

**Town of East Montpelier**  
**Forensic Investigation**  
**on Suspected Irregularities Identified**  
**in the Town Treasurer's Office**

**April 11, 2008**

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY LETTER.....	1
BACKGROUND .....	3
FINDINGS AND RESULTS.....	4
PROPERTY TAXES.....	7
EMPLOYEE LEAVE TIME .....	10
DISBURSEMENTS .....	12
APPENDIX I – Revenue Trend	



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

10 New England Business Center Drive • Suite 112  
Andover, MA 01810-1096  
(978) 749-0005 • Fax (978) 749-0006  
[www.melansonheath.com](http://www.melansonheath.com)

East Montpelier Selectboard  
Town of East Montpelier  
P.O. Box 157  
East Montpelier, VT 05651

Dear East Montpelier Selectboard:

The following report is based on our providing forensic investigation services for the Town of East Montpelier. The request for these services was based on various allegations regarding cash collections and deposits, mispostings to taxpayer accounts, and the pre-signing of blank checks.

We conducted our investigation in accordance with lawful fraud examination techniques that included, but were not limited to:

- 1.) Evaluated procedures for the collection and recording of various receipts and procedures for the posting and recording of tax collections.
  - Determined current policies and procedures;
  - Evaluated adequacy of internal controls;
  - Evaluated the extent of exposure risk to loss.

The evaluation consisted of:

- Interviews with administration;
  - Interviews with employees;
  - Examination of documentation.
- 2.) Tested compliance with stated policies and procedures for the purpose of determining the effectiveness of internal controls including, but not limited to:

*Additional Offices:*

Greenfield, MA • Ellsworth, ME • Nashua, NH • Manchester, NH

- Compared the original grand list file of tax billings to billings in the tax administration files;
- Compared receipts posted to the tax administration files to deposits;
- Compared receipts posted in the tax administration files to general ledger postings;
- Traced all adjustments made to the tax administration files;
- Compared postings in the tax administration files for H-133 and H-122 adjustments to actual amounts received by the State;
- Traced all available receipt documentation to the general ledger and to deposits;
- Prepared a trend analysis for receipts not supported by documentation.

3.) Compared all checks clearing the bank account to authorized warrants signed by the Selectboard.

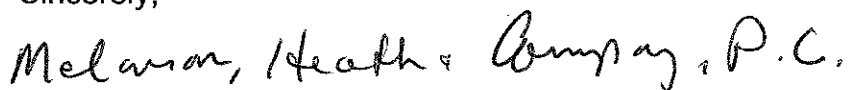
4.) Employee Leave Review

The results of our procedures together with findings and recommendations are contained in the following report.

During the course of our investigation, we met with the Town's independent audit firm. During that meeting, we were provided a copy of the Town's 2007 management letter, which reported some significant deficiencies in the Town's internal control structure in areas that we were not requested to address under this investigation. We recommend that the Town's 2007 management letter be read in conjunction with this report.

Because concealment and trickery are elements of fraud, we are not able to provide absolute assurance that all existing fraud was identified during the performance of these procedures. This report relates only to the accounts and items specified, and does not extend to any financial statements of the Town of East Montpelier as a whole.

Sincerely,



Melanson, Heath and Company, P.C.

Certified Public Accountants

April 11, 2008

## **BACKGROUND**

The Town of East Montpelier is a small Vermont Town with limited staff who are either locally elected or appointed by the East Montpelier Selectboard (Selectboard). The Town Clerk and Town Treasurer are elected positions. Duties of the individual who fulfills those positions, results in a lack of segregation of duties and responsibilities adequate to maintain a sound control environment to protect the Town against loss. The elected positions are not under the supervision or control of the Selectboard and accordingly, little opportunity is available to the Town to divide duties in such a way as to minimize risk factors.

A key element of any internal control structure is the ability to segregate the collection, recording and custody of receipts due to the Town. The individual, who occupies the offices of Town Treasurer and Town Clerk, collects taxes, and all other types of receipts received by the Town, has access to and enters receipt information into the various Town records including the New England Municipal Resource Center (NEMRC) financial management systems. In addition, the individual has custody of and signature authority over all of the bank accounts. This places that individual in a position to be able to both perpetrate and conceal irregularities.

There were several concerns raised that not all receipts were deposited into the Town's bank accounts, that borrowings were made out of Town funds, that there were misapplications made to tax accounts and that account balances may have been altered.

The Town Treasurer took paid leave, and then returned to work in a more limited role while this investigation was conducted. There has been litigation initiated by the Town Treasurer to restore duties removed from her during the course of this investigation.

## FINDINGS AND RESULTS

### I. RECEIPTS

The Town receives money for various licenses and permits, property taxes, state receipts and other miscellaneous types of receipts. The Town Treasurer prepares a periodic preprinted form which lists receipts by category. Some of the forms contain tax or certain other isolated information, while other forms contain a multitude of different receipts characterized as “drawer” on the form.

The total on each form tied out to a deposit made for that day. In most instances we were able to trace the receipts contained on the form back to documents retained in the office. In the case of taxes, we were able to tie the tax amounts back to postings in the NEMRC tax administration system.

There were also separate logs maintained for certain types of receipts such as sewage applications, zoning applications, and excess weight applications. We were able to trace amounts from the applications logs to the daily deposit forms with certain exceptions.

There was one sewer application listed on the log for \$ 135. There was a corresponding entry on a daily deposit form which contained the number, applicant and amount. The item was crossed out on the deposit form, and there was no corresponding amount deposited.

There was a sewer permit listed on the applications log, but with no amount. There was a corresponding entry on a daily deposit form also without an amount listed. There was no deposit made for the entry.

There were four zoning applications listed on the zoning applications log for which there was no corresponding entry on the deposit form, or no deposit identified for the permits. The total of the four permits amounted to \$ 180. There were also a number of names and dates listed on the zoning permit log which did not contain a dollar amount. There was no listing on the daily deposit form, and no evidence of deposits for these permits.

There were two excess weight permits for \$ 5 each issued on the applications log that could not be traced into the daily deposit form or to a corresponding deposit. The total amount contained on the daily deposit form was \$ 10 less than the total excess weight permits.

There were other discrepancies found in the zoning application records which netted to a deficiency of \$ 20. The total amounts identified as potential receipts, which were not deposited, amounts to \$ 345 not including any allowances for the permits listed that did not have an amount assigned to them.

The Town Treasurer did not have documentation to support other miscellaneous receipts such as recording fees and certified copies. We saw an instance where there were slips created for certified copies. In fact, the identification of two such slips which were not supported by an entry in the daily deposit form was in part the basis for this investigation. The remaining slips were not retained by the Town Treasurer, as such they were not available to compare to the daily deposit slips. As a result, we are unable to provide assurance to the Town that all such receipts were recorded and deposited intact.

As an alternative procedure, we prepared a trend analysis on miscellaneous fees, vault revenue and recording fees. The attached trend analysis indicates that vault fees increased during calendar 2004, 2005 and 2006. Fees were down for the period January 1 through November 15 of 2007, which is a period less than one year. Also recording fees have decreased in 2007 by a corresponding amount. The amount of decrease in 2007 for either vault fees or recording fees is not sufficient to draw a conclusion.

We noted that receipts were not deposited into Town bank accounts on a regular basis. The deposits appeared to be sporadic, and did not appear to adhere to set standards or protocols. During our investigation we observed an envelope with stale dated checks enclosed, which had not been deposited. This potential places Town funds at risk to loss.

## **Conclusion**

There were specific transactions identified for which we cannot provide assurance that amounts collected were deposited intact. We have not verified the collection of the amounts with the residents of the Town to determine that the fees were actually paid, and that the amounts were either paid by check or cash. In addition, there are other transactions identified for which no amount was recorded. We have not determined that an amount was actually collected for those transactions. Finally, documentation is not retained for certain recording and vault fees, and we are not able to determine that all such receipts have been deposited intact.

## **Recommendations**

The Town should follow up on the exceptions noted above by contacting the residents who are listed on the application logs for which there was no evidence of a deposit, and for those that are listed as a zero charge.

All receipts should be recorded daily as they are collected. NEMRC has a receipts system, which will be implemented by the Town in the future. The cash drawer, deposit and receipts recorded in the computer system should be balanced each day. To the extent practicable, there should be a separation of duties between the person entering receipts into the system, and the one who maintains custody of the receipts and makes the deposits.

The numbering sequence listed on the application logs should be tied into preprinted forms rather than numbers being assigned as applications are received.

The Town should develop and implement a receipt policy. The policy should clearly indicate the frequency of deposits. For example, the policy could require that when receipts exceed one hundred dollars they should be deposited into Town bank accounts at least weekly, which ever comes first.

This will assist in limiting the Town's exposure to loss, improve cash flow, and increase interest income.

## **II. PROPERTY TAXES**

### **A.) Abatements**

An abatement is a reduction of property tax. It may be based on a reduction in the assessed value of taxable property, or a parcel may be exempted completely from the property tax based on ownership and use (a church, for example).

Abatements are granted for several reasons, including, but not limited to:

1.) Overvaluation - the assessed value is considered too high, 2.) Disproportionate assessment - (pertains to entire property classes, not any individual unit or development), 3.) Improper classification - for example, a property is classified as commercial when it is actually residential, and 4.) Statutory exemption - the property qualifies for exemption from taxation based on its ownership and use. To receive an abatement, taxpayers must file a request with the Town's Board of Civil Authority (BCA).

The Town granted forty-three abatements between January 2006 and November 2007 totaling \$ 3,844, which we identified in the NEMRC Tax Administration system. The BCA approved seven of those abatements, which totaled \$ 3,782 of the total. We were able to verify the BCA approvals through tax abatement files and BCA minutes, which were provided by the Town Treasurer. The remaining thirty-four abatements, which totaled \$ 62, were either the result of small remaining amounts of taxes due after the town had received payment, or corrections of interest or penalties due to posting adjustments. The majority of these remaining abatements were less than a dollar.

### **B.) Adjustments**

Adjustments are required to be posted in the NEMRC Tax Administration system as errors are identified. These errors can be caused by both human and system error.

From January 2006 through November 2007, we identified one-hundred and nine adjustments posted to individual tax accounts, as reported in the NEMRC Tax Administration system. While the number of adjustments appeared alarmingly high for such a time period, further testing eliminated our initial concerns. Thirty-four of the adjustments were the result of an automated

correction that was processed by the system in March 2007. This automated correction was generated by NEMRC, to correct an issue created by the NEMRC Tax Administration system. Of the remaining seventy-five adjustments, the Town Treasurer was able to provide sufficient documentation to support these transactions. Reasons for the remaining adjustments included, but were not limited to, H131 late filings, adjusting overpayments to the subsequent tax year, leased land credit adjustments, insufficient checks, and manual posting errors caused by human error.

### **C.) Grand List to Tax Bill Variances**

Town officials were concerned that the Tax bills were being adjusted after the NEMRC Tax Administration system had been updated from the NEMRC Grand List system. As such, we contacted NEMRC to discuss how the two systems interacted, and if it was possible to determine the integrity of the two systems. Upon request, NEMRC was able to provide us with a list of variances between the NEMRC Tax Administration system and the NEMRC Grand List system, which was made up of twenty-eight variances for a total of \$ 1,912. The variances were caused by changes in the tax accounts for issues such as land lease credits, HS 122 issues, late filing penalties, and other manual adjustments. We were able to verify the appropriateness of all but one of the variances noted between the two systems, either through state reports or other supporting documentation. The one variance we were not able to conclude on was a manual adjustment to a state payment, which was for \$ 171. The Town will need to continue to investigate this unexplained variance to be able to conclude on the appropriateness.

### **D.) Tax Receipts**

The Town Treasurer posts receipts to the NEMRC Tax Administration system. Tax receipts are posted to the General Ledger through journal entry from the daily deposit forms. We traced all of the receipt entries in the NEMRC Tax Administration system to the postings in the NEMRC General Ledger, and through to deposits on the bank statements. There were no exceptions noted in this procedure.

## **E.) State Payments**

The Town receives tax payments from the State on behalf of residents receiving a subsidy under the Homestead Act (HS 122). When the State submits payments to the Town, the State sends the Town an electronic file, which the Town downloads into the NEMRC Grand List system. This file indicates the parcel number, name, and amount received by resident in detail and summary. The State then electronically transfers the total amount directly into the Town's depository account. The amount deposited should agree with the detailed file transmitted to the Town. Town Officials were concerned that the amounts reported by the State did not agree with the amounts deposited into the Town's depository account. We were told by members of the Selectboard and the Town Treasurer that reconciliation between the electronic files received by the State and the amounts deposited into the Town's bank account by the State was not prepared. The Town received two of these payments from the state during 2007. We obtained the two electronic files sent by the state and reconciled them to the related deposits in the Town's account without exception.

## **Conclusion**

With one exception, we were able to verify that all postings into the NEMRC Tax Administration system were supported by entries from other systems, by receipts or by appropriate adjustments. Any change in the amount billed from the NEMRC Grand List system to the NEMRC Tax Administration system was supported by an appropriate transaction.

## **Recommendation**

We understand that the link between the NEMRC Tax Administration system and the NEMRC General Ledger was activated during our fieldwork. We recommend that this area be reviewed regularly, and any discrepancies identified be immediately and thoroughly investigated. This will provide assurance that receipts posted to the NEMRC Tax Administration system will equal receipts posted to the General Ledger.

We also recommend that H122 postings be reconciled to the deposits when they are credited to the Town's bank account.

### III. EMPLOYEE LEAVE TIME

The Town was able to provide us with a personnel policy, which was last amended on July 24, 2006, addressing employee leave time. The leave time in the policy covered sick leave and vacation leave; the policy did not cover compensatory time/leave. Compensatory time refers to a type of work schedule arrangement that allows workers to take time off instead of, or in addition to, receiving overtime pay. Town Officials were concerned with the Town Treasurer's reporting of leave time. The policy stated, in part, "They (Personnel Policies) apply to the elected Town Clerk/Treasurer outside the parameters of the Town Clerk/Treasurer's statutory authority".

#### A.) Compensatory Time

We were provided with the Town Treasurer's leave time records for years 2005, 2006, and 2007. We found that the 2005 records included the accrual and use of compensatory time. The Town Treasurer, who was the assistant Town Treasurer during this time period, accrued and used thirty-five hours of compensatory time, the majority accrued from working during State recognized holidays. The Town Treasurer records did not report the accrual or use of compensatory time during 2006 and 2007.

#### Vacation Time:

The Town Treasurer's records included the accrual and use of vacation time as follows:

<u>Description</u>	<u>Vacation Time (Days)</u>		
	<u>Years</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Beginning Balance	6.50	5.50	9.00
Time accrued	10.00	10.00	10.00
Time used	<u>(11.00)</u>	<u>(6.50)</u>	<u>-</u>
Ending Balance	<u>5.50</u>	<u>9.00</u>	<u>19.00</u>

## Sick Time

The Town Treasurer's records included the accrual and use of sick time as follows:

<u>Description</u>	<u>Sick Time (Days)</u>		
	<u>Years</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Beginning Balance	2.50	7.00	12.00
Time accrued	6.00	6.00	6.00
Time used	<u>(15.00)</u>	<u>(1.00)</u>	<u>-</u>
Ending Balance	<u>(6.50)</u>	<u>12.00</u>	<u>18.00</u>

After we reviewed the records, we met with the Town Treasurer. She stated that when she was the Assistant Town Treasurer, she believed, and was instructed from the former Town Treasurer, that her position was an hourly position, which entitled her to compensatory time, and also required her to track her vacation and sick time. She further stated that when she became Town Treasurer, she became a salaried employee, who was elected to perform the duties of her office, regardless of the time it took to complete the duties prescribed. As such, she no longer calculated the accrual and use of compensatory time, and in 2007 she stopped reporting the use of vacation and sick time.

## **Conclusion**

As we are not qualified to issue a legal opinion regarding the applicability of the Town's personnel policy over the elected Town Treasurer, we are not able to conclude on the appropriateness of the Town Treasurer's position regarding leave time.

## **Recommendation**

The Selectboard should address this issue with legal counsel, and revise the policy accordingly. The Town should also implement procedures to ensure the policy is being fully complied with by all employees covered.

#### **IV. DISBURSEMENTS**

The Town requires co-signatures on all Town checks. It was reported to us that there were times where the Town Treasurer requested signatures on blank checks in advance. Accordingly, it was determined that this caused a risk of improper transactions.

We compared all checks attached to the bank statements to the Warrants approved by the Selectboard for the period January 2006 through June 30, 2007 without exception. All sequential check numbers were accounted for and void checks were verified.

We also scanned all bank statements for evidence of electronic transfer and traced any such transfers to other bank accounts. We also scanned for any miscellaneous debits on the bank statements without exception.

#### **Conclusion**

There were no unusual disbursements identified and all disbursements were consistent with information provided to the Selectboard in support of the transaction.

#### **Recommendation**

The Town should discontinue the practice of having a cosignatory sign blank checks in advance of the proper documentation including a signed warrant from the Selectboard.

**Appendix I**  
**Town of East Montpelier, VT**  
**Revenue Trend**

Description (Source)	2000	2001	2002	2003	2004	2005	2006	Through November 15 2007
Miscellaneous revenue	\$ 12,315	\$ 1,070	\$ 690	\$ 33	\$ 2,233	\$ 3,271	\$ 977	\$ 961
less one-time revenues	(9,643)	-	-	-	(2,102)	(2,760)	-	-
Adjusted Miscellaneous revenue	2,672	1,070	690	33	131	511	977	961
Vault fees	-	-	-	-	3,913	4,685	5,045	4,319
Recording fees	12,842	19,035	26,700	37,645	21,313	19,098	20,469	18,055
Total	\$ 15,514	\$ 20,105	\$ 27,390	\$ 37,678	\$ 25,357	\$ 24,294	\$ 26,491	\$ 23,335