

# Town of Sharon, Massachusetts

## Fraud Risk Policy

### Background

The purpose of the Town of Sharon Fraud Risk Policy is to safeguard the reputation and financial viability of the Town of Sharon by improved oversight of fraud risk. This policy applies to all Town of Sharon officials and staff<sup>1</sup>, as well as external parties. The policy is meant as an overview of risk and as a guide for Town of Sharon officials and staff. If and when suspected fraud is reported it will be dealt with as appropriate, up to and including criminal prosecution.

### What is Fraud

Fraud is the use of deception by an individual or group with the intention of obtaining an advantage for themselves or for a third-party or parties, avoiding an obligation, or causing loss to another party. Fraud includes offenses such as, but not limited to, deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts, and collusion. Fraud should be distinguished from inadvertent errors; although the impact on Town finances, loss of value may be the same.

### Examples of Fraudulent Behavior

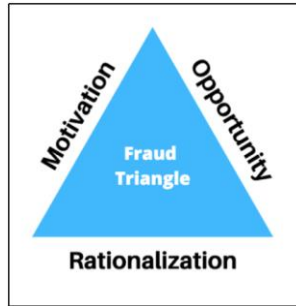
- Obtaining property, financial advantage or any other benefit by deception or abuse of authority granted by virtue of official position or duty.
- Charging the Town of Sharon for goods and services that have not been delivered.
- Development or application of local policies or practices that are knowingly inconsistent with the objectives of the Town of Sharon's practices or objectives.
- Seeking to obtain confidential information about a colleague or others, with intent to use it for unauthorized purposes.

There are three (3) main factors that increase the fraud risk.

- Opportunity to engage in fraudulent activities for personal gain;
- Individual(s) with external and internal pressures as well as motivation; and
- Personal rationalization to justify acting fraudulently.

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<sup>1</sup> The policy applies to all Town staff, exempt and non-exempt, full- and part-time and temporary, regardless of terms of employment. Additionally, the policy applies to all of the Town's vendors, customers, and partners or any other interested parties to the extent that any of the Town's resources are involved or impacted.



Finally, there are four basic elements that are usually present when fraud occurs:

- Individual(s) to carry out the fraud – inside or outside of the organization;
- Assets to be acquired, used, or disposed of fraudulently;
- Intent to commit the fraud; and
- Opportunity to do so.

Opportunities to commit fraud may be reduced by ensuring that a sound system of internal control, proportional to risk, has been designed and implemented and is functioning as intended.

#### Fraud Prevention

Risk management is the process by which an organization seeks to avoid undue risk regarding both operations and compliance with local, state and federal laws. A well-designed financial control environment is essential to reducing financial risk. A strong risk management program includes policies that establish a separation of duties, management of perceived or actual conflicts, and detailed procedures that require documentation and oversight. These policies should be implemented at all levels of the organization to prevent and detect fraud and should be reviewed on a regular basis to ensure that they are still appropriate for the organization and meet local, state and federal guidelines and laws.

The Town Administrator and Department Heads all set the tone and lead in the promotion of risk management, internal controls and an anti-fraud culture throughout the Town.

There are four (4) major facets to the Town of Sharon's strategy for effective fraud prevention:

1. Culture of honesty and ethics
2. Risk management and internal controls
3. Awareness raising and training
4. Oversight Process

The Town of Sharon operates under a Select Board-Town Administrator-Open Town Meeting form of government. Town governance is vested in several elected committees: Select Board, School Committee and Library Board of Trustees. A Finance Committee is nominated and elected by Annual Town Meeting to provide oversight of financial management. The Town employs a Town Administrator and a Finance Director who are responsible for the day-to-day management, oversight and implementation of the policies and procedures approved by the Select Board. These elected Boards and professional managers are responsible for managing both internal and external financial risks to the Town.

As detailed in the Town Financial Policies, the corporate governance structure requires three (3) committees – the Select Board, School Committee and Finance Committee - to work in an open and collaborative manner for annual budgetary resource allocation through the annual Priorities Process.

Likewise, the capital budgeting process is rigorous, transparent, and maintains a five-year outlook that is updated each fiscal year. The Town’s Capital Outlay Committee has 13 members with a Chair and two representatives from each of the following committees: Select Board, Finance Committee, School Committee, Planning Board. The committee also includes the Town Administrator and the Finance Director. The Chair and Town Administrator are non-voting members.

The Town of Sharon financial controls begin with the Town of Sharon Financial Policies including the budgeting and appropriations processes. The Town has in place policies, procedures and financial controls that are designed to provide oversight for financial transactions and mitigate fraud risk. All financial transactions are maintained in the MUNIS<sup>2</sup>, a centralized, relational data base where they are visible to authorized users and provides a central source for tracking and reporting.

The Town of Sharon has the following internal policies and controls in place to mitigate fraud risk:

- Financial Policies include the following elements and are designed to minimize the Town’s exposure to fraud risk:
  - Active Town committees have oversight of Town finances. These committees include the Select Board; Finance Committee; School Committee; Library Trustees; Water Resources Board, etc.
  - Town Meeting (Annual/Special) is the sole body to approve spending appropriation and borrowing authorizations
  - Segregation of duties directly reduces the ‘opportunity’ fraud factor. This control is woven throughout into the Town administrative structure and processes (example: separation of cash handling and accounting functions)
  - Budgets provide spending controls and are used as a benchmark to examine significant deviations caused by normal circumstances or any fraudulent activity.
  - MUNIS provides automatic budget control by not permitting expenditures outside of budget (an override can be provided for exceptions)
  - Quarterly Revenue and Expense review of all departments by the Finance Committee
  - The Town administration regularly monitors budget to actual variances (BAV) and any significant deviations are further discussed by the Finance Committee and Selectboard during their quarterly reviews.
  - The Town follows all Chapter 30B requirements for all purchases, as promulgated by the Massachusetts Office of the Inspector General.
  - Internal departmental review and approval of all Accounts Payable and Payroll transactions, before being transmitted to the Accounting Office for the next warrant.
  - Monthly Cash reconciliation with banks by Treasurer/Collector.
  - Monthly Cash reconciliation from the General ledger to the Treasurer’s cash by accounting.

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<sup>2</sup> Munis® is software that provides a comprehensive enterprise resource planning suite encompassing financials, human resources, asset management, and revenues. It is designed to meet the various public sector organizations such as counties, cities, school districts, and authorities.

- External audit of cash reconciliation by the Auditors.
- Massachusetts Department of Revenue (DOR) review of aggregate data and various reports. (Please see Appendix)
- Ethics Training mandated by the Commonwealth of Massachusetts.
- Ethics emphasized at department meetings – be good guardians of public funds
- Yearly review of the fraud risk assessment by the Auditors – governance and management questionnaires.
- Periodic review of the business processes by the Finance Director.
- Payment Processing/Controls
  - All accounts payable invoices are processed under each respective department head by signature and transmitted to the Accounting Office for further review and payment.
  - All payment requests are reviewed by the Accounting Office
  - All payment requests become part of the weekly warrant reviewed by the Finance Director and signed by the Select Board before payments are released by the Town Treasurer.
  - Checks for invoices are printed in Accounts Payable in Accounting or directed for electronic deposit by the Treasurer.
  - There are no cash payments by the Town. All payments are made after proper review and authorization and entries made in the ledger through the ‘warrants process.’
- Payroll Processing/Controls
  - Personnel Action Forms are required for all hiring and pay change activities
  - Timesheets for Town employees are entered into MUNIS by the employing department and the batch is transmitted to the Finance/Accounting Office for further review and processing
  - Finance/Accounting Office verifies Town employees, reviews for mismatches before payroll request becomes part of the warrant for final processing by the Town’s payroll clerk
  - Most School employees are on automatic payroll (exclusive of overtime)
  - School payroll is batched into MUNIS and signed by the Superintendent and School Committee and transmitted to the Finance/Accounting Office for further review and processing
  - Town Payroll Processing Clerk is responsible for printing all payroll checks or directing to bank deposit once payrolls are approved by the Accounting Office
  - All payroll batches are consolidated into weekly warrants that are then signed off by the Finance Director and the Select Board, before payments are released by the Town Treasurer.
- Receipts Cash/Payments
  - By law, all receipts belong to the Town Treasury maintained by the Town Treasurer.
  - All receipts are recorded in MUNIS, the centralized database
  - Monthly reconciliation of Receivables is reviewed and signed by the Town Collector and the Accounting Office
  - Treasurer is responsible for reconciliation of the Treasury cash to the bank each month
  - Accounting reconciles books (through MUNIS) to the Treasury cash each month
- Training
  - Every two years, all Town staff must complete online Conflicts of Interest Law training, which includes the detection and prevention of fraud.

- This training content is managed by the Commonwealth of Massachusetts and is required for all State, county and municipal employees, which includes Town staff.
- Completion of the training is tracked by the Town Clerk

The Town carries out the following external reviews:

MA DOR:

Massachusetts Department of Revenue (“DOR”) monitors each Town for continuing operations, including continuity, stability and staying within the Levy limits. Each Town in the Commonwealth of Massachusetts has a dedicated DOR representative who reports to their supervisor and in turn works under the DOR Deputy Commissioner. The representative frequently visits the Town to review operations besides performing regular review and approval of several mandatory Town reports including:

- Annual Tax Recap (yearly budget and tax rate);
- All funds balance sheets;
- Quarterly Treasury Cash reconciliation;
- Classified income statements of all funds (Schedule ‘A’);
- Community Preservation reports; and
- Annual Statement of Indebtedness (SOI).

Please refer to the Appendix for the DOR reporting requirements.

External Financial Audits – The Town retains the services of an external auditor (Melanson CPAs) for

- Financial audit.
- Federal Grants (Single Audit),
- Student Activity Funds, and
- Schools End of the Year (EOY) to the Department of Elementary and Secondary Education

These are annual audits and reviewed by the Town’s Audit Committee. Recommendations are followed through by the Town Administration under the oversight from the Select Board.

Debt Issuance and Management:

- Debt issuance is authorized by the Annual Town Meeting to fund specific capital projects as approved by the Capital Outlay Committee
- Authorized amounts are reported to the DOR on DA-82 by the Town Clerk. DA-82 is a DOR form, requiring separate certification from the Town Clerk for debt authorization at each Town Meeting. DOR matches them against subsequent issues and statements of indebtedness that include ‘authorized and unissued’. The overarching goal is to prevent over-borrowing.
- Both the borrowing authorizations and the Annual Town Meeting votes are reviewed for validity by the Bond Counsel (Locke Lord)
- Town’s financial advisor (Hilltop Securities) manages the debt issuance in collaboration with Town Administration, Financial Advisor, and the Bond Counsel.

- Bond Rating Agencies review the Town’s (annual) Offering Statement and hold a conference call with the Town administration to provide annual bond rating to the investors. Currently the Town has AA/Stable from S&P Global Ratings
- Issued debt is reported to the IRS on Form 8038-G

Debt issuance process is further detailed in the Appendix.

#### Other Reviews

- Workers Compensation (WCOMP) – Annual independent audit of the WCOMP liability The Town’s insurers select independent auditors to review the payroll data for potential liability. The results of the audit are reflected in the rates for the Town.
- Other Post-Employment Benefits (OPEB) – Annual review of the OPEB liability as required under the GASB standards and is performed by an independent actuary.
- General liability insurance – Annual review of the general liability insurance needs with a broker.
- Employee Health Insurance – Town is self-insured. There is a regular review of the Budget to Actual with the outside consultant, Finance Director, and the Town Administrator
- There is an annual review of the operating results for the healthcare costs and rate projections for the next year with the outside consultant, healthcare administrator Blue Cross Blues Shield, and the Town Officials.

#### Cybersecurity

- There is heightened awareness around cyber fraud.
- Town’s Information Technology department constantly monitors cybersecurity threats through the use of specialized software.
- Controls include dual authentication, continuous data backup and recovery, etc.
- Town also carries cybersecurity insurance.

#### Additional Risk Mitigation

- The Town also carries general as well specific liability insurance, including cybersecurity.
- Employees responsible for cash and bank handling are fully bonded.

#### Reporting Fraud

Any suspected or known fraud should be reported immediately to the Town Select Board at [SelectBoard@townofsharon.org](mailto:SelectBoard@townofsharon.org).

##### *Reporting Persons Protected*

Complaints reported in good faith will not be subject to any retaliation.

##### *Confidentiality of Complaints*

All complaints submitted that are reported in good faith will be kept confidential to the fullest extent permitted by law. Please note that there may be certain situations where the identity of the complainant must be revealed. These situations will be reviewed on a case-by-case basis.

##### *Submitting Complaints*

Complaints must be submitted in writing to the Select Board at [SelectBoard@townofsharon.org](mailto:SelectBoard@townofsharon.org).

#### *Investigation of Complaints*

The Select Board will confirm the complaint by investigating the complaint promptly and documenting the results.

#### *Retention of Complaints*

The Select Board will keep records of all submitted complaints and the results of the corresponding investigations.

#### *Reporting and Annual Review*

The Select Board will include all complaints and any remedial actions taken to the independent auditors of the Town, as well as the Finance Committee.

#### **Conclusion**

We intend to have regular annual reviews by the Finance Committee and Town Finance Director with a report to the Select Board including any concerns or recommendations for policy changes.

APPENDIX A

**DOR REPORTS LIST**

The DOR reporting has uniform reporting requirements for all towns and cities. These reports fall into five major categories and used for monitoring each town as well as provide publicly available financial and other data for all towns and cities.

The five DOR reporting areas are:

- I. Property Valuations:
- II. Tax Rate Certification (Tax Recap)
- III. Year End Balance Sheets
- IV. Schedule A: Classified Revenue/Expenditure All Funds
- V. Miscellaneous Forms

They are further detailed below.

**I. Property Valuations:**

|                                   |                          |
|-----------------------------------|--------------------------|
| <b>Certification</b>              | <b>Certification</b>     |
| Certification Summary             | The Certification Module |
| Revaluation Workplan              |                          |
| Preliminary LA-4                  |                          |
| Preliminary LA-4 Comparison LA-10 |                          |
| <b>BLA Directives</b>             |                          |
| Directive Progress                |                          |
| Print Certification Directives    |                          |

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**Bureau of Local Assessment - Certification of Real and Personal Property Values**

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**Fiscal 2023 Certification - requirements:**

- Preliminary LA-4 form
- Workplan form



II. **Tax Rate Certification (Tax Recap – Summary of budgeted appropriation and resources):**

- ☰ Tax Rate - Assessments
  - Omitted & Revised Assessment Report
  - Audited Personal Property
  - LA-13A
  - LA-4
  - LA-13
- ☰ Tax Rate - Finance
  - A-1 Offset Receipts
  - A-2 Enterprise Funds
  - A-4 CPF
  - B-1 Free Cash
  - B-2 Other Funds
  - OL-1 Overlay
  - DE-1
  - Tax Title
  - Levy Limit
  - LA-5 Options & Certification
  - Letter in Lieu of Balance Sheet
  - Pro Forma Recap
  - Pro Forma Page 3 Support
  - Tax Rate Recap
  - Tax Rate Page 3 Support
  - Tax Rate Checklist
- ☰ Tax Rate - Reports
  - LA-4 Comparison
  - LA-13 Statistics
  - Recap Edit Report
  - New Growth/LA4 Status
  - Shifting the Tax Rate
  - BLA - Chap 3
  - Tax Rate Submission Summary
  - Options Table
  - BLA/BOA Assignments

## Taxrate

### Tax Rate

**NEW: Clerks may now enter Proposition 2 1/2 votes into** [DLSGateway@dor.state.ma.us](mailto:DLSGateway@dor.state.ma.us) or [Databank@dor.state.ma.us](mailto:Databank@dor.state.ma.us) for

#### Completing Assessment forms - FY 2023

- **LA-5 form, Residential or Senior Means-Tested Exemp** should include the following required fields: parcel location/a
- The **Shifting the Tax Rate** report provides all the backgrou run this report to fully understand your options. Use the Opti
- **Audited Personal Property:** For more information on this f
- **LA-13 form: all communities must use Gateway's doc** its [standardized New Growth Template](#). An [Instruction](#)
- **Important Note: Gateway will enforce all educational** qualified to classify property will see warnings on the tax rate appointment will not be permitted to sign, save or submit any

**Need assistance or guidance?** Click here for more [Tips for Using](#)

Click here to find the name of the [BLA Advisor assigned to your c](#)

#### Completing Finance forms - FY 2023

- **NEW FORM: Recap/Pro Forma Page 3 Support.** BOA ha document variances and to provide detail for Misc. Recurring comments.
- **Recap Page 3: Row 17 Licenses and Permits** has been s automatically moved to the 17b "Other" category. Please rep
- **LA-5 clerk's requirement change: the Clerk's Certificat** submission.
- **The Options Table** has helpful text explaining shift options, [Residential Exemption Calculator](#), which shows the pote
- **LA-5 exemption options:** The LA5 now has separate sectic contact [Databank@dor.state.ma.us](mailto:Databank@dor.state.ma.us) if you have a newly-adopt
- The **Shifting the Tax Rate** report provides all the backgrou run this report to fully understand your options (and use the

### III. Year End Balance Sheets

|                             |                      |
|-----------------------------|----------------------|
| <b>Year End Accounting</b>  | <b>Balance Sheet</b> |
| Balance Sheet Checklist     |                      |
| Treasurer's Year-End Report | <b>Balance Sheet</b> |
| Cash Reconciliation Report  |                      |
| Outstanding Receivables     |                      |
| Statement of Indebtedness   |                      |
| Snow and Ice Data Sheet     |                      |
| Balance Sheet Submission    |                      |

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### Balance Sheet and Year End Accounting forms

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#### Balance Sheet Reporting Requirements

The Bureau of Accounts has certain reporting and submission requirements applying to deficiency certification. (These requirements do not apply to cities and towns using the [Balance Sheet Report Requirements](#). Please note that these 2018 requirements w

### IV. Schedule A: Classified Revenue/Expenditure All Funds

|  |                   |
|--|-------------------|
| <b>Schedule A</b>                      | <b>Schedule A</b> |
| Upload Excel Schedule A                |                   |
| User Review and Submission             | <b>Schedule A</b> |
| Part 1 G/F Rev                         |                   |
| Part 2 G/F Exp                         |                   |
| Part 3 Special Rev                     |                   |
| Part 4 Cap Projects                    |                   |
| Part 5 Enterprise                      |                   |
| Part 6 Trust                           |                   |
| Part 7 Agency                          |                   |
| Part 8 Personnel                       |                   |
| Part 9 Cash & Invst                    |                   |
| Part 10 Debt                           |                   |
| Part 11 Fund Equity                    |                   |
| Part 12 Final Approval/Submittal KAR-1 |                   |
| <b>Schedule A Reports</b>              |                   |
| Approvals/Non-Approvals                |                   |

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#### More Information about Schedule A

Schedule A can be completed one of two ways:

- Data can be entered directly into the Schedule A forms, or
- Data can be uploaded using the Schedule A Excel template fil

If using the Excel template, **enter whole numbers only**. You n

After entering data or uploading data from the Excel template, go ***failed edits on the User Review and Submission form in o***

Click here to download a copy of BOA's FY 2016 [Schedule A Gu](#) the detailed explanations of each Schedule A Part (starting on pa

**Need assistance or guidance?** Click here to find the na available on [DLS's Staff Directory webpage](#).

## V. Miscellaneous Forms

|                                    |   |
|------------------------------------|---|
| <b>Deficit Spending Approval</b>   | <b>Misc Forms</b>   |
| Emergency Deficit Spending Request | <b>Miscellaneous Forms</b>  |
| <b>Community Preservation</b>      |   |
| CP-1                               |   |
| CP-2                               |   |
| <b>Property Tax Exemptions</b>     | <b>Motor Vehicle Excise (MVE) Reimbursement</b>   |
| Paraplegic                         | <b>**When entering ONLY MVE E</b>   |
| Veterans Exemptions                | <ul style="list-style-type: none"><li>• Only one non-commercial vehicle</li><li>• The current year and <b>one</b> prior</li><li>• Please wait to submit your current</li><li>• Include all RMV commitments</li><li>• If RMV commitments are received</li><li>• See this bulletin for additional information</li></ul> |
| MDM-1                              |   |
| MVE Reimbursement                  |   |
| <b>Land of Low Value</b>           | <b>Property Tax Exemption Reimbursement</b>   |
| Search/Dashboard                   | You must submit the forms in this   |
| Parcel Information                 | <b>the MDM-1 form.</b>  |
| Group Submit                       | <ul style="list-style-type: none"><li>• Do not enter data, sign or submit</li><li>• When entering tax deferrals on</li><li>• Clause 17E is still reported under</li><li>• Elderly Reimbursements are paid</li></ul>   |
| Affidavits                         | For assistance with any of the Department's   |
| <b>8 of 58 Application</b>         |   |
| Search 8 of 58 Applications        |   |
| 8 of 58 Application                |   |
| <b>Municipal Audit Reports</b>     |   |
| Audited Financial Data             |   |
| Management Letter                  |   |

## APPENDIX B

### DEBT ISSUANCE PROCESS

- Town determines capital project
- Bond Counsel drafts vote
- Borrowing authorization requires 2/3 majority; debt exclusion requires majority vote at regular or special town election; Town provides certified copies of votes and DA-82 Loan Authorization Form to Department of Revenue and Financial Advisor/Bond Counsel
- Bond Counsel provides legal requirements letter and Town satisfies legal requirements; Bond Counsel provides opinion on validity of borrowing & tax exemption
- Financial Advisor and Town determine the terms of bond issue and prepare Official Statement
- Bond Counsel reviews the Official Statement
- Rating agency reviews the Official Statement, credit materials and assigns a rating to the issue
- Financial Advisor distributes Official Statement to underwriters
- Financial Advisor and Treasurer conduct bond sale, awards bond issue
- Underwriter resells the bonds pending settlement
- Bond Counsel prepares the bonds and closing documents
- Town officials sign the bonds and closing documents
- Financial Advisor arranges settlement with the Depository Trust Company
- Underwriter credits bond proceeds to the Town
- Town pays principal and interest according to schedule;
  - Town stays compliant with post-issuance procedures to maintain tax-exempt status on the bonds;
  - Town works with Financial Advisor to file updated disclosure and financials on an ongoing basis; and an Annual Report every March to comply with continuing disclosure filing requirements under SEC Rule 15c2-12
- Rating agency surveils the Town's credit situation through the life of the bonds

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FINCOM Approved: 2/27/2023

Selectboard Approved: 3/15/2023