



Town of Arlington

Town and School Finance Study

Division of Local Services / Technical Assistance Section

January 2012



January 26, 2012

Brian F. Sullivan
Town Manager
730 Massachusetts Ave.
Arlington, MA 02476

Dr. Kathleen Bodie
Superintendent of Schools
869 Massachusetts Ave.
Arlington, MA 02476

Dear Mr. Sullivan and Dr. Bodie:

It is with pleasure that I transmit to you the enclosed report, "Town of Arlington, Town and School Finance Analysis" with additional copies for distribution. It is our hope that the information presented in this report will assist the Town of Arlington in its decision-making process with regards to consolidating municipal and school finance/business functions.

As a routine practice, we will post the completed report on-line at the Division of Local Services website within a week or two. Also, we will forward a copy of the report to the town's state senator and representatives.

If you have any questions or comments regarding our findings and recommendations, please feel free to contact Rick Kingsley, Bureau Chief of the DLS Municipal Data Management and Technical Assistance Bureau at (617) 626-2376 or at kingsleyf@dor.state.ma.us.

In closing, we would like to thank you and the other officials in Arlington for your cooperation. I am pleased that the Division of Local Services has had the opportunity to assist the town as part of the Department of Revenue's ongoing commitment to improve financial management in cities and towns across the Commonwealth.

Sincerely,

Robert G. Nunes
Deputy Commissioner and
Director of Municipal Affairs

RGN:mjo
Enclosure

cc: Senator Kenneth J. Donnelly
Representative Sean Garballey
Representative Jay R. Kaufman

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Introduction

At the request of the Arlington Board of Selectmen and School Committee, the Department of Revenue's Division of Local Services (DLS) and the Massachusetts Department of Elementary and Secondary Education (DESE) have completed this analysis on the possible consolidation of municipal and school financial management operations. As part of this analysis, the selectmen and school committee asked us to explore the potential benefits of consolidating or restructuring some or all of these functions.

We have based our findings and recommendations on site visits and telephone conversations by staff members of the Division's Municipal Data Management & Technical Assistance Bureau (MDM/TAB) and DESE's School Business Services unit. The staff interviewed members of the board of selectmen, school committee and finance committee, as well as the town manager and school superintendent, deputy town manager, comptroller, treasurer/collector, director of assessing, school chief financial officer, payroll director, town-school information technology director, purchasing agent and other municipal finance and school business office staff.

DLS staff examined documents such as the annual budgets, tax rate recapitulation sheets, balance sheets and audits. We reviewed the town's organizational structure as set out in the Arlington Town Manager Act, subsequent other special acts and the town's bylaws. The town also provided us with warrants, employee contracts, job descriptions, revenue and expenditure reports, the Powers and Sullivan report on the FY2010 school deficit, the Massachusetts Association of School Business Officials (MASBO) review of the school department's financial operations and other assorted financial documents.

The purpose of this assessment is to assist Arlington officials as they evaluate the town and school financial organizations and consider the prospect of merging these functions or otherwise restructuring them. In reviewing the existing operations, we have focused on: (1) documenting existing organizational structures and workflows; (2) examining potential options and opportunities for achieving operational efficiencies or process improvements; and (3) assessing the benefits or efficiencies associated with consolidation or re-structuring of the town and school finance operation.

We encourage the selectmen and school committee, when evaluating whether to restructure, or possibly merge, these finance operations, to consider the observations, analyses, and recommendations contained in this report.

Overview

Originally settled over 350 years ago as the village of Menotomy, Arlington today has a population of 42,844 spread over 5.18 square miles, making it the twelfth most densely populated municipality in the state. Tight-knit neighborhoods in close proximity to Boston, a diverse housing stock and easy access to highway and mass transit routes make Arlington a highly desirable community. Well-educated and technology savvy residents are passionate about the town, interested in how scarce revenues are allocated among services and hold high expectations for the performance of government. They are active in community affairs and participation is strong on the town's numerous boards and committees as well as at local elections.

Arlington was among the first communities in the state to establish a strong town manager's position and is widely recognized for being at the forefront of the ongoing trend in Massachusetts toward professional management. The "Town Manager Act," approved by the state legislature in 1952, calls for the selectmen to appoint a manager. The town manager is empowered to supervise and direct the administration of most town departments, including police, fire and public works. For the most part, this has provided a sound management structure to ensure the efficient and effective delivery of general government services. However, neither the town manager, nor any other board or committee, has the authority to oversee and coordinate financial management.

Spending has been relatively modest in Arlington. Even when health insurance costs from the trust fund are included, general fund spending per capita rises only to \$2,520 or about 94 percent of the state-wide average spending of \$2,681. Though the town has a single tax rate for all property classes, the tax burden is borne predominantly by the residential property class. Residential property constitutes close to 94 percent of the total tax base and includes a mix of single-family, multi-family, condominium and apartment properties. Single-family tax bills in FY2011 averaged \$5,949, or 31 percent above the state average (\$4,537). The town's average per capita income based on 2008 state tax returns is \$43,637 or more than 30 percent above the state average and property wealth as measured by 2010 equalized property values per capita is \$177,084 or almost 14 percent above the state average.

The town's school system is noted for high academic achievement in both elementary and secondary grades, with Arlington High School recognized by both Boston Magazine and US News and World Report as a top performing high school based on student achievement and college readiness. Good schools and relatively affordable housing options have made Arlington an attractive community for young families with school-aged children. Contrary to the overall trend in state enrollment which declined 2.8 percent between FY2003 and FY2012, the town's foundation enrollment grew by 543 pupils or 13 percent during this period.

For many years, the town's fiscal situation has been strained due to several factors. First, the town's tax levy, which currently provides more than two-thirds of the town's total revenue, grows at

a rate that is considerably slower than other communities in the state. As a built out community, the town has very little available space for new construction and must rely on additions/alteration to existing properties to generate “new growth.” New growth refers to the increase in the annual levy limit beyond the baseline 2.5 percent increase allowed under Proposition 2 ½. New growth as a percent of the prior year’s tax levy has been among the lowest in the state, averaging less than 1 percent since FY2000, compared to the state-wide average of 2.28 percent over this time period.

Arlington also has lost almost \$4 million in general government (non-school) local aid since FY2000, or \$93 per capita. Only 10 other municipalities statewide had deeper general government aid cuts on a per capita basis over this time period. These cuts were implemented as percentage reductions to each community’s additional assistance and lottery in FY2003 and FY2004, and these accounts were then combined in the FY2010 state budget. Subsequent cuts to the new Unrestricted General Government aid were also done on a percentage basis. Consequently, the communities that received significant amounts of additional assistance, including Arlington, were subject to disproportionate cuts to their general government state aid.

Over the eleven years between FY2000 and FY2011, total town revenues have grown by \$37.5 million, or just under 42 percent. When compared to the 51 percent rate of inflation over this same period, by FY2011, the town had \$8.3 million less revenue than it would have had if revenue growth had simply kept pace with inflation. The cost of employee benefits, and in particular health insurance, has actually exceeded the rate of inflation and further limited spending on direct services. From FY2005 to FY2011, the town’s contribution to employee health insurance increased from \$9.6 million to \$16.5 million, a \$6.9 million or 72 percent increase. To address these escalating costs, the town manager successfully negotiated an agreement with the town’s labor unions to join the state’s Group Insurance Commission.

In this environment of revenue constraints and spending pressures, town officials recognized early on that there were few alternatives but to impose fiscal discipline and emphasize long-term fiscal planning. The “Lyons Plan,” named after long-time former selectman Charles Lyons, outlined a multi-year strategy for controlling operating budgets, containing growth in employee health insurance and placing a substantial override before the voters with the promise not to seek another general-purpose override for five years. In June of 2005, the voters of Arlington approved a \$6 million override by a narrow 52 to 48 percent margin. In the initial years, override dollars were appropriated into a special purpose stabilization fund and reserved to fund budgets in the later years of the five-year plan.

Inevitable with a plan like this is the funding cliff that occurs when the override stabilization funds are exhausted and additional overrides become needed to sustain services. The town faced just this situation when planning for FY2012. The available free cash at the time was at a ten-year low point (\$770,498 compared to ten-year average of \$3.3 million) due, in part, to a \$1.5 million appropriation deficit in the school department in FY2010. The town’s unions had yet to agree to move to the state’s Group Insurance Commission (GIC) and substantial investment losses in the override stabilization fund,

primarily during FY2009, were cause for concern. Notwithstanding these questions regarding the town's financial management, Arlington voters approved another \$6.49 million override for FY2012.

In spite of the revenue constraints and the structural imbalance inherent in the town's multi-year budget plan, Arlington has earned a AAA bond rating from Standard and Poor's (S&P's). The agency's highest rating indicates an extremely strong capacity to meet debt obligations based on the town's proximity to the Boston area's deep and diverse economy, strong income and property wealth indicators, and a relatively low debt burden. However, S&P rated the town's financial management as "good" rather than "strong," indicating that financial practices exist in most areas, but they may not be formalized or regularly monitored.

In our assessment of the town's financial management, we were impressed that engaged and experienced finance and capital planning committees, working with the town manager and selectmen, have put together strong multi-year financial and capital plans. Issues persist in other areas though. In the FY2010 audit, Powers and Sullivan cited the recent deficit in the school budget as a "material weakness" in controls where a possible misstatement to financial statements would not be prevented, detected or corrected. A subsequent FY2011 debt service deficit (\$239,083) and prior investment losses raised additional questions as to the adequacy of the town's procedures for monitoring fiscal performance, detecting problems and taking prompt corrective action.

A government structure where town finance officers operate independently does not foster an environment conducive to strong financial management. Lack of accountability to a full-time manager leads to fragmented fiscal operations, works against the implementation of regular, formal practices and inhibits an overall team approach to finance. Since many financial management operations cut across departments, they are most effective when managed in a centralized, coordinated structure.

Through informal means, the manager and deputy manager have attempted to play a coordinating role with town finance departments, but the reality is that cooperation is voluntary and none of these officials can be held truly accountable by the manager. Although cooperation among finance officers has historically been fairly good, we firmly believe that accountability is essential to any successful team. So if Arlington wants to raise its financial management to the "strong" level, the obvious question that the town must address is: who is in charge of financial management in general and, in particular, who is responsible for insuring that consistent, effective control and monitoring practices are in place across departments? The short answer now is that there is no one officer or board vested with the formal authority to fulfill this responsibility.

Conclusion

Many other Massachusetts communities have moved to a government structure that places financial management responsibility firmly with the town manager or administrator. Arlington has resisted the clear trend among Massachusetts communities, and particularly among comparably-sized communities with AAA bond ratings (see Appendix 1), to create a consolidated finance department with financial positions accountable to an administrator or finance director. Loyalty to and respect for long-serving officials in these offices may color local opinion, but in the harsh environment of revenue constraints and constant spending pressure, we believe that a coordinated and accountable financial management structure is long overdue in Arlington.

Opportunities exist, as well, to create a more effective and efficient operation with a merger of the school and town finance offices. It is our strong recommendation, however, that before the town considers this consolidation, it should restructure the town financial offices to create a consolidated department accountable to the town manager. At the same time, the town and school department, through the manager and school superintendent, should work together to resolve some of the outstanding issues with previous service mergers such as information technology, payroll and facilities. Sincere efforts to resolve these issues through regular, open channels of communication are important to repairing strained relationships and earning the level of trust and goodwill required for a successful merger.

In the body of the report that follows, we discuss the town's current organizational structure as it relates to financial management, as this structure impacts whether a consolidated municipal and school finance operation is feasible or not. We then document purchasing and payroll procedures and the roles and responsibilities of key town finance staff and the school business office staff. Though the town manager has no direct oversight of the town's finance offices, we also sought to understand the extent of the manager's role in coordinating financial management and drafting an initial budget document. We examined precedents for joint town and school services, as well, as often this track record is the best predictor of the success of future cooperative endeavors. Finally, we reviewed recent issues with town finance and discuss whether a stronger structure may have prevented them.

Who is Responsible for Financial Management in Arlington?

Appointed by the selectmen, the town manager supervises and directs the administration of most town departments, boards and commissions, including the police, fire and public works departments. Notable exceptions to this management authority include the core financial offices of the comptroller, treasurer/collector and assessors. The treasurer/collector is independently elected, the comptroller is appointed by the selectmen and the director of assessing is appointed by the elected board of assessors. Staff in the selectmen's office is also not subject to the manager's oversight. Surprisingly, despite a strong town manager's position that provides direction to and coordinates the efforts of most departments, the key financial management departments operate with no central oversight and, in many respects, are as decentralized as any small town in Massachusetts.

Lacking a cohesive financial structure and formal oversight from the town manager, Arlington has compensated in other ways. Since the town manager's budget authority extended only to those departments under his control, the finance committee has maintained a powerful role in developing a complete, balanced budget. In what is a somewhat disjointed process, budget submissions reside on numerous individual computers and formats vary, requiring extra work of the finance committee. The manager's office must, through informal means, devote a considerable amount of time to developing budget estimates, monitoring the process and otherwise coordinating finance-related activity.

Though the current town manager has made an effort to prepare a comprehensive budget document, including estimates for those departments that do not report to him, this effort has been relatively recent. A home rule amendment, passed by the legislature in December of 2011, empowers the manager to receive all departmental budget requests and prepare a comprehensive and balanced budget for delivery to the selectmen and finance committee. While we believe that this represents a step in the right direction, the town's finance officers will continue to operate independently. Consequently, there is no single officer, board or committee vested with the responsibility to oversee and coordinate financial management.

How are Financial Transactions Handled by the Town Finance Offices?

Comptroller's office

The comptroller's office has a legal obligation to oversee all financial activity of the municipality. Through the maintenance of independent records and by following well-defined procedures, the office documents the flow of money into and out of municipal accounts, and plays a role in the system of checks and balances established by state statute to monitor and protect local assets. To fulfill this responsibility, the office prepares payroll and vendor warrants to be signed by the comptroller and manager; maintains a general ledger where receipts, expenditures and all other town financial activity are recorded; and, reconciles cash, receivables and debt with the treasurer/collector monthly. In addition, the comptroller tracks revenue and expenditures, and is typically involved in the annual budget process.

Among required submissions to the Department of Revenue, the comptroller is responsible for producing the town's annual Schedule A and year-end balance sheet for free cash certification. Finally, the comptroller works with the board of assessors and town clerk in the preparation of the tax recapitulation sheet. In what is likely a remnant from an earlier era, the office is responsible for the town-wide telephone system and operators as well. Until as recently as 2007, the office also was responsible for information technology.

As stipulated in the Arlington Town Manager Act, the comptroller is appointed by, and may be removed by, the board of selectmen. Office staffing consists of the comptroller, an assistant comptroller, a part-time administrative assistant, a junior accountant and a principal account clerk/bookkeeper. The office is physically located apart from town hall in the basement of Arlington High School.

The MUNIS purchasing system is used by town-side departments to initiate purchase requisitions electronically that are subsequently reviewed by the comptroller's office, forwarded to the purchasing department to ensure compliance with purchasing procedures and then sent back to the comptroller's office to encumber funding and issue the purchase order in the MUNIS system. In contrast, school side purchase orders are initiated using hardcopy forms submitted by the various schools or cost centers to the school business office. There, they are centrally entered by the school business staff, reviewed and signed by the chief financial officer, then approved by the comptroller's office with funding encumbered in the accounting system (See purchasing flow chart in Appendix 2).

There are approximately 500 town-side employees and all are paid weekly with the exception of fire department personnel that are paid bi-weekly. The process is initiated at the department level using the MUNIS payroll system, entries are reviewed by the town's consolidated payroll department that is physically located in the school department and then forwarded to the comptroller's office for review physically located in the school department and then forwarded to the comptroller's office for review and sign-off. Accrued employee leave balances are automatically checked and the system flags

instances where leave may exceed available balances. The warrant is run, signed by the comptroller and town manager and checks are printed in the IT department (See payroll flow chart in Appendix 3).

With some exceptions, the school payroll is processed bi-weekly and involves upward of 750 checks. Absences are reported manually and hardcopy exception data is sent to each individual school building and cost center. Each school/cost center then prepares payroll sheets on an exception basis and submits them to the payroll office where the information is entered into the MUNIS payroll system. School payroll is signed off by the superintendent and school committee, then forwarded to the comptroller and manager for signatures. Checks are printed by the IT department where the treasurer's signature cartridge is used to electronically sign checks.

Treasurer's receipts are reported to the comptroller on a daily basis. Although these receipts have already been date entered into the treasurer's software, this is a separate program and these receipts must be manually re-keyed into the comptroller's MUNIS general ledger software.

Treasurer/collector's office

The treasurer functions as the town's cash manager and has custody of all municipal funds. Included is the responsibility to post and deposit town receipts into appropriate bank accounts, and to monitor balances to ensure that sufficient funds are available to cover obligations. The treasurer invests town funds and manages debt to maximize investment income and to meet cash flow needs. The treasurer maintains a cashbook, debt schedule, check registers and various logs to track balances for trusts, revolving funds and special revenue funds. As a financial control, the treasurer is obligated to reconcile cash balances and debt, both internally, and with the comptroller on a regular basis. The treasurer also maintains tax title accounts and prepares documents to petition for foreclosure.

A collector possesses the authority to receive all payments due including property taxes, excises, betterments and certain other charges. The collector has the responsibility to make certain that collections are properly counted, posted to taxpayer accounts, and turned-over. The collector pursues delinquent accounts and then moves them into tax title accounts. To be successful, the collector must maintain an up-to-date receivable control that is reconciled with the comptroller monthly. They should run credit reports as appropriate and complete necessary research to confirm when refunds are due. In accordance with state law, the collector is required to respond to requests for municipal lien certificates.

The treasurer/collector in Arlington is an elected position, with the incumbent serving since his election in the spring of 2006. The assistant treasurer's position is currently vacant, though the treasurer has created a management analyst's position to bolster the analytical capacity of the office. There are four other staff on the collection side and another four on the treasury side of the office. The office uses home grown software packages called the Integrated Collection System (ICS) for collections and the

Cash Management System (CMS) for recording cash receipts and tracking balances. These systems are not integrated with MUNIS and require duplicative data entry in the comptroller's office.

The office boasts high collection rates for property taxes, motor vehicle excise and water and sewer receipts. Most property tax collections are received from various mortgage escrow services (about 41 percent) and the town's lock box service (about 27 percent) and uploaded to the ICS system. The remaining bills are paid at the counter, put in the drop-box at town hall, paid using the taxpayer's on-line banking services or processed through the town's web-based payment system. The town's web-based system is used by only about 200 customers and a considerable amount of business is conducted at the office counter. The treasurer is working with the IT department to explore improvements such as accepting credit card payments and initiating e-billing.

Historically, these high tax collection rates have been achieved by the prompt issuance of demand notices shortly after the payment due date and the inclusion of a letter with a payment deadline to avoid advertisement for tax taking. About two weeks later, direct phone calls are placed to delinquent payers that have yet to respond. After a notice of taking is advertised in the paper, a second letter is then sent advising the taxpayer of deadlines to avoid the actual filing of a tax lien with the Registry of Deeds.

Assessors' office

The assessors' office is responsible for valuing all the town's real and personal property, assigning tax payments to owners, and generating the commitments authorizing the collector to collect real estate, personal property and motor vehicle excise payments. To ensure that residents are taxed equitably and accurately, an assessing office maintains and updates property records with information received in response to mailings, from deeds and through the on-site inspection of sale properties and properties where a building permit has been issued. Additional information is gathered during an on-going property measure and list program.

Upon resident application, assessors act on and track exemptions and abatements. They estimate new growth and provide information for the tax classification hearings. The assessors recommend the annual overlay and provide levy information for use in the Tax Recap Sheet submitted to DOR for setting the tax rate. The office is required by DOR to document an annual property value adjustment analysis and to prepare for state certification of property values every three years; FY2010 was the latest recertification year.

A three-member, elected board of assessors is responsible for the office and hires a director of assessing to manage the day-to-day operations of the office. The director of assessing began in September of 2011, but has substantial previous experience in the field. The office is also staffed by an assistant assessor who conducts property inspections and by two administrative assistants who are relatively new

to the office. The office uses the Patriot Properties computer assisted mass appraisal system and relies on the firm for assistance in completing cyclical inspections, assistance with triennial revaluations and review of land schedules, cost tables and commercial property values. The last cyclical inspection was completed in FY2008.

Historically, the annual tax rate setting process has been managed through the assessing office. The comptroller has provided input with respect to appropriations and the use of available funds, while the treasurer has provided estimates for local receipts. The town manager's office has had little direct involvement in this process.

Conclusion

Although the town's finance offices perform their individual functions well in most respects, they operate without direct oversight to ensure coordinated and efficient operations across departments. Staffing levels appeared uneven across departments and we found some procedures were manual or labor intensive. Given the complexity of municipal finance today and the ongoing budgetary pressures facing Arlington, we believe that the current organizational structure with independent finance officers is outdated and no longer sufficient to meet the town's needs. We also believe that this structure has likely contributed to the complexity around the town's budget and the resulting lack of transparency in financial reporting. In the recommendations section of the report that follows, we will present our thoughts on how the town should restructure its financial offices.

How does the School Department Handle Financial Transactions?

The school department has its own business office responsible for all administrative and advisory work relative to the business operations of the department. Specifically, the business office oversees the school department's budget development, financial planning, purchasing, budget monitoring and accounting. Responsibility for reporting financial information to the Department of Elementary and Secondary Education (DESE) also rests with this office. Transportation and food services are overseen by other school department administrators and do not fall under the business office.

The school business office is managed by the chief financial officer and includes a budget analyst, procurement officer, accounts payable clerk, and an accounts receivable clerk. An administrative assistant's position was vacant at the time of our field visits, but was in the process of being filled. The chief financial officer is a certified public purchasing officer and is certified as a school business manager by DESE. Her current role is her first as a school business manager. Over the past ten years, there has been much turnover in the chief financial officer's position with five different individuals serving in this capacity.

Since her arrival in September of 2009, the chief financial officer has completed a revision of the district's chart of accounts to make it more compatible with the DESE reporting requirements. We understand that this is the third chart of accounts used by the school department in the last several years. She has also revamped the monthly financial reporting system for revenues and expenditures to reflect the new account structure and to include projections to year-end. The chief financial officer has also instituted a position control system where all district positions, regardless of funding source, are listed and assigned a position number with projected salary costs for the year. She has further committed to re-emphasize purchasing controls through the development of a thorough, written manual of purchasing procedures.

The budget analyst is a long-serving member of the school business office who possesses a great deal of institutional knowledge about the Arlington Public Schools. She is responsible for entering state and federal grants into the MUNIS system, setting up the school department approved budget in MUNIS, preparing periodic reports to granting agencies and reviewing budgets during the year. She has also been largely responsible for the preparation of the year-end pupil and financial report to the DESE. A significant amount of her time (as much as three hours a day) is devoted to the process of interviewing potential substitutes, receiving calls every morning from staff reporting absences and calling substitutes to fill-in.

To execute school department purchases, the accounts payable clerk and the procurement officer use the well-documented, written purchasing procedures prepared by the chief financial officer. The purchasing process is initiated at the school building level when principals or their assistants prepare a manual purchase order form. The form documents the desired goods or services and contains fields for entering

estimated costs as well as any expected shipping and handling charges. After the chief financial officer signs off on the purchase order, the procurement officer enters the purchase order into MUNIS and orders the goods or services from the appropriate vendor. The signed receiving copy of the form is sent to the person making the request. Once the goods or services are received, the requestor signs, dates and returns the receiving copy. Receiving documents are compared to the original purchase order and invoices are processed for payment. Vendor invoices are copied by the business office so that the comptroller on the town side receives original invoices and the business office retains a copy as well (See purchasing flow chart in Appendix 2).

All school payroll changes are authorized by the superintendent, and signed-off by the chief financial officer and the human resources officer, before they are entered into MUNIS. The budget analyst prepares manual daily reports on employee absences and sends them to the appropriate school or cost center. Biweekly, payroll sheets are generated and electronically distributed to departments. Each department enters exceptions on the payroll sheet (noting the reason for an absence and if a substitute filled in), the department head signs it and it is returned to the payroll office. The reports are reviewed by the payroll clerk and the exceptions are keyed into MUNIS. Once entered, the payroll clerk runs a detailed report, proves to the prior pay period's base earnings data, and balances the gross wages, deductions and withholdings reports. The payroll is approved by the superintendent and the school committee before it is sent to the comptroller (See payroll flow chart in Appendix 3).

Conclusion

On the school side, improvements to financial controls and reporting have been put into place by the chief financial officer since the deficit in FY2010. However, resources and systems remain somewhat fragile and staff is stretched thin at times. Over time, tight budgets have caused resources to be directed to direct educational services at the expense of administrative capacity across the department. In part, lack of administrative capacity at the building/cost center level is cited as the reason the business office has not moved ahead with MASBO's recommendations to decentralize processing of purchasing and payroll. At times, communication between the school department and lead finance officials and committees on the town-side has been strained.

Do Previous Collaborative Efforts Point to Future Success?

There are precedents to the town and school working cooperatively to jointly provide services. These relationships are in place in several significant service areas including information technology, payroll, and facilities and maintenance. Other efforts are underway in the area of human resources where the town has provided funding in FY2012 for half of a human resources position in the school department. Previously, the school department has not had access to professional human resources staff. The town has filed legislation to establish a human resources department that will be available to the school department provided the school committee agrees to this as required by MGL Ch. 71, Section 37M.

A town meeting vote in 2007 provided the impetus to consolidate the information technology function. The joint technology department is located in the high school and serves both town and school technology needs. The office is directed by a chief technology officer and is staffed by four employees that work primarily on town side technology issues and five employees that work on the school side. The town side employees are unionized while the school technology staff is not. The chief technology officer is a non-union, town employee, but reports jointly to both the school superintendent and town manager. About half of the department budget is appropriated on the town side and the other half is included in the school budget. Equity issues have arisen regarding position classification, salaries and union representation in this recently formed department.

The town and school payroll operations were merged approximately eight years ago. The department is physically located in the high school and the payroll director reports jointly to the school superintendent and treasurer. The entire payroll department budget is funded in the school budget. The payroll director manages the office and is assisted by a staff of 4.5 payroll clerks. Town side departments submit their payroll data electronically through the MUNIS system. Leave balances are maintained in MUNIS so that the system can flag instances where an employee attempts to use leave in excess of the available balance.

On the school side, hardcopy time sheets are sent from payroll to each school or cost center. Once payroll is compiled, it is proofed and a warrant is prepared for signatures. The school committee chair pre-signs blank school payroll warrants, effectively foregoing critical review and sign-off by the committee. Nonetheless, the department has been successful and payroll processing is more cost efficient than it was prior to the merger.

The facilities and maintenance department is included in the school budget and serves both town and school departments. The facilities director reports to the school superintendent and the school department “grey bills” the town for any work provided to town facilities. Employees reportedly belong to the DPW labor union.

Conclusion

Though most town and school officials we interviewed seemed to believe that these collaborative arrangements were working, in some cases additional work remains to address lingering issues. For example, the uniformity of position classifications, salaries and union representation in the information technology department should be addressed. The payroll department and facilities department are budgeted entirely in the school department budget despite the fact that they provide regular services to town departments. This distorts spending for purposes of compliance with state net school spending requirements and results in overstatement of school expenditures to DESE. Moving ahead with a good-faith, constructive effort to resolve these outstanding issues will provide a firmer foundation for a future consolidation of town and school finance operations.

Has the Existing Structure Impacted Financial Management?

In its 2011 report to town meeting, the finance committee supported a request to the town manager to study the implementation of a consolidated town and school finance department. In recommending favorable action on this article, the committee pointed to the “current fragmentation of financial management functions” and linked the existing structure to unnecessary duplication of effort. The report further describes a budget process that suffers from “obscurity and complexity” and financial reporting that lacks consistency and transparency. In the section that follows, we will describe our observations in reviewing some of the recent fiscal issues that have arisen in Arlington in the context of this structure.

- The town’s budget is difficult to follow and includes numerous “offsets” that effectively reduce appropriations in many different line-items. These offsets typically represent costs that are funded by the town’s enterprise funds. The use of offsets in the budget is not consistent with current enterprise fund budgeting procedures and detracts from a transparent budget document where departments are fully funded.
- The use of these offsets has added unnecessary complexity to the town’s budget, general ledger and financial reporting; and was likely a contributing factor in an error that occurred in the setting of the FY11 tax rate. The comptroller’s staff entered an incorrect offset figure for the skating rink which lowered the debt service appropriation and resulted in an appropriation deficit of \$239,083.
- Departmental budget requests are not prepared using the MUNIS budget module, but reside on various individual computers and are transmitted to the finance committee in different formats. Consistent line-items are not always used, bottom lines sometimes do not match and it is difficult to compare requests to prior year actual spending. Complications arise in tracking budget changes as the deliberation process evolves and assumptions are adjusted.
- A disjointed budget process has likely contributed to financial reporting that is convoluted and difficult for interested officials and citizens to follow. Monthly MUNIS reports sent to department heads are lengthy (135 pages) and, though adequate for an individual department, are not ideal for overall budget monitoring or public distribution. One-page quarterly reports are somewhat useful from this perspective, but are produced less frequently and do not include school spending.
- Tax rate setting, a process that establishes important annual financial benchmarks, is handled almost exclusively by the elected assessors and comptroller, with no meaningful role for the town manager’s office. This creates a situation where the financial policies reflected on the

tax rate recapitulation sheet may not coincide with the town's initial financial plan developed by the manager and finance committee.

- Financial information entered in the treasurer/collector's office must be re-keyed in the comptroller's office due to the lack of integrated software. While bridge programs could be developed to automate the transfer, there has been resistance.
- The treasurer/collector's office invested proceeds from property tax overrides that were set aside in a special purpose stabilization fund in risky investments at State Street Bank. During FY2009, these investments experienced a net loss of about \$462,000 in principal, after the Attorney General's office recovered about \$200,000 from State Street for failing to fully disclose the risky nature of these investments.
- The fact that property tax revenue was the original source of the funds and that these funds would be needed over a short-term time horizon, argues strongly for an investment strategy where there is no tolerance for risk and where the funds are highly liquid and available for use in the upcoming budget year.
- The town manager's office must spend a considerable amount of time attempting to coordinate finances, including school finance issues, through informal means. Nonetheless, the independence of the finance offices has contributed to uneven staffing levels across departments, the use of labor-intensive practices in some areas and has, at times, resulted in inconsistent participation in fiscal planning efforts.
- The FY2010 school department budget deficit of \$1.525 million was set into motion by overly aggressive and flawed revenue estimates, depleted special revenue fund balances and a lack of control over salary expenditures.
- Other practices such as the school department initially charging all costs to the general fund appropriation and making adjustments at year-end made it very difficult for the comptroller to detect school budget problems during the fiscal year. Procedures associated with the long-standing practice of encumbering the entire remaining balance in the school budget at year-end also compromised the town's ability to detect deficits.

In many respects, municipal finance today revolves around the timely, accurate handling of extensive amounts of financial data that travels among finance offices. Assessments, for example, are based on numerous property characteristics and these, in turn, drive assessments and tax bill calculations. The treasurer/collector issues tax bills based on these assessments and receives, deposits and tracks payments. Receipts are turned over to the comptroller to be recorded in the town's financial statements.

Payroll and payables information flows from departments to payroll, purchasing and the comptroller's office.

Given the volume of data involved, it is not realistic to think that mistakes can be eliminated entirely, even in communities with the strongest financial management. The challenge, then, is to develop systems that emphasize a higher level review of transactions so that financial risks are regularly evaluated and significant weaknesses are eliminated.

Over time, we have found that a strong financial team is a proven vehicle to address issues that cut across financial departments. Ideally, the financial team is led by the town manager who is in the best position to set goals and objectives from a town-wide perspective. Accountability to the manager is essential, as well, to ensure that all team members are working toward town-wide goals rather than pursuing individual agendas. Below we list some of the areas where a financial team structure may be beneficial:

- Determine integrated approaches to financial software and data handling that are in the best interests of the town as a whole;
- Create uniform procedures for all town departments regarding the receipt, control, recording and turnover of municipal receipts;
- Ensure that regular reconciliations of cash, receivables, debt and overlay are conducted by finance officers;
- Estimate revenues and fixed costs for budgeting and implement consistent procedures and transparent formats for budget submissions, accounting records and financial reporting;
- Coordinate critical financial operations such as issuing tax bills and setting the tax rate;
- Develop financial strategies, evaluate long-term contractual obligations and prepare cost-benefit analyses for the manager and policy-makers;
- Recommend financial policies in areas such as reserve balances and usage, investments, and debt to the selectmen and finance committee;
- Assess financial risk regularly to determine areas of weakness, and develop procedures and implement solutions around management letter recommendations of the independent auditor.

Conclusion

The town and school department have since instituted procedures to address many, though not all, of the issues that were root causes of the school deficit and other fiscal issues. While there is no guarantee that the stronger finance structure suggested above would have prevented these issues, we believe that it would have substantially lowered the risk. For example, a broader vetting of the school department revenue assumptions may have revealed the fundamental flaw in using projected "savings" as revenue and prompted early budget revisions to avoid a deficit. Similarly, additional input on investment

strategies may have generated consensus that the town could not afford any risk of principal loss in stabilization accounts funded by property tax override. A team approach to tax rate setting may have detected the keying error that created the debt service deficit as well.

Does the Selection Method for Finance Officers Influence Checks and Balances?

In a good system of checks and balances, procedures must be regularly reviewed to determine whether they continue to be effective, both from the perspective of ensuring that state laws are followed and financial transactions are accurately recorded and reflected in the town's financial statements.

Assessments must be made regarding what constitutes an appropriate level of oversight, control or redundancy for an activity when measured against the level of risk posed by the probability of possible problems in that area.

Proper checks and balances in municipal government arise from strict adherence to general law requirements, careful construction and uniform implementation of internal control procedures and regular independent audits. For example, Massachusetts general laws establish requirements that municipal accounting officers review all potential expenditures. This review is intended to insure that the expenditures are legal, comply with the terms of any contractual or grant agreement, and will not result in an appropriation deficit. Requirements that the accounting officer receive all contracts and grant agreements are designed to support this review.

In other instances, the general laws require that departments receiving cash deliver independent, concurrent turnover reports to both the comptroller and treasurer. When the treasurer later reports all receipts that have been received and deposited in town bank accounts to the comptroller, the comptroller can compare the originating department's turnover to the treasurer's turnover to make sure that funds reported match and have been deposited in the treasurer's bank account. Regular, monthly reconciliations of cash balances between the comptroller and treasurer/collector provide assurance that all reported revenues have been accurately captured in the accounting records. The regular distribution of monthly budget to actual revenue and expenditure reports to departments and policy-makers serves as an additional safeguard.

Internal control procedures encompass all of the above examples, but extend even further to include more specific areas of government fiscal operations. Procedures around the preparation and sign-off of employee time sheets, tracking of leave balances and the use and approval of overtime pay are examples of areas where consistent, documented internal control procedures are of benefit.

Thoughtful procedures are important in the receipt of municipal funds as well. There should be uniform control policies for departments receiving payments, particularly if those payments are in the form of cash. The use of cash registers, sequentially numbered permits, licenses or tickets to create an audit trail

for non-committed receipts, and minimizing the number of departments that collect payments are other examples. For property tax receipts, the prompt posting of payments, timely issuance of demand notices (preferably by someone not directly involved with the collection/posting process) and regular procedures to move delinquent accounts into tax title create strong controls around tax collections.

Other safeguards in the general laws afford protection to municipal employees that disclose, or threaten to disclose, an activity, policy or practice of their employer that the employee believes is in violation of the law. The Massachusetts Whistleblowers Act (Chapter 149, Section 185) protects employees from retaliatory action by their employer when employee reasonably believes that a violation of the law has occurred. These concerns can be directed in writing to the employee's supervisor or reported directly to a public body such as the board of selectmen. If the employee is reasonably certain that the supervisor is aware of, or may be party to, the violation of law, then the employee can provide the information or testify directly before the selectmen.

An additional layer of oversight in the system of checks and balances is provided through regular annual audits by an independent, qualified auditor. The auditors render an opinion on whether or not the town's financial statements are fairly presented. To do this, they test various transactions, review accounting entries and examine financial procedures in an effort to ascertain whether the town's financial statements are accurate depictions of the community's true fiscal condition. The management letter issued as part of the audit notes areas where procedures could be improved or risk could be mitigated. Careful review of the management letter findings, together with prompt management response to any deficiencies or problems, serves to enhance a community's system of controls and checks and balances.

Not to be overlooked in a system of good controls is the human element, or employment culture, that exists for those charged with carrying out the control procedures. It is important that communities establish a strong employment culture that emphasizes professionalism, honesty, and integrity. When hiring and promotions are based strictly on merit and emphasis is placed on accountability, ethical behavior and diligence in the conduct of town business, a strong employment culture emerges.

Conclusion

Though some officials we interviewed expressed concern that the appointment of the town's financial officers would compromise the town's system of checks and balances, we believe that the appointment of financial officers can create opportunities to enhance internal controls, rather than compromise them. We believe that with central oversight and management of the finance departments, the town can move forward in terms of standardizing internal control procedures, evaluating risks across all finance related departments and others departments receiving or spending town funds.

Is School/Town Finance Consolidation Feasible and Cost Effective?

Though the barriers are probably more political than technical, there are relatively few precedents for a school and town finance merger in Massachusetts. One community where a combined finance department has been implemented successfully is Barnstable.

The Barnstable schools have a total enrollment of about 5,400 pupils and a FY2010 general fund budget of approximately \$58 million. In Barnstable, the foundation enrollment (5,381) represents a fairly low 11.9 percent of total population (45,193). By comparison, total enrollments in Arlington are similarly low relative to total population, with FY2012 foundation enrollment (4,713) constituting 11 percent of the town's total population (42,844). Of particular note, foundation enrollment in Barnstable has declined by 21 percent or 1,446 pupils between FY2003 and FY2012 while, in Arlington, the enrollment has increased by 543 pupils or 13 percent over the same period.

The government structure in Barnstable is quite different from the form of government in Arlington. Barnstable has adopted a town manager/town council form of government where the town manager serves as the town's chief executive and administrative officer and a 13-member town council serves as the legislative body. In Arlington, the selectmen act as the executive branch of government, the town manager handles administrative duties and a representative town meeting of 252 member serves as the legislative body.

According to Barnstable's finance director, essential ingredients to a successful consolidation include unequivocal support from elected and administrative town and school officials, mutual trust between municipal and school leadership and a formal agreement to share revenues. Similar to Arlington, Barnstable uses a budget allocation model designed to divide available revenue among fixed costs and departmental budgets.

In Barnstable, the finance director oversees all finance department operations and plays a lead role in budget development and financial analysis. The finance director reports directly to the town manager. The school department has a dedicated person, the assistant finance director, who focuses solely on school finance, prepares the school budget and oversees all school accounting. She is a certified school business manager, but reports to the town's finance director.

Finance department policy is to present all financial information in an open, transparent manner, but to remain strictly neutral in budget or other conflicts that may arise between school and town officials or administrators. Town and school offices are physically located in the same building and the superintendent and town manager meet weekly with the finance director to foster good communication and working relationships.

Another contributing factor to the town's success cited by the finance director was decentralizing the processing of payroll and payables. Rather than have the accounting department key-in payroll and vendor payment information that is originally collected at the department, building or program level, this responsibility was shifted to each department, or building/program with the schools. Entering this data on a decentralized basis forced each department or program to take ownership of their data, freeing up the finance department to perform higher level audit functions rather than data entry.

In Arlington, opportunities exist for the town to save money if it can successfully reorganize town finance departments and then merge the school business office once this occurs. However, we believe that focusing on potential savings alone can distort the real mission at hand which is to improve the town's financial management structure so that there is direct, day-to-day accountability. Through this structure, a meaningful review of staffing and procedures across departments will emerge to make sure that the town is making the best use of available human and technological resources. Priorities can be established for automating procedures and labor-intensive practices can be systematically evaluated for technology-based solutions.

On the school side, automating the reporting of absence and substitute calling so there is an electronic interface with time and attendance will save valuable staff time in the business office and payroll department. Decentralizing the input of purchasing and payroll information into MUNIS will also save time in the business office, but will require the installation of additional terminals and an investment of time to train staff at the school level. With a merged finance office, redundant review of purchase orders, copying of vendor invoices and difficulty around reconciliation of budget and position control information should be minimized.

Conclusion

While precedents exist for merged services in Arlington, it is clear from the Barnstable example that the town should not move ahead without the full support and trust of the school committee. Arlington's current management structure is not well suited to a merged department since finance officials act outside of the manager's purview. Independence in this regard works against an orderly, regular process to raise service concerns or complaints to ensure that school department needs are met. Attention should be focused first on reorganizing the town finance departments while, at the same time, the town manager and superintendent work to resolve some of the outstanding issues with previous service mergers. A move to a consolidated finance department will not be feasible until the town has created a stronger finance structure and the school committee and administrative staff has confidence that there is a proven means to solve outstanding issues and address future concerns.

Recommendations

In the section that follows, we outline our recommendations to move forward with the restructuring of town and school finance operations. As mentioned earlier in the report, the initial thrust of town action should be to centralize financial management responsibilities under the town manager. We strongly believe that government finance is more complex and challenging than ever and that municipalities, like Arlington that have significant revenue constraints, can ill afford to have its finance officers operating autonomously. With the fifth largest population among Massachusetts towns and a total FY2012 budget of more than \$135 million, we find it surprising that Arlington has no formal means to coordinate complex financial operations that cross departments. This is not intended as a criticism of the performance of incumbent finance officials or the town manager, but rather speaks more broadly to the hurdles that the town's structure poses to coordinated and effective management.

1. We recommend that the town pursue an amendment to its "Town Manager Act" to create a consolidated finance department where appointed finance officers report to a finance director or the deputy town manager. Since the deputy town manager has historically played a significant role in town finance this may be a natural role for this position. In other comparable communities such as Lexington and Needham, the assistant or deputy town managers serve as the finance director. In other communities such as Barnstable or Brookline, there is a separate finance director responsible for directing the consolidated department, but the director reports directly to the town administrator or manager. In Appendix 4, we summarize the financial structures of three comparable communities with AAA bond ratings (Needham, Lexington and Brookline) that we believe would serve as effective models for Arlington.
2. We recommend that the town to convert the elected treasurer/collector's position to a position appointed by the manager. A clear trend has emerged among Massachusetts communities in favor of appointed positions for a number of compelling reasons. Most relate to ensuring that office holders possess the experience and qualifications for the position and to expanding the pool of potential candidates for the job. Often mentioned is the prevailing theory of government practice that policy makers should be elected, but operational positions, where a certain skill set is required, such as the accountant, assessor, collector and treasurer, etc., should be appointed. Some municipalities see value in placing all town hall positions on equal footing and subject to the same review structure.

Given the size and complexity of the town's budget, there is added value to delineating clear lines of authority and accountability around critical financial management functions. While Arlington is fortunate to have able department heads that care about the town and doing a good job, there is no guarantee that similarly qualified individuals will step forward when the incumbent resigns or chooses not to pursue reelection. To ease the transition to an appointed treasurer/collector, the town

could insert language in the special act to the effect that the incumbent treasurer will be appointed to the position for the first three-year term.

3. We recommend that the town make the director of assessing an appointment of the town manager. This change will require additional amendments to the town manager act. If the town chooses to retain an elected board of assessors, however, this arrangement can be awkward. Other towns have addressed this problem by creating a dual reporting relationship where the elected board provides the director with general direction, but the director receives direct, day-to-day supervision from the manager. In other cases, towns have established an appointment process where the assessors screen and check the credentials of potential applicants and recommend one or more choices to the manager.
4. We recommend that the town consider making the board of assessors appointed as well. Today, the role of the board of assessors is largely dictated by state law, procedural and reporting requirements enforced by the Department of Revenue and computer assisted mass appraisal techniques. Even with regard to abatements and exemptions, the assessors have very little policy discretion. Abatements should be determined based on the relevant facts at hand and, if new information comes to light, new values should be determined using consistent mass appraisal methods to ensure equity when compared to similar properties. Strict statutory eligibility criteria also severely limit any discretion assessors may have in granting property tax exemptions. Only with the hardship exemption under MGL Ch. 59, Section 5, Cl. 18, do the assessors have some discretion in determining eligibility. The assessors granted only two of these exemptions in FY2010.
5. We recommend that the comptroller be included in the consolidated finance department, but in order to preserve some independence for this critical position, that the position remain subject to appointment and removal by the selectmen. To realize the full benefit of this consolidation, however, it is important that the comptroller report directly to and be evaluated by the finance director or deputy town manager. We further suggest that the town evaluate possible ways to accommodate the comptroller's office in the town hall with the rest of the finance offices. Responsibility for the telephone system also should be moved to the information technology department.
6. We recommend that the town explore using the MUNIS budget module for departmental budget submissions and as a central database to store and track changes during the budget process. The current process involves numerous different spreadsheets stored on various personal computers that are often formatted or constructed differently making it difficult to manage the budget as assumptions change. A central database should mitigate these issues and allows for the approved budget to be loaded directly into the accounting records.

7. We recommend that the payroll and purchasing functions be included in the consolidated finance department. Although the current consolidated payroll department is performing well and by all accounts has been successful, payroll is a core finance function that belongs organizationally in the finance department. The purchasing department operates under the authority of the town manager's office and works closely with the comptroller's office in overseeing all town and large school purchases. We suggest that when the town drafts special legislation to amend the town manager act, that it consider including these functions in the finance department. Once the department is established and running well, these functions should be moved into the consolidated department.
8. While the town moves forward on the town-side restructuring of the finance offices, the town manager and school superintendent should work to address some of the outstanding issues with previous town-school consolidations. Though the issues are not insurmountable, working cooperatively to solve them will demonstrate the good faith necessary for a successful finance consolidation. Remaining issues include the different job classifications, salaries and union representation in the merged information technology department and the fact that the merged payroll and facilities department budgets are funded entirely in the school budget. The second issue warrants attention as these expenditures may artificially inflate school spending and should not be reported to DESE as net school spending eligible expenditures.

To address the above issues, and to establish a firm foundation for future collaboration, the town manager and school superintendent should commit to meet regularly. Establishing a clear process to air potential grievances or problems and formulate solutions is important to successful collaboration and ensuring that the needs of both parties are met. Success in this regard is important to ensure that the school committee is satisfied with existing shared services and that they are open to moving forward with a finance merger.

9. We recommend that the school department purchase and implement an automated system for recording school staff absences and hiring of substitutes. Currently, the school budget analyst spends as many as three hours per day to complete these tasks using a manual system. We don't believe that these responsibilities represent the best use of time for the second highest paid and longest serving person in the school business office. Many other school districts have moved to automated systems that allow school personnel to report an absence on-line, designate specific substitutes to be called to fill the absence and interface with the time and attendance records.
10. We recommend that the school administration work to improve the administrative capacity at the building or cost center level. Administrative resources available at the individual school building level have dwindled over time after years of tight budgets. Key people we interviewed felt that there was not sufficient administrative capability to implement the decentralized purchasing, payroll and budget monitoring processes recommended in the MASBO report. We advise that the school administration initiate a program to enhance this capability through additional training, and perhaps

even limited hiring, so that the district can move to the same decentralized processes used by town departments.

As a first step, the information technology department should install MUNIS terminals in each school building or cost center. Training on the use of requisite MUNIS modules should follow so that administrative staff can become familiar with how to initiate electronic purchase orders, input payroll data and monitor budgets in real time. Implementation need not be simultaneous, but can begin slowly by bringing on schools or cost centers where administrative staff has demonstrated the necessary proficiency. Others can be brought on later after additional training is provided.

11. We recommend that the town wait until the town finance departments reorganize and issues with other shared services are resolved before the town proceeds with the merger of school and town finance functions. As stated earlier, it is important that the town has a clear process and open channels of communication to raise and address any problems as they occur. We think that this is also an essential element to building good will and fostering the trust that is necessary for the school committee to agree to a merged financial operation as required by state law (MGL c.71, §37M).
12. In planning the merged department, it is important that the superintendent and school committee have access to a dedicated staff member with the required school business manager certification. The school committee and superintendent rely on the chief financial officer or business manager in a number of important ways (see Appendix 5 for business manager responsibilities and licensure requirements) and this confidential, trusted relationship must be preserved in the merger. Barnstable handled this issue by establishing an assistant finance director's position devoted exclusively to school finance issues. We have included a proposed organizational chart that reflects these recommended changes on page 28.
13. We recommend that once the merged finance department is running smoothly that it conduct a complete review of the town's budget format, chart of accounts and financial reporting. Over time, the town's budget and, in turn, the underlying accounting and financial reporting, has become overly complex and difficult for interested officials and citizens to follow. We suggest a complete review of the level of detail that is necessary and appropriate for management purposes, as well as what is required for reporting to the state.
14. We recommend that the town and school work to develop a written agreement concerning the allocation of municipal costs eligible to be included as "net school spending." Development of this agreement can be a topic of discussion in meetings between the superintendent and manager.
15. We recommend that the school committee chair review and sign the school payroll warrant only after it has been completed and gross salary information by employee is available for review. Though some may argue that the school committee review is superfluous after the superintendent

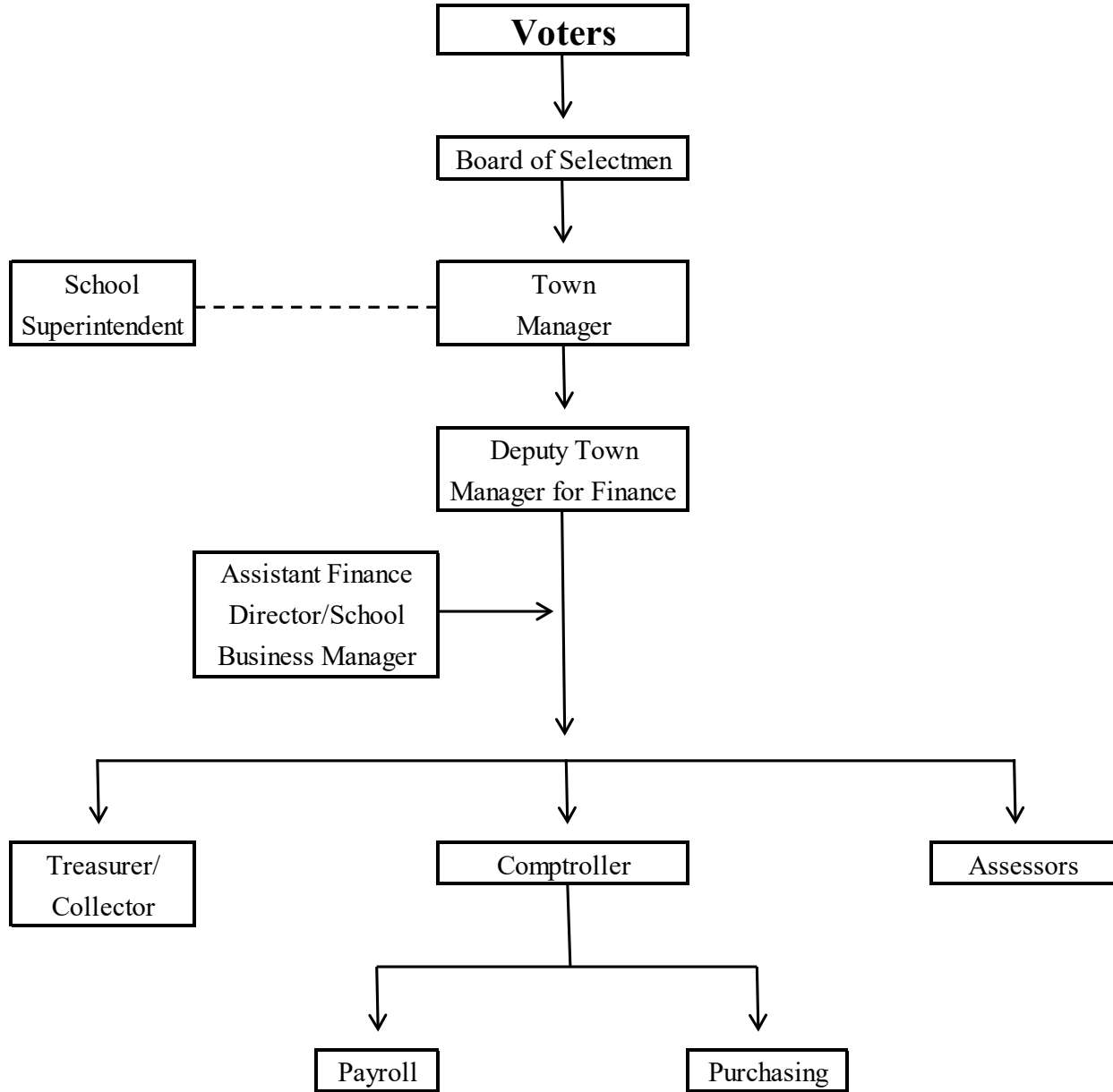
has signed off on the payroll warrant, we believe that school committee review and sign-off on salary payments is an important, and legally required, financial control.

We suggest and summarize an implementation timeline on the next page. We assume in this timeline that the town manager and town counsel will draft proposed special act language to submit to the 2012 annual town meeting.

Proposed Implementation Timeline

Timeline	Recommended Action
Annual Town Meeting, Spring 2012	<ul style="list-style-type: none"> • Vote to submit special legislation to amend the “Arlington Town Manager Act” and establish a consolidated town finance department • Assuming favorable action, legislation is filed
July 1, 2012	<ul style="list-style-type: none"> • School department moves ahead with automated system to record/track absences, hire substitutes, and interface with payroll • School department moves forward to install MUNIS terminals, incrementally decentralize processing of payables and payroll, and train/hire administrative staff as necessary • Manager and superintendent meet regularly to address outstanding issues with previous merged services
Annual Town Meeting, Spring 2013	<ul style="list-style-type: none"> • Assuming prompt legislative approval of special act amendments, the legislation is presented to the voters for approval at the annual town election in the Spring of 2013
July 1, 2013	<ul style="list-style-type: none"> • Implement recommended changes to town finance departments • Fold payroll and purchasing into finance department on January 1st 2014, or later if necessary
July 1, 2014	<ul style="list-style-type: none"> • Merge school finance operation with consolidated town finance department • Work to standardize budget formats, simplify and streamline accounting records and create transparent financial reports

Organizational Chart After Proposed Changes



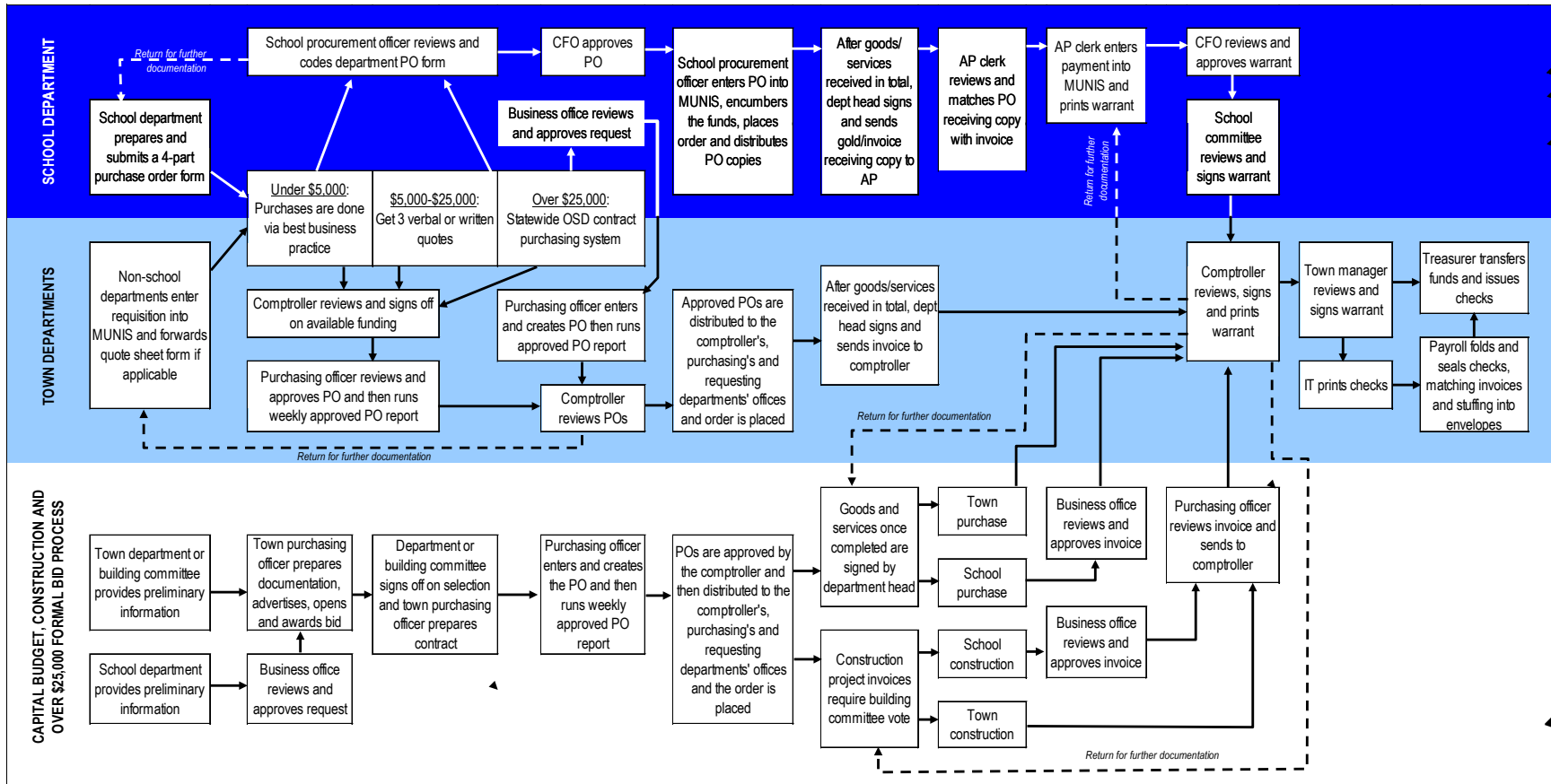
Appendix 1
Comparable Communities with AAA Bond Ratings
(Populations between 20,000 and 80,000)

Municipality	2,010 Population US Census	2008 DOR Income per capita	Population Density: per Square Mile	FY2010 Foundation Enrollment as percent of total Population	Total FY2010 General Fund Expenditures per Capita	Consolidated Town Finance Dept.	Residential Tax Levy per Capita as % Income per Capita	FY2011 State aid as Percent of Budget
WINCHESTER	21,374	81,121	3,539	18.35%	3,495.32	No	3.52%	8.36%
CANTON	21,561	45,677	1,139	13.97%	2,635.58	Yes	3.57%	7.63%
ACTON	21,924	55,111	1,098	10.86%	3,498.90	Yes	4.75%	8.80%
HINGHAM	22,157	70,314	986	17.15%	3,160.84	No	3.44%	10.90%
BELMONT	24,729	65,349	5,307	15.59%	2,816.68	No	3.93%	8.25%
WELLESLEY	27,982	138,406	2,749	17.58%	3,860.92	Yes	2.29%	6.73%
NEEDHAM	28,886	76,319	2,291	17.09%	3,514.37	Yes	3.26%	6.74%
LEXINGTON	31,394	77,120	1,914	19.42%	3,757.85	Yes	4.14%	4.60%
NATICK	33,006	46,870	2,189	14.66%	3,010.38	No	3.94%	9.81%
BARNSTABLE	45,193	29,104	753	12.35%	2,496.25	Yes	6.35%	8.36%
BROOKLINE	58,732	57,700	8,650	10.53%	3,241.71	Yes	3.92%	6.14%
ARLINGTON	42,844	43,637	8,271	10.67%	2,232.27	No	4.32%	12.67%
State Average	18,654	33,411	835	14.37%	2,681.49		4.04%	21.14%

Note: Includes communities rated either Aaa by Moody's or AAA by Standard and Poor's rating agencies

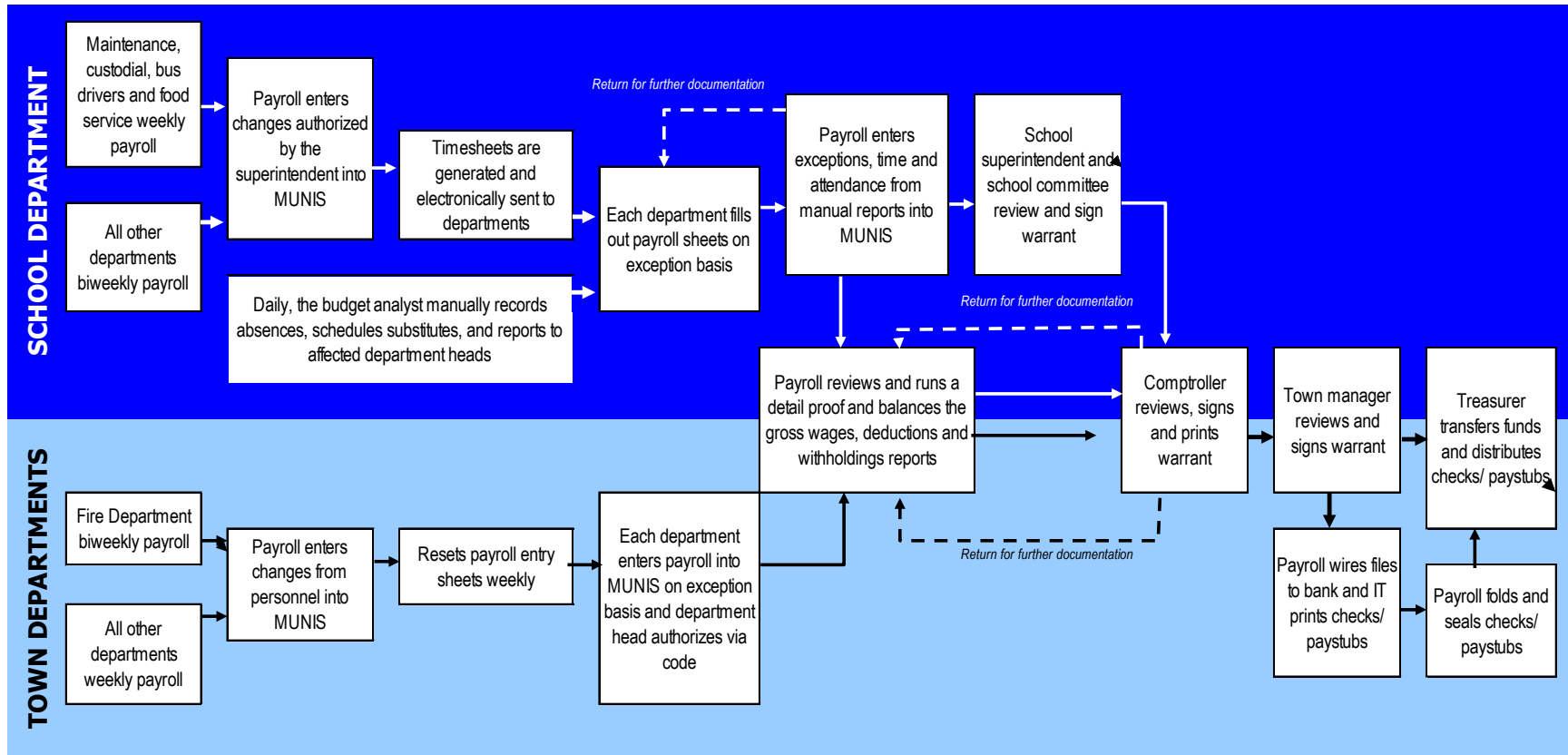
Appendix 2

Town and School Purchasing and Accounts Payable Procedures



Appendix 3

Town and School Payroll Procedures



Appendix 4 - Model Finance Department Structures

Needham Charter – Chapter 176 of the Acts of 2004

- Town manager appoints the assistant town manager/director of finance subject to the approval of the selectmen.
- Town manager appoints the town accountant, treasurer/tax collector and administrative assessor.
- Removal of assistant town manager/finance director subject to the approval of the selectmen and removal of administrative assessor requires consultation with board of assessors
- Three-member board of assessors are elected
- Representative town meeting of not more than 252 members

Lexington – Selectmen-Town Manager Act, Chapter 753 of the Acts of 1968

- Town manager appoints a treasurer/collector and board of assessors;
- Director of assessing appointed by town manager
- Comptroller appointed by selectmen, after recommendation by town manager, and serves as assistant town manager for finance,
- assistant town manager for finance reports directly to the town manager
- In this capacity, assistant town manager for finance oversees accounting, collections, treasury and assessing.

Brookline – Town Administrator and Finance Director Acts, Chapter 270 of the Acts of 1985, Chapter 25 of the Acts of 1993 and Chapter 29

- Consolidated finance department established in 1993, treasurer/collector position converted from elected to appointed
- Finance director appointed by the selectmen based on the recruitment efforts and recommendation of the town administrator.
- Finance director recommends appointment or removal of treasurer/collector, comptroller and chief assessor to the town administrator; selectmen make these appointments based on town administrator's recommendation.
- The chief assessor serves as chair of the board of assessors and other two assessors are appointed by the selectmen.

Appendix 5 - Responsibilities and Licensure Requirements for School Business Managers

Among the most important responsibilities of the school business manager is to develop the school department budget, and take a leadership role to communicate the associated budget plans and impacts to the school committee, town officials and citizens. Often this involves presenting the budget during public hearings and advocating for the budget on behalf of the school superintendent and committee. The business manager also serves in a confidential and advisory role to the superintendent and school committee by preparing financial plans, analysis and recommendations to assist them with important policy decisions such as collective bargaining positions, the setting of user fees and the preparation of the annual budget.

Another primary responsibility of the business manager is to work with principals and program administrators to plan and design financial and accounting controls. Oversight of the day-to-day accounting related to the approximately \$48 million spent by the school department is essential to ensure that financial results are stated accurately, and that spending is consistent with the approved budget and the requirements of state law. This involves the review of all payroll and vendor payments prior to the warrants being approved by the school committee. The business manager also reviews all purchase orders, bid specifications and contracts. The business manager oversees the preparation of financial reports periodically for the committee and the state, including the End-of-Year Pupil and Financial report submitted to the Department of Elementary and Secondary Education (DESE).

Another issue is the DESE regulations that stipulate the licensure requirements for a certified school business administrator to oversee the district's finances. In a merged finance operation, regardless of who fulfills the school business manager responsibilities, DESE regulations call for the person responsible to be licensed as a school business administrator.

DESE's regulations (603 CMR 7.09) cover the prerequisite background needed to achieve initial certification as a school business administrator. First, a candidate needs to possess at least an initial license in another educational role and to have completed at least three years of employment in a district-wide, school-based or other educational setting. Completion of at least three years of employment in a business management or other setting accepted by the DESE can be substituted for the above school experience. Potential school business administrators must also pass the MTEL Communication and Literacy Skills test.

The regulations also require that the school business administrator possess subject matter knowledge in the areas of financial planning and management, accounting systems, management of state and federal funds for special services (food service, transportation and special education), municipal and school

finance laws and regulations, personnel and collective bargaining, and purchasing and facilities, among others.

Lastly, a candidate must complete an approved post-baccalaureate program including a supervised practicum of 300 hours in the school business administrator role, or 300 hours in an apprenticeship with a trained mentor consistent with DESE guidelines or submit to a panel review where the candidate's portfolio of work is assessed by DESE staff. The requirements for certification are fairly rigorous and are not easily attained without a significant time commitment.

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Donna McLean, Assistant Collector MVE
Barbara Perez, Principal Account Clerk
Carol Filosi, Head Cashier

Kirsi Allison-Ampe, School Committee
Cindy Starks, School Committee
Dr. Kathleen Bodie, Superintendent
Diane Johnson, Chief Financial Officer
Janet Collins, Budget Analyst
Neile Emond, Procurement Officer
Steve Walenski, Accounts Payable Clerk
Julia McLaughlin, Director of Payroll
Kelly Pigott, Payroll Clerk
Maria Lalicata, Payroll Clerk
Robert Spiegel, Human Resources Officer
Julie Dunn, Grant Writer/Coordinator
Kevin Feeley, Board of Assessors
John Speidel, Director Assessing
Dave Good, Chief Technology Officer
Charles Norton, Manager Systems
Development
Renee Davis, Powers & Sullivan CPA