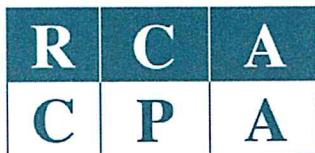


TOWN OF MILLBURY, MASSACHUSETTS
REPORT ON APPLYING AGREED-UPON PROCEDURES
COUNCIL ON AGING
BUSINESS OPERATIONS REVIEW
JULY 2012

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**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES**

To the Town Manager of the Town of Millbury:

We have performed the procedures specified in Schedule I, which was agreed to by the Town of Millbury. The procedures were performed, solely to assist the Town of Millbury in analyzing the business operations of its Council on Aging and the possible identification of process deficiencies and needed improvements. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures specified on Schedule I either for the purpose for which this report has been requested or for any other purpose.

We have attached to this report Schedules II and III, which is an overview of the Council on Aging's business operations, findings and recommendations for improvements.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the Council on Aging's business operations. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Town of Millbury and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

Roselli Clark & Associates

Roselli, Clark and Associates

Certified Public Accountants

Woburn, Massachusetts

August 29, 2012

SCHEDULE I – AGREED UPON PROCEDURES

In accordance with our letter to the Town of Millbury's (the "Town") Town Manager dated July 2, 2012, we performed the agreed-upon procedures described below, in order to determine if the operations of the Town's Council on Aging, or COA, have been administered in a manner sufficient to satisfy certain financial regulations as they pertain to the Commonwealth of Massachusetts and internal policies and procedures established by the Town. In addition, we evaluated the overall business operation to determine: (1) if best business practices are in place, and (2) if process deficiencies and the need for improvements exist.

We interviewed several Town employees including its Town Manager, Finance Director, Executive Director of the COA, Acting Executive Director of the COA, administrative assistant to the COA and two clerks employed by the COA.

We made inquiries of these individuals with respect to:

1. The organization of the COA and its reporting structure.
2. The services offered by the COA to the Town's over-sixty year old population.
3. The processes used to assess and collect fees for services and the subsequent turnover of these collections to the Town's Treasurer.
4. The processes used to procure goods and services, manage vendor invoices, and make payments to outside vendors, in accordance with Town policies and procurement laws and regulations set forth by the Commonwealth of Massachusetts.
5. The processes used to hire employees and record payroll.
6. The processes used to safeguard the COA's assets, including cash.
7. The processes used to report and reconcile the COA's financial operations.
8. The COA's compliance with applicable laws and regulations.
9. The COA's policies on building usage.

We also reviewed over 94% of the dollar value of expenditures made by the COA with outside vendors. Our procedures for this review were focused on the recording, classification and validity of these transactions, as well as, compliance with Town policies and procurement laws and regulations set forth by the Commonwealth of Massachusetts.

SCHEDULE II – OVERVIEW OF THE COUNCIL ON AGING’S BUSINESS OPERATIONS AND FINDINGS

The Council on Aging, or COA, operates under the statutes of Massachusetts General Law Chapter 40, Section 8B and the By-Laws of the Town of Millbury (the “Town”). The COA is managed by its full-time Executive Director, who reports to the Town Manager. An eleven member board to the COA is appointed by the Town’s Board of Selectmen and each board member serves for a term of three years. In addition to the Executive Director, the Town employs four part-time employees at the COA; three of these employees function in administrative and clerical roles and the fourth in plant maintenance.

The COA’s mission is to mobilize the resources necessary to meet the supportive needs of the Town’s senior citizen population. The COA designs programs to improve and enrich the quality of life for the elderly including, but not limited to, nutrition counseling, outreach, transportation, health clinics, information//referral and social activities.

The building in which the COA operates is located at 1 River Street, which is in close proximity of the center of Town and is generally open from 8:30 am to 4:30 pm each weekday. The building was formerly a train station and was converted into a government building in 1996. In addition to the physical building, the COA site has ample parking and a recently donated Victorian garden.

The operation of the COA is facilitated greatly by the Friends of Millbury Seniors, Inc. (the “Friends”), which is an independent not-for-profit organization.

FINANCIAL OVERVIEW

The accounting for the COA’s operations takes place in the Town’s general fund and a special revenue fund used to account for a formula grant awarded to the Town by the Commonwealth of Massachusetts. The following unaudited financial information is presented for informational purposes only:

	<u>General Fund</u>		<u>Special Revenue Fund</u>	
	2012	2011	2012	2011
Revenues	\$ -	\$ -	\$ 18,088	\$ 17,990
Expenditures:				
Salaries	109,831	99,046	-	-
Purchase of services	19,654	20,429	18,153	18,129
Supplies	3,201	3,250	-	-
Other	1,043	2,000	-	-
	<u>133,729</u>	<u>124,725</u>	<u>18,153</u>	<u>18,129</u>
Net outflows	<u>\$ (133,729)</u>	<u>\$ (124,725)</u>	<u>\$ (65)</u>	<u>\$ (139)</u>

With the exception of grants from the Commonwealth of Massachusetts of \$18,088 and \$17,990 in fiscal years 2012 and 2011, respectively, the operation of the COA is financed exclusively through taxation.

FINDING 1 – EXPENDITURE PROCESSING

As discussed in Schedule I, we reviewed over 94% of the dollar value of expenditures made by the COA with outside vendors. In total, 205 transactions were reviewed out of a possible total of 230 transactions. Our procedures for this review were focused on the recording, classification and validity of these transactions, as well as, compliance with Town policies and procurement laws and regulations set forth by the Commonwealth of Massachusetts. We made the following observations with respect to these procedures:

Insufficient Number of COA Board Member Signatures in Voucher Process – The internal control system placed in operation by the Town requires that the majority of COA board members endorse a voucher to authenticate and authorize a vendor's invoice for goods delivered or services rendered. We observed *seven* instances (one in 2011 and six in 2012) in which vouchers were presented by the COA to the Town for payment in the Town's warrant process that did not contain the requisite number of COA board member signatures. In aggregate, these expenditures totaled \$2,758, or approximately 3%, of total non-payroll related expenditures for the period July 1, 2010 to June 30, 2012.

The Town employs mitigating controls within its warrant process regarding the authorization of disbursements; however, the absence of the requisite number of COA board member signatures is a departure from the Town's voucher practice as it relates to COA disbursements. Therefore, these should not have been submitted for payment by the COA Executive Director or approved for payment by the Finance Office.

Pre-Signed Vouchers – As discussed above, the Town requires that the majority of COA board members endorse a voucher to authenticate and authorize a vendor's invoice for goods delivered or services provided. Shortly after placing the COA's Executive Director on administrative leave in April 2012, the Acting Executive Director discovered twelve (12) pre-signed "blank" vouchers in the office of the Executive Director. These pre-signed "blank" vouchers were presented to us and are maintained by the Town Manager.

Vouchers were also observed during the course of our procedures that would also indicate that pre-signed "blank" vouchers may have been used throughout the course of the period under review. For example, we observed an instance in which a voucher dated October 28, 2011 for reimbursement to the Friends was signed by a COA board member that died on October 1, 2011. In addition, there was a voucher for services received by the Friends dated May 16, 2011 with signatures that appear to be identical to a voucher for services received by the Friends dated June 30, 2011. In contrast, other vouchers issued on June 30, 2011 contain different signatures. Furthermore, the voucher dated May 16, 2011 was supported by an invoice dated June 15, 2011. This is not possible unless the voucher was pre-signed.

Pre-signed vouchers are similar to "blank authorizations." The use of pre-signed vouchers is a serious breach of internal controls, particularly in Millbury, where these forms are required to serve as the approval process in the instance of COA invoices. This deficiency in the control process could cause the system to be vulnerable to unauthorized disbursements. This also indicates that members of the COA board and its management are in need of training on financial management and internal controls.

Double Payment – We observed that a \$1,000 payment for a Friends invoice for "675 rides" dated June 15, 2011 was paid by the COA twice under vouchers numbered 155565 and 156478 dated May 16, 2011 and June 30, 2011. These vouchers are the same vouchers described above in the Pre-

Signed Vouchers discussion and appear to have identical signatures by COA board members. Since this was a payment for the same cost, this should not have been submitted for payment by the COA Executive Director or approved for payment by the Finance Office.

Vendor Payments to Town Employees – We observed that the COA authorized payments to two individuals in both fiscal year 2011 and 2012 as 1099 contractors that are employees of other Town departments. Payment for services by the COA to Town employees must be made through the payroll warrant process and be reported as wages on a W2, not as independent contractor services on a 1099-MISC.

Unsupported Amounts in Vouchers – We observed that voucher 156474 dated June 30, 2011 for a payment of \$592.45 to the Friends for nutritional purposes was submitted to the Town for payment without an original vendor invoice or other supporting documentation. This amount brought the balance of the fiscal year 2011 “other expense” category to exactly \$2,000, which was its budget in fiscal year 2011.

This expenditure did not have the requisite supporting documentation and therefore should not have been authorized for payment by the COA Board and should not have been submitted for payment by COA Executive Director or approved for payment by the Finance Office.

Chapter 30B Considerations – Chapter 30B of Massachusetts General Laws, or MGL, requires that for service contracts with annual values between \$5,000 and \$24,999, three written and/or oral quotes must be *sought*; Chapter 30B does not require one to *obtain* three quotes. Chapter 30B requires the retention of certain information for these large dollar services such as (i) the names and addresses of the vendors contacted for quote, (ii) the names of all vendors that submitted the quotes and (iii) the date and amount of each quote. For service contracts with annual values in excess of \$25,000, a municipality must use the competitive, sealed bid process set forth by Chapter 30B. In addition, all goods and services \$5,000 or greater must be supported by a formal written contract.

We observed that the outreach services rendered by the Friends to the COA exceeded \$5,000 in fiscal year 2011 (\$6,648). We requested, but were unable to secure any information that would lead us to believe that the procurement rules promulgated under Chapter 30B were followed. If this assertion is accurate, these disbursements should not have been authorized for payment by the COA Board and should not have been submitted for payment by the COA Executive Director or approved for payment by the Finance Office.

FINDING 2 – COA BUILDING USE

The COA’s Building Use Policy was revised in March 2012. The final sentence of this policy reads “While no fee is charged for use of the facility, a donation to the Friends of Millbury Seniors, or to any one of the current charitable activities of the Center (food pantry, etc.) would be greatly appreciated.”

In connection with our procedures, we observed an instance where an area not-for-profit used the COA facility and donated \$200 in the form of gift certificates to a local supermarket, which was ultimately used for the Friend’s operated food pantry. Proceeds from any event hosted at the COA building should be presented to the Town and not to any outside organizations as the Town is the owner and operator of the facility, not the Friends or any other charitable organization.

FINDING 3 – ETHICS DETERMINATION

The State Ethics Commission (the Commission) was created to foster integrity in public service within state, county and local government and to promote the public's trust and confidence in that service. It is the Commission's duty to fairly and impartially interpret and enforce the conflict of interest and financial disclosure laws.

Communities will typically request opinions from the Commission regarding situations that they are about to enter into, and they will also refer situations to the Commission for evaluation regarding a potential violation. It is the responsibility of the Commission to make a final determination in those situations.

While we were conducting our procedures, we noted 3 situations which we believe the Town should further evaluate with the assistance of Counsel, to determine if an inquiry to the Commission should be made.

1. It was disclosed to us by the Treasurer of the Friends that the Executive Director of the COA is an authorized signer on the Friends' checking account. It was further disclosed to us in this interview with the Treasurer of the Friends, that the Executive Director of the COA is able to endorse disbursements made by the Friends for goods and services that the Friends would ultimately submit to the COA for reimbursement. The Treasurer also disclosed to us during this interview that money is not disbursed by the Friends without the approval of the Executive Director of the COA. The Executive Director of the COA is also the individual largely responsible for the preparation and submission of vouchers to the Finance Office for reimbursement to the Friends' checking account for which they are an authorized signer.
2. A COA board member is also the President of the Friends.
3. A part-time employee of the COA is also the Treasurer of the Friends.

It is also important to note that since the Friends' revenues are below the State mandated threshold for audit and reviews for nonprofits, there is no requirement for independent oversight relative to any of the Friends' disbursements.

FINDING 4 – COMINGLED OPERATIONS BETWEEN COA AND THE FRIENDS

After conducting interviews of the Town Manager, its Finance Director and several COA employees, a review of the minutes of the COA's board meetings for calendar years 2011 and year-to-date 2012, as well as the COA's website, it is difficult to draw a distinction between the activities of the COA and those of the Friends. The two organizations are comingled in such a way that makes it difficult to ascertain which services are offered by which organization.

Upon reading the minutes of the COA board meetings, Friends business is discussed throughout the course of the meeting, which makes it difficult to determine which activities belong to the COA. One employee interviewed indicated that it is sometimes difficult to separate the functions of the two groups. Furthermore, a good deal of the work day of COA employees is spent coordinating transportation services, which is an activity that the Friends are contracted to perform on behalf of the COA and for which the Friends receive a fee-for-service for areas outside the scope of its transportation arrangement with the COA. In addition, it has been represented to us that a single time sheet is used each week that

accounts for the hours worked for COA employees, Friends contractors and volunteers for both organizations.

It is clear that the Friends provide a valuable service to the COA and the Town's seniors. However, a clear demarcation of services cannot be drawn at this time. Furthermore, the purpose of not-for-profit organizations like the Friends is to provide services outside the general scope of a municipal senior center (i.e., arrange for trips to social events outside the Town, arrange for guest speakers and presentations, etc.) and fundraise with portions of the fundraising going to a municipal senior center to supplement fees raised by that municipal senior center for services it provides.

FINDING 5 – FRIENDS PAYMENT FOR COA GOODS AND SERVICES

The majority of the disbursements paid from the formula grant for both 2011 and 2012 were made to the Friends. These disbursements were required for expenditures incurred by the Friends on the COA's behalf. Expenditures included transportation, outreach, intergenerational counseling and various sundry items.

In addition, we observed instances in which the Friends made payments to third parties for conference fees and facility maintenance that were billed directly to the COA. While these expenditures appear appropriate for the activities of the COA, the initial payment for these goods and/or services by the Friends places the disbursement process at risk of not being in accordance with Town disbursement policies or proper procurement regulations.

FINDING 6 – ABSENCE OF RECORDED CASH RECEIPTS

As illustrated in the Financial Overview on page 3 to this report, with the exception of a single grant from the Commonwealth of Massachusetts, there are no other sources of revenues for the COA. This is atypical from most Massachusetts-based municipal senior centers in which many programs and activities are fee based and processed through the Town's cash handling process. It is evident that all monies raised at the Millbury Senior Center are designated as Friends' activities and are processed through the Friends' cash handling and collection process which could place the process at risk, if the programs are more appropriately determined to be COA, rather than Friends' programs.

FINDING 7 – DECALS ON THE TRANSPORTATION VANS

There are five vans that serve the transportation needs of the Town's seniors, none of which are owned or operated by the Town or COA. Three vans are owned by the Friends and two are owned by the Worcester Regional Transit Authority, a separate government agency. However, each of these vans has a decal that indicates that the vans are operated by the Millbury COA. This is not accurate and can expose the Town to unnecessary liability in the event of an incident and related injury.

OTHER FINDINGS AND AREAS OF INTEREST

Policies and Procedures Manual – The COA does not have a policies and procedures manual for its business operations.

Building Security – The building and its surrounding grounds are in good repair and appear to be handicap compliant. A limited number of individuals have keys to the facility. A morning volunteer opens the building at 6:30 or 6:45 for food delivery. The building remains unlocked until the Elder Services representative arrives around 8:00 or 8:15, so there is about 90 minutes of unlocked, unsupervised exposure regarding access to the building. This is particularly risky given there is presently no safe on the premises and cash is maintained in the Executive Director's Office prior to deposit into the Friends' bank account. This cash belongs to the Friends, since no cash is received by the COA. However, the liability regarding the safekeeping of this cash may lie with the Town since it is a Town owned building.

In addition, it was represented to us that it is not unusual for area youth to use the parking lot and gardens for skateboarding and other leisure purposes after normal business hours. This unauthorized use increases general liability risks. The COA building and grounds have been vandalized in the past. Furthermore, there are no visible notices posted that alert one to the normal business hours of the COA building and that unauthorized use is prohibited.

Need for Financial Reporting by Friends to COA – The Friends is a separate legal entity that is not under the control of the Town or the COA. However, the Friends operate out of a Town facility and store all their inventory and assets in the COA building and on its grounds. In accordance with the Town Charter, all facilities are ultimately under the control of the Town Manager.

The Town does not receive periodic financial reporting that summarizes the value of any property that the Friends have at the COA building for liability insurance purposes.

SCHEDULE III – RECOMMENDATIONS FOR IMPROVEMENTS

ENHANCEMENTS TO INTERNAL CONTROLS

Internal controls consist of several interrelated components that, when operating effectively, provide the Town, the users of the COA's services, and the tax payers of Millbury reasonable assurance that the strategic and operational objectives of the COA are met. Policies and procedures should be established that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of the COA's funds;
- provide reasonable assurance that transactions are recorded as necessary to permit the preparation of COA financial information and that receipts and disbursements of COA funds are being made only in accordance with authorizations of the Board; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of COA funds.

It is evident that there are areas for improvement in the internal controls employed by the COA. This should begin with training for its management and board members by the Town's Finance Director. This training should focus on appropriate business practices, MGL Chapter 30B, general liability concerns and the warrant and the payroll processes.

We recommend that the COA, together with the Town's Finance Director, establish a formal set of policies and procedures surrounding the financial management of the COA. The policies and procedures for the COA should be designed to clearly communicate the COA's expectations of its personnel (and its volunteers) and the intent and purpose behind these expectations. Specific consideration of the limited number of COA staff and their current understanding of fiscal policies should be factored into the development of the policies and procedures so that they do not become overly burdensome and distract COA personnel and volunteers from their day-to-day operations.

Policies and procedures should be established surrounding:

- initial authorization and ongoing review of COA programs;
- receipt and handling of cash rendered by seniors for services, as well as donations;
- request for procurement quotes for significant COA expenditures in accordance with MGL Chapter 30B;
- processing, approval and submission for payment by the Town of vendor invoices;
- processing and approval of payroll;
- timely reconciliation of COA turnover reports to banking records maintained by the Town;
- recording of services provided to COA customers;
- recording of donated time and services to the COA; and
- periodic reporting of this financial information to all stakeholders.

The use of policies and procedures as a control mechanism would better ensure that all monies are properly accounted for, that disbursements are authorized and used for their intended purpose, and that Town and COA assets are adequately safeguarded.

VOUCHER APPROVALS AND THE TOWN'S WARRANT PROCESS

We observed instances where vouchers were presented by the COA for payment by the Town that did not contain the requisite number of COA board member signatures or were unsupported by vendor invoices. We recommend that both the COA board and the Town's Finance Department perform a greater degree of diligence in their voucher approval process.

The COA issues approximately a dozen vouchers for payment to the Town each month. We received conflicting information from those we interviewed as to the COA board signature process used on vouchers. It was represented to us by one COA employee that all vouchers are presented to the COA board once a month during their regular meetings for approval and signature. Another COA employee indicated that the COA board members are contacted by the COA when vouchers are prepared so they can physically come to the COA building and sign the vouchers. We recommend that the voucher approval process be performed at each COA board meeting and be included as a formal part of the COA board meeting. Furthermore, each approved voucher should be documented in the official minutes of these meetings.

CEASE THE USE OF PRE-SIGNED VOUCHERS IMMEDIATELY

The practice of obtaining pre-signed vouchers from COA board members should cease immediately. Furthermore, as part of the training of COA board members and employees discussed on page 8, we recommend that the Town provide the telephone number and e-mail address of a Town official who can be contacted in the event that this or any other area of financial impropriety in accordance with the Town's *Policy on Fraud Protection and Anti-Fraud Response Program* exists.

BUILDING USE POLICY CHANGES

We recommend that the COA amend its Building Use Policy to include a set fee for use of the COA building. All monies received for the use of the COA building should be paid to the Town and not to the Friends.

ETHICS DETERMINATION

We recommend that Special Town Counsel evaluate the situations discussed on Page 6 to determine if there are any violations of Chapter 268(A) of the Massachusetts General Laws. If there is such a determination, then the relationship between The Friends and the Senior Center should be separated and not integrated as it presently exists.

We recommend that the Town require all Council on Aging Board members and employees working at the Senior Center disclose annually their participation and relationships (both paid and unpaid) with all area organizations that provide services or goods to the Council on Aging and/or the Town. Any areas in which there may appear to be conflicts of interest should be brought to the attention of the Town Manager.

ESTABLISHMENT OF A REVOLVING ACCOUNT FOR THE COA

The COA's operations are currently accounted for as components of the general fund and a special revenue fund for its grant awarded by the Commonwealth of Massachusetts. If not already established, we recommend that a revolving account be established for the COA that is operated by the Town Treasurer on behalf of the COA. This revolving account should be used to record service fees received by the COA and corresponding expenditures.

SEPARATION OF COA AND FRIENDS ACTIVITIES

Services – As stated previously in this report, it is clear that the Friends provide a valuable service to the COA and the Town's seniors. However, a clear demarcation of services cannot be drawn at this time. We recommend that the Town, the COA and the Friends work together to develop a mutually agreeable schedule of services that each will offer to Millbury's seniors.

In general, the COA should be responsible for all fee-for-service activities conducted within its building with the exception of certain fundraising activities it permits the Friends to conduct, such as morning coffee and pastry sales, concerts/dances, clothing sales and certain social activities.

As the Friends have been contracted to provide the transportation services for the COA, these services should continue to be conducted by the Friends. However, COA employees should not be used by the Friends to coordinate, schedule and/or accept payment for Friends transportation that is beyond the scope of its contracted arrangement with the COA.

Management – As the operations of the Friends is a significant component to the overall success of the COA, we recommend that its management be invited to participate in the monthly COA board meetings. However, Friends business should be exclusive from COA business, and the COA board should designate a special portion of its meeting to receive updates from the Friends on their operations within the COA building and on behalf of the COA as its contractor for various services.

Furthermore, as the Friends' mission is to assist the COA in serving the Town's seniors, the Friends should present monthly financial updates on its operations that are relevant to the COA, as well as a detail of property the Friends maintains at the COA building and its grounds for liability insurance purposes.

Employees – Town employees working at the COA should be solely focused on COA business while being compensated by the Town. We understand that several COA employees are also volunteers to the Friends. The time these employees provide to the Friends should be made before and/or after their assigned COA time. In addition, Town-owned computers and e-mail accounts should not be used for the Friends' activities. We recommend that these limitations be included in the COA's policies and procedures.

CEASE THE PRACTICE OF USING FRIENDS FUNDS TO FINANCE COA COSTS

The practice of the Friends purchasing goods or paying for services rendered on behalf of the COA should cease immediately. This practice circumvents the Town's procurement process.

TRANSPORTATION VAN DISPLAYS

We recommend that the Friends remove the existing decals on all vans they operate indicating that the vans are operated by the Millbury COA. New decals should be affixed on these vans indicating that the vans are operated by the Friends.

BUILDING SECURITY

We recommend that the Town and its COA investigate deploying surveillance cameras at the COA's building and its grounds.

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