to 20-25 hours per week just adds to the ineffectiveness of both functions.

#### **Finding 19:**

The sewer fund experienced a decrease in net assets in the amount \$901,492 at the end of June 30, 2004. The main reason for this loss, according to the Finance Director, relates to the timing of when a new sewer line was installed and the delay in which the Town can begin collecting fees versus the repayment of debt that was issued to install the sewer line. Apparently the Town

secured the financing at such a good rate that it was important to finance it to take advantage of the low interest rates prior to having the ability to bill the new customers coming online.

The interest expense went up slightly from FY2003 to FY2004. The main reason for the decrease in net assets was the extremely large decrease in revenue from assessments and user fees. The revenue was \$1,888,837 and \$795,501 for FY 2003 and FY2004 respectively.

**Recommendation:**

A further exploration of what caused the revenue decrease is warranted. This was beyond the scope of our engagement. Also, the effect as a result of the large customer leaving Town will need to be thoroughly reviewed. I believe the Finance Director is on top of this particular situation and has calculated the effect.

**Finding 20:**

The contribution to ICMA on behalf of the Town Manager is not paid through the payroll system but rather through accounts payable. The Finance Department staff, when queried, indicated that it does not appear on the Town Manager's W-2 at year end.

**Recommendation:**

The Town should inquire of ICMA if this is the proper way to handle the contribution of retirement wages for the Town Manager. We believe it to be incorrect in that it should be processed through payroll and shown as wages.

**Finding 21:**

The Town collects impact fees from developers who seek to develop land within the Town. The fee is to be paid upon the application of a building permit. We noted during our review of cash collections that one particular permit from a developer, see Appendix E, was dated January 6, 2005 but the funds were not deposited until March 2005. According to the Finance Director the permit and funds came to the Finance Department in March 2005 and were deposited right away. Therefore, the permit must have been held up by the issuing department.

In a different testing performed, we noticed that the same developer filed another permit dated December 12, 2004 that did not get deposited until February 22, 2005. Another permit dated January 6, 2005 for the same developer did not get deposited until February 22, 2005. The combination of the three permits totaled \$17,415.

The Finance Director did not understand why the checks for these particular permits were not sent to the Finance Department timely.



**Recommendation:**

The Town Manager should inquire as to why this occurred and determine a course of action as he deems appropriate. All permits should be collected in accordance with the Town's regulations regardless of who files the permit.

**Finding 22:**

The Fiscal Clerk/Collections does not get a copy of the stamped bank deposit receipt. She makes out the deposit slip and the Chief Accountant takes the deposit to the bank. The Fiscal Clerk/Collections would have no idea if a particular days receipts actually were deposited or not.

**Recommendation:**

The Town should ask the bank to print two receipts. One will be kept by the Chief Accountant and one would be returned to the Fiscal Clerk/Collections.

**Finding 23:**

The Town does not have a written cash receipts policy addressing the frequency of when deposits should be made or how cash is to be stored until the deposit is made.

**Recommendation:**

The Finance Director should review the sample policy developed by MRI and adapt it to the Town's specific needs. The sample policy can be found in Appendix F. Once modified as desired the Town should adopt the policy and put it into effect.

**Finding 24:**

The Town has had an ongoing problem with estimating the wages that are covered by workers compensation insurance. Each year, for at least the past three years, the Town has paid additional premiums as a result of the workers compensation audit. For the year 2002/2003, an additional invoice was received and paid by the Town in the amount of \$40,139 as a result of the audit. The Town underestimated wages by approximately \$2,600,000.

The workers compensation insurance audit for the 03/04 year indicated that the Town under reported the salaries by approximately \$4,200,000. The estimated salaries total was \$16,343,798 for the salaries covered by workers compensation. The audited payroll amount was \$20,528,960. This under reporting of the salaries resulted in an additional invoice in the amount of \$60,909 being due from the Town to the insurance carrier.

That amount was due and payable by December 17, 2004. The Town, on January 13, 2005, made a partial payment in the amount of \$30,909 and has inquired of its insurance agent as to what caused the large increase. The Town is holding the rest of the payment until an answer is received. Please see Appendix G for copies of these invoices and audit information.



The Finance Director, as of March 23, 2005, had not resolved the issue. The Finance Director informed us that he and the Town Manager had spoken with the insurance company representative in either December 2004 or January 2005 and asked the representative to check into the issue. An additional amount due in the amount of \$30,000 still remains to be paid if the audit results are accurate.

The Finance Director believes that the 2005/2006 budget figures for workers compensation insurance are accurate. We have to question that statement because the results of the audit for the previous year are still not finalized and it is unclear to us if the 2004/2005 figures are accurate either.

**Recommendation:**

The Finance Director should immediately review the detail of the workers compensation issues from 2003/2004 and also make sure that the Town has an idea of what will happen at June 30, 2005 and for the budget year 2005/2006.

The estimated wages for 2002/2003 were the same for 2003/2004. The Town needs to make sure that the estimated wages and wage categories are accurately reported when establishing budget for workers compensation insurance. The Finance Director also should **actively** pursue resolving the 2003/2004 audit amount that remains due still.

This area was certainly a correctable issue and should not have been allowed to continue from year to year as it has. Nothing at all seems to have been done until recent months for a problem that has recurred for a number of years in a row.

**Finding 25:**

The Town of East Greenwich does not have an "Internet Use" policy defining the authorized usage of its computers, networks and internet use.

**Recommendation:**

The Town should adopt an "Internet Use" policy as soon as possible. A suggested "Internet Use" policy is located in Appendix H.

**Finding 26:**

The Finance Director does not review detail of the Human Resources Coordinator/Fiscal Specialist's work. The Finance Director signs off on the last page of the payroll check manifest but that appears to be it. The Finance Director does not review the detail of the payroll transactions or any other detail level work performed by this employee. The employee appears to MRI to be very competent in performing her duties and responsibilities. If this employee does make an error it is likely to go unnoticed.

The Finance Director, in approving weekly payroll checks, only receives the last page of the payroll check listing for approval. The last page, for instance, may only show the check amounts for 10 out of 100 payroll checks and the total of the checks. His signature does not indicate that he has reviewed the detail but merely the total of the checks and what might have been seen by him on the last page of the check register only.

**Recommendation:**

The Finance Director needs to monitor the work activity of this position. The Finance Director should review the details of the payroll processing for accuracy and review any findings with the HR Coordinator, if any. Reviewing only the last page of the check register is not sufficient in our opinion.

**Finding 27:**

The Town does not have a uniform format in reporting various departmental employees time to the HR Coordinator for payment processing. Each department submits the hours of its employees utilizing different forms, etc.

**Recommendation:**

The Finance Director and HR Coordinator should develop a uniform reporting format that can be utilized by all departments so that the HR Coordinator's processing time can be reduced. By having a standardized reporting format that is structured for ease in entering data into the MUNIS software program, the time it takes to enter the data can be reduced. A sample form is provided in Appendix I.

**Finding 28:**

The Auditors for the Town have set up a liability to the State of Rhode Island for funds received by the Town that were not spent in the year they were received but in subsequent years. The funds in question were "Brambly Funds." We inquired about the status of the follow up with the State and the Finance Director indicated that he had requested that the State issue a letter to the Town stating that it was appropriate for the Town to expend those funds and that there is no liability to repay the State. When we asked for proof that the Town requested such documentation from the State, we received a letter from the Finance Director dated after the date of our inquiry. See Appendix J for a copy of the letter dated March 10, 2005.

**Recommendation:**

The Finance Director needs to be more diligent in following up on items of importance to the Town in our opinion. Many of our findings in this report are related to the Finance Director's lack of timely response or action to issues of importance.