

Rapid Assessment: Finance Department

Town of Poolesville Maryland

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Background and Purpose

The Town has grown and evolved as an organization over the past several years and experienced turnover at the Town Manager position. A transition between Town Managers provides an opportunity for the Town to reassess established processes and procedures and broaden the understanding of key financial controls.

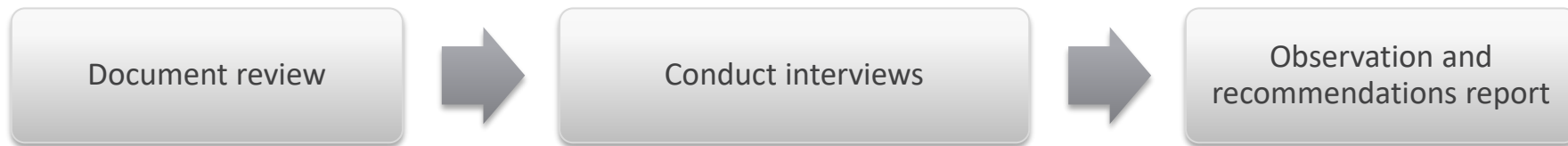
To this end, leadership has contracted with a team from CLA to provide a report of actionable steps to assist the incoming Town Manager in improving controls and operational procedures around the Town's financial processes.

At the time of this assessment, the Town has:

- \$4.6 million General Fund revenues and \$1.6 million Utility revenues
- 18 total full-time employees
- 5 part-time, elected Commissioners and a Town Manager reporting to the President of the Commissioners and to the Commissioners



Approach and Methodology






Individuals Interviewed

Name	Role
Bobbie Evans	Town Clerk
Matt Haga	Wastewater Treatment Plant Supervisor
Preston King	Director of Parks and Streets
Maggie Leibrand	Deputy Clerk
Andrew Witt	Superintendent of Water/Wastewater




Name	Role
Tony Tomasello	Outgoing Town Manager
Wade Yost	Town Manager
Jim Brown	President
Martin Radigan	Commissioner



Key Themes

Recommendation	Results and Impact	
<p>Processes – We recommend regular and complete financial information be provided to those charged with governance, including interim financial data and the annual financial statements.</p>	<p>Commissioners would have more information in making key financial decisions including the budget and oversight of the Town Manager.</p>	
<p>Systems – We recommend the Town contact Quickbooks to make changes to improve the efficiency of the software used through integration with the utility billing system, provide multi-user access, daily back-ups, and present all funds used by the Town.</p>	<p>Key financial data will be securely stored, and staff will be able to focus on higher level tasks instead of performing time consuming manual processes.</p>	
<p>Segregation of Duties – Currently, the same key employee is responsible for cutting checks, processing and recording all payroll transactions, reconciling the bank statements, and maintaining all accounting records. This is not unusual for a Town of your size. However, it requires unique safeguards to ensure all transactions are properly recorded and funds are used as authorized. Traditionally, other personnel take on a review role and other personnel periodically function as a back-up for key portions of the role. Through-out our report there are a number of recommendations made to address this situation.</p>	<p>The risk of error or fraud will be significantly reduced when multiple individuals are involved, even in a review capacity, in significant financial processes.</p>	

Priority Color Coding Key

-  High Priority; Action Needed
-  Moderate Priority: Action Optional
-  Low Priority or No Action Needed





Detailed Observations and Recommendations

WEALTH ADVISORY | OUTSOURCING
AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen
Wealth Advisors, LLC, an SEC-registered investment advisor

Observations and Recommendations

Category	Observation	Recommendation
Banking	The Town's local bank branch is closing. Rather than change banking relationships staff have begun to implement a check scanning process.	Continue to move forward with the implementation of check scanners to eliminate most trips to the bank. Consider whether you could achieve cost savings by changing financial institutions and having a banking relationship with a local branch.
Banking	The Town uses the Montgomery County Local Investment Pool for all investments. Statements are only provided on a quarterly basis, are manually developed, and occasionally are not provided on a timely. As a result, investments can not be reconciled monthly.	Consider moving investable funds to a larger organization with the capacity to provide an investment statement on a monthly basis and on-line account access for daily viewing of transactions. All bank and investment accounts should be reconciled monthly.
Banking	A number of years ago banks began offering a service called Positive Pay. This service requires the Town send a file of the checks they have issued to the bank. The bank will then only allow those checks to clear the Town's account without additional approval. These steps help prevent third party agents from cashing fraudulent checks on the Town's bank account.	We recommend that the Town implement positive pay for all checking accounts.



Observations and Recommendations

Category	Observation	Recommendation
Banking – segregation of duties	In recent years, banks have moved away from issuing paper bank statements to providing on-line access to real-time banking data and statements. There is no process established for a second individual to review the bank activity or reconciliation, ensuring all transactions occurring at the bank are recorded on a timely basis.	Provide on-line access to the Town Manager to the bank and investment accounts. When the Town Clerk completes the monthly bank and investment reconciliations, they should be provided to the Town Manager for review. During this review, the Town Manager should verify the bank balances and review the account transactions at the bank via online access.
Quickbooks	The Town uses Quickbooks for all accounting transactions and records. Quickbooks provides an easy to learn product that Town staff are familiar with. Quickbooks system allows for transactions to be deleted without a full audit trail that the transaction existed.	Transactions should not be deleted from an accounting system, but rather should be reversed. This ensures the integrity of the financial information, allows tracking of changes within the system, and prevents accidentally data loss. We are not aware of any transactions being deleted, but this is an inherent risk within the Quickbook system.
Quickbooks – segregation of duties	The Town uses the desktop version of Quickbooks for primarily all accounting transactions and records. This software is only accessible on the Town Clerk’s computer. When other employees perform back-up responsibilities, they access the Town Clerk’s computer using a shared user id and password. Additionally, software back-ups occur only weekly and using a thumb drive.	Key financial data of the Town should be accessible by more than one individual, should be backed-up daily, ideally to cloud or off-site storage. User ids and passwords for computers and software applications should not be shared between staff. We recommend the Town either move the financial software to a server environment or to a cloud version which includes back-up services. We also recommend that the Deputy Clerk and Town Manager be provided with their own user id and password access to the financial system with appropriate levels of security for their roles.



Observations and Recommendations

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Quickbooks	The Town budgets for three funds: the General Fund, a Capital Projects Fund, and the Water/Sewer Utility. Transactions for capital projects are reported in the General Fund within the Quickbooks system and the audited financial statements. This causes unusual budget to actual relationships and makes balances held for capital purposes harder to see.	Differences between how the Town budgets for major activities and how it accounts for these activities should be minimized in order to allow for a full understanding of the Town's financial results. Given the importance of long-term capital planning to the Town, we recommend the Capital Projects Fund be added to the Town's accounting system and audited financial statements.
Quickbooks	The Town's two funds are currently set up in Quickbooks as separate companies. This means that when checks are printed, they cannot be charged to both the General Fund and the Water/Sewer Utility on the same check run. This requires the Town Clerk to write multiple checks for split invoices and/or maintain balances owed between the two funds and issue checks back and forth between the organization.	The Town's existing financial software may be able to support multi-fund accounting which would allow for splitting of these transactions automatically to the proper fund. We recommend staff work with Quickbooks to switch over to this method of tracking for each fund used. If Quickbooks is unable to support multi-fund accounting we recommend the Town consider other financial systems.



Observations and Recommendations

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Payroll	Currently overtime pay is recorded with the main salary account in the General Fund or allocated to the Utility Fund salary accounts for those employees. Department directors who authorize overtime work are not responsible for managing overtime costs to a budgeted amount.	When cumulative overtime costs are not monitored these costs can quickly get out of control. In order to aid in the monitoring and control of overtime costs we recommend that a separate account be established within each division for overtime charges. This would allow the Town Manager and Commissioners to easily differentiate between costs for the regular workweek versus overtime needs.
Payroll – segregation of duties	Town supervisors review and sign off on the timesheets for their individual employees. However, payroll reports are not provided back to them for review or verification of pay accuracy. The Town Manager receives a payroll report, but only on a monthly basis and no timecard review is performed. The Town Clerk is the only employee involved in processing the entire payroll cycle.	We recommend that payroll be reviewed by the Town Manager prior to submission of the payroll to the bank, or early the following week if review cannot take place certain weeks. We also recommend the review include access to both timesheets and the payroll reports to ensure accuracy of the payroll.
Accounts payable	All checks must be signed by both the Town Clerk and the Town Manager. Purchase orders are used for purchases over \$500. When signing the checks, the Town Manager reviews the checks with the invoice and purchase order. Although purchase orders are required for all purchases over \$500, often the purchase order was not initiated and provided to the Town Manager for approval until the check is cut.	The Town Manager should approve purchase orders prior to the purchase being made. If there is uncertainty about the exact amount of the purchase, it can be noted on the purchase order. This approval could be documented via email or a day or two after the fact for extenuating circumstances or during leave. The Town may also consider adjusting their purchasing policy to identify certain purchases that would be exempt from this requirement in advance i.e., emergency procurements.



Observations and Recommendations

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Utility billing	<p>Currently the Town processes payments for checks, e-checks, credit cards and occasionally cash payments for utility bills. E-checks and credit card payments have different timelines for when the amounts are received by the Town's bank. As a result, the Deputy Clerk needs to review all electronic payments made and write down whether the payment was an e-check or a credit card payment. This report is provided to the Town Clerk for reconciling with the bank. The Town Clerk then spends additional time in identifying the exact date for each payment's deposit during the reconciliation process.</p>	<p>CLA has several recommendations related to this process:</p> <ol style="list-style-type: none"> 1. The utility billing system allows for the Town to accept ACH payments. Continue implementation of this payment option which is the most efficient receipting method. 2. Work with the utility billing software provider to identify a system report to indicate payment type, eliminating need to manually identify each transaction type for online payments. 3. According to CUSI's website, they provides echeck and check elimination services and "will make merchant services easy to understand." We recommend contacting them to reduce checks and echeck transactions and determine if they offer a batch depositing solution for online payments. Some providers will do this, eliminating the need to chase down individual credit card transactions.
Utility billing	<p>The Town uses Continental Utility Solutions, Inc. "CUSI" for utility billing and reporting and uses Quickbooks for general accounting purposes. The two systems are not integrated for billing or payment processing. As a result, staff need to manually enter transactions into the accounting system and perform monthly reconciliations between the two systems.</p>	<p>According to CUSI's website, this system does integrate with many financial systems, including Quickbooks. We recommend staff contact their software provider and integrate the two systems. By having these two systems integrated, the risk of manual keying errors will be reduced and provide valuable time for staff to perform other functions.</p>



Observations and Recommendations

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Utility billing	The Event Specialist is being cross-trained to provide support and back-ups for the Deputy Clerk. Both staff have access to the utility billing software with separate user ids and passwords.	Continue with fully cross-training the Event Specialist over this key financial activity of the Town.
Utility billing	The utility billing system shows just under \$13,000 in receivables over 120 days old. Many of these accounts have been shut off, but no collection process is occurring.	We recommend the Town continuously attempt to collect old balances over a certain dollar amount. This listing should be reviewed by the Town Manager periodically.
Procedures manual	The Deputy Clerk has developed process notes on how to perform many task in both the accounting and utility billing software systems.	The Town is off to a great start in this area. We recommend that these become a formalized written procedures manual. Once drafted the manual should be reviewed by other employees involved in the process for accuracy and saved in a central storage location. In case of an emergency other staff would be able to easily assist with all key financial functions on a temporary basis.
Audit process	During the 2021 audit it was noted that an incorrect rate had been used in billing a developer.	We recommend that large transactions, including large billings, are reviewed for accuracy by a second individual who would be knowledgeable about the transaction.



Observations and Recommendations

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Audit process	<p>Each year the Town contracts for a financial statement audit, as required under Maryland law. The auditors review the Town's records and propose adjustments to the Town's financial records to be in conformity with governmental accounting standards.</p> <p>During the year ended June 30, 2021, there were 33 adjustments proposed to the Town's books to bring them in conformity with governmental accounting standards. In years past the Town had worked with another accountant to provide some accounting assistance.</p>	<p>We recommend the Town consider ways to reduce the number of adjustments required at the end of the year, thus providing better financial information during the fiscal year for decision making purposes. This may include staff training to understand the entries being recorded or hiring accounting support. Additional accounting support may also help reduce some segregation of duties risks and alleviate some tasks from the Town Manager.</p>
Audit process	<p>Adjustments identified by the Town's auditor are not being recorded in Quickbooks and the Town's books do not match the audited financial statements. As an example, the net change in fund balance for the General Fund in the 2021 financial statements was \$254,625 more than what was shown in Quickbooks. As a result, any reports run from the Quickbooks software may not accurately report the Town's financial picture. The Quickbooks data is also used to develop the Town's budget. This may result in Town management making different financial decisions.</p>	<p>The Town hires an auditor to provide assurance that the Town's financial records are complete and accurate. We recommend that adjustments accepted by the Town for inclusion in their financial statements also be included in the Town's accounting system and those amounts be used for decision making during the budget process.</p>



Observations and Recommendations

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Audit process	Town Commissioners receive an audit report including the audited financial statements. The auditors do not provide a formal presentation of the results of the audit nor the results of operations. As a result, Commissioners may not fully understand the information provided, and may not feel they have an opportunity to ask questions of the auditor.	External financial auditors are hired by the Town Commissioners and exist to provide assurance about the Town's financial position and results of operations. They can also provide valuable third-party insights about the financial operations of the Town. We recommend that the Town Commissioners receive an annual presentation from the Town's auditors. Typical topics to be covered may include: the auditor's required communications with governance, summary report of the Town's financial results, information about ways the Town could strengthen internal financial processes and an opportunity for Commissioners to ask questions.
Financial oversight	The Commissioners receive an annual closeout report and receives historical financial information during the budget process; however no interim financial information is provided to the Commissioners on a regular basis.	We recommend Town Commissioners receive a financial summary minimally including the budget to actual results for the quarter and year-to-date on at least a quarterly basis.
Financial oversight	The Town Manager receives a monthly financial report which includes a budget to actual report for the month.	We recommend that the Town Manager also receive a year-to-date report showing the budget and actual results along with a balance sheet.



Observations and Recommendations

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Budget	The Town's budget is currently compiled within an Excel workbook. In the past this workbook was stored on a local machine and the file was lost and needed to be recreated.	Key financial data of the Town should be backed-up daily, ideally to cloud or off-site storage; back-ups should be periodically tested. The Town Manager has indicated this change has already been made.
Budget	The Town's annual budget is a method of allocating resources to each activity that will be undertaken. The goal of the budget process is to accurately allocate those resources in order to maximize the resources the Town has available. In reviewing the 2021 General Fund financial results, revenues came in 22% higher than budgeted and expenditures were 15% under budget.	We recommend updating past year's final results into the budget document in order to better understand historical results and in turn become more accurate in the development of the original budget going forward.
Financial review	We reviewed financial trends for the last several years. The majority of these trends were positive in nature. We noted that the utility infrastructure is approximately 50% depreciated and in 2021 the new additions to plant were less than the annual depreciation.	For an individual year, this would not cause a long-term problem. We recommend the Town Manager and Commission continue to monitor financial results additions to the utility plant to ensure assets are maintained with a sustainable replacement plan.



How we might help

- Help compile and draft accounting department policies and procedures
- System implementation or changes
- Outsourced accounting services
- Audit preparation services



Thank you!

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