



# Town of Becket

## Financial Management Review

---

Municipal Data Management and Technical Assistance Bureau

October 2006

## Introduction

---

At the request of the board of selectmen as initiated by the finance committee, the Department of Revenue's Division of Local Services (DLS) has completed a financial management review for the Town of Becket.

We have based our findings and recommendations on site visits by a team consisting of staff from the Division's Bureau of Accounts and Technical Assistance Section. During these visits and through follow-up correspondence, the team interviewed and received information from the board of selectmen, assessors and finance committee, the town administrator, town accountant, treasurer, tax collector, clerk as well as other staff members.

DLS staff examined such documents as the independent auditor's report, tax recapitulation sheet, town meeting warrants, annual budgets, general ledger and other financial system reports, the town by-laws as well as other assorted financial records.

In reviewing the town's financial management practices, we have focused on: (1) town government structure in the context of the duties and responsibilities of financial officers; (2) the town's budget, warrant approval and capital planning processes; and (3) the general efficiency of financial operations measured by the town's success in maximizing resources and minimizing costs.

We encourage the members of the board of selectmen, finance committee and others, when formulating overall strategies for improving the town's financial management, to consider the observations, analyses and recommendations contained in this report. These are recommendations only and can be implemented, at the town's option, provided there is sufficient cooperation among the various town boards, committees and officials.

---

## Overview

---

The Division of Local Services typically conducts financial management reviews in instances where help is sought to resolve a particular problem, or where an overall evaluation of government operations is desired. Whereas the town, in its request for a review, did not cite a specific area of concern, our report reflects a holistic approach toward assessing the town's financial practices.

Becket is a rural community nestled in the picturesque Berkshire Hills of western Massachusetts. Like many of the surrounding hill towns, the community offers a quiet lifestyle alternative to the primary regional employment centers of Pittsfield, Lee, and Great Barrington. In addition, local amenities include several lakes and streams, a local arts center as well as a library; a nationally recognized contemporary dance company at Jacobs Pillow; and hiking along the Appalachian National Scenic Trail, which passes directly through Becket's corporate limits. Other regional attractions include the Prime Outlets retail complex (Lee); the summer home of the Boston Symphony Orchestra at Tanglewood (Lenox); the Norman Rockwell Museum (Stockbridge); and the Pittsfield Dukes minor league baseball team at Wahconah Park (Pittsfield).

Fiscal matters in Becket are governed by a board of selectmen, which appoints an administrator, an accountant and a board of assessors; an elected finance committee; an elected treasurer; and an elected collector, all of whom collectively perform their financial functions as part of the executive branch of government. The legislative branch functions are reserved for an open town meeting and the voters, generally.

Our general finding is that the Town of Becket runs well. The presence of a capable and dedicated staff enables the town to perform a number of duties in-house on a timely and cost-effective basis. We hope that this review reflects that finding while also providing guidance in certain areas that will help the town improve as an organization.

The organization of the report is designed to provide town officials with recommendations that, if implemented, will: 1) bring the town into compliance with all areas of municipal finance law and facilitate remedial action in areas where current operations deviate from sound practices; 2) improve the structure and efficiency of town government and build capacity to enhance organizational performance; and 3) emphasize the importance of planning and sustainability of town services in light of revenue constraints.

There are many recommendations in this report covered within the framework laid out above. However, our review in Becket revealed 3 issues that we would like to emphasize in particular. The ramifications of each issue impacts more than one of the main topic areas.

First, there are several findings and recommendations relating to the accounting function. Each recommendation for improvement in this area can be tied back to the lack of capacity in the position of town accountant as currently structured. The position in Becket is part-time with the current officer completing work on nights and weekends. While this schedule is sufficient for completing week-to-week tasks such as accounts payable and payroll processing, long-term projects and duties such as reconciliations with the treasurer and collector and accounting for the depreciation of fixed assets are not completed. The body of the report makes specific recommendations on these and other activities. However, the town should reconsider how the position is structured and whether or not the duties required can be accomplished under the current arrangement.

Second, town boards and committees have traditionally taken an incremental approach to town finances. There is no multi-year forecasting or a formal capital plan. There is little apparent discussion of organizational planning, succession strategies or cross-training. While recent steps taken by the finance committee toward long-term capital spending are regarded as a positive development, the committee and, by extension, the town can benefit further from the guidance offered in this report.

Third, in an area directly related to long-term planning, the town will lose its town administrator, Richard Furlong, to retirement within the next three years. With him will go a substantial amount of institutional knowledge. Through numerous interviews with town officials, we have concluded that Mr. Furlong is the glue that holds the organization together by maintaining constant contact with policy makers at the board/committee level while possessing intimate knowledge of staff and operations. While there is no formal long-term planning among the boards and committees as mentioned above, Mr. Furlong demonstrated considerable insight into the capital and financial needs of the town during our on-site visits. We are concerned that the town will not be prepared for his departure when the time comes. Therefore, several recommendations in the report address the need for some form of knowledge transfer as a means of bolstering staff capacity in several areas that are currently within Mr. Furlong's domain.

In addition to the above framework and findings, we hope that the report will serve as a quasi-progress report on some of the findings in the town's most recent audit. Becket, along with six other towns, is part of the Central Berkshire Regional School District. The town does not administer any grant-funded programs exceeding \$500,000 and has no outstanding long-term debt as of June 30, 2006. Therefore there is no requirement to perform an annual independent audit under the federal Single Audit Act, nor is it required that the town report financial data for the purpose of obtaining a bond rating. To its credit, however, the town engaged the services of Melanson Heath & Company, PC to conduct an audit for the fiscal year ended June 30, 2005.

The audit report for FY2005 was the first completed in 8 years, which helps to explain why the auditors produced a rather extensive list of findings in the management letter. One of the items

in the management letter was the lack of regular reconciliations of cash and receivables to the general ledger. This rose to the level of a “material weakness” which is a reportable condition of such magnitude that it could potentially result in material misstatements of the town’s financial condition. Reconciliations are also a critical element of sound financial controls that a municipality needs to ensure that the town’s assets are safe. While the board of selectmen has approved a policy mandating monthly reconciliations, these activities are not taking place. The auditors also pointed out that the financial statements do not account for the depreciation of fixed assets, which is a new requirement of municipal accounting that we address further in the report. Regarding other items in the management letter, the town has responded positively and has already taken action to resolve most of the issues.

An additional characteristic of Becket that we found to be unique is the presence of road districts. Becket has approximately 85 miles of public roads of which the town has accepted and maintains 57 miles. There are three independent road districts within the town’s corporate limits (Sherwood Forest, Sherwood Greens, and Becket Woods). As separate taxing districts, Sherwood Forest and Sherwood Greens generate revenue via the property tax levy, which requires preparation of a tax recapitulation sheet subject to certification by the Department of Revenue’s Bureau of Accounts. Becket Woods currently relies on a fee-based system of revenue collection. In each case, the assessment and collection process requires administrative support from the town government, for which the road districts pay a modest administrative fee.

Conclusion: Except for those issue specific concerns above, the financial team in general works well together. In our opinion the staff members are a valuable asset to the town government and the citizens it serves. Understanding that the town has certain long-standing financial practices, we recognize that the recommendations contained within this report will involve more change than town government has experienced in some time. However, under the circumstances, it is our view that certain changes are necessary, inevitable and pending. The lack of focus given to the accounting function creates a potential for errors within the financial system that should be addressed. There are a number of structural arrangements that should be changed to maximize the effectiveness of various positions and processes. Finally, whereas the town administrator has made it known that he is approaching retirement, we feel that the town is in danger of experiencing a sizable vacuum in its knowledge base. Therefore, you will find that the recommendations are designed to facilitate compliance with accounting standards, an emphasis on capacity building, and long-term planning approaches.

---

# Summary of Report Findings and Recommendations

---

## Overall Financial Management

### Summary by Department

Town Administrator  
Accountant  
Treasurer  
Tax Collector  
Assessors

### Recommendations: Compliance and Remediation

1. Monthly Cash and Receivables Reconciliation
2. Resolve Backlog in Tax Titles
3. Perform Audits on Annual Basis
4. Begin Fixed Asset Tracking and Other Reporting Requirements (GASB 34)
5. Provide Secure Location for Departmental Turnovers to Treasurer

### Recommendations: Structure, Efficiency and Capacity Building

6. Convert Treasurer and Collector from Elected to Appointed
7. Conduct Quarterly Revenue and Expenditure Projections and Monthly Budget Reports for Current Fiscal Year
8. Convert to Bi-Weekly Payroll
9. Greater Utilization of Technology to Maximize Efficiency
10. Regular Financial Management Team Meetings

### Recommendations: Planning and Sustainability

11. Boards/Committees Make Long-term Planning a Priority
12. Develop Reserve Policy
13. Analyze Other Post Employment Benefits (OPEB) Liability (GASB 45)

---

## Overall Financial Management

---

During our time in Becket, staff demonstrated a firm understanding of the duties and responsibilities required of their respective positions. The town administrator is experienced, insightful and well informed about the internal and external dynamics that impact the organization's performance. There is an experienced and competent, albeit part-time, accountant with detailed knowledge of the Uniform Massachusetts Accounting System (UMAS), which is the system governing the chart of accounts structure. The treasurer and the collector, though elected, demonstrated in onsite interviews that they understand the duties required under the Massachusetts General Laws. Both have also attended training seminars on the town's financial software (KVS). The lead assessor possesses detailed knowledge of her responsibilities, has completed appropriate coursework for her position, and maintains contact with her peers in other communities through regional and statewide professional affiliations. The Assessors' office functions as a working board and is capable of performing many complex functions in-house, as opposed to relying on an outside consultant.

It is our general opinion that Becket benefits from a staff that has substantial internal capacity not common in most rural communities. However, we also feel that Becket is a lot bigger than it may appear from a cursory overview. According to the latest state database figures, as of 2004 Becket has 1,775 full-time residents. Yet the housing stock reflects that of a larger jurisdiction due to the significant presence of second homes. In fact, with approximately 3,900 total parcels, Becket's profile reflects that of an average town nearly three times its size in population. Most towns in the Commonwealth with populations similar to Becket's average a total parcel count of around 1,300. While so many part-time residences perhaps do not generate the same level of service demand as their full-time counterparts (schools, refuse, etc.), there still exists certain administrative and regulatory demands placed on town officials. Adding further complication is the presence of three independent road districts, which, though legally autonomous, require ongoing support from town staff (particularly the assessors and collector). Therefore, the need for multiple and knowledgeable personnel is justifiable.

Despite the knowledge and experience present at Town Hall, our review found several areas in which the financial team can improve practices to gain greater efficiency and/or enhance capacity. We also found that in at least one instance, a required practice is not being performed. In the report that follows, we present specific recommendations that, if implemented, will make financial practices in Becket commensurate with staff's firm grasp of municipal finance fundamentals.

One short-coming found in Becket of great concern is the lack of regular reconciliations between the collector, treasurer and accountant.<sup>1</sup> This was a material weakness as cited in the town's most recent audit. While a policy was approved by the selectmen in May to remediate this condition, the stated goals of the policy have not made their way into practice yet.

Also notable is the significant number of properties in tax title. Many of these properties have been delinquent for several years and, in some cases, over a decade. At the time of our first site-visit the balance amounted to \$871,406. Because of the magnitude of this balance relative to the town's operating budget, we feel this matter warrants the attention of both the board of selectmen and the finance committee. However, it is noted in this report that the town has recently undertaken a more aggressive strategy to move these properties off the tax title list through auctions and initiating the land of low value process.

Beyond these two findings, there are a number of additional recommendations intended to improve general financial policy and operations. Many of these recommendations are related to several Becket-specific circumstances. Whereas Becket benefits from a long-serving and experienced management team, therein lies a weakness. Specifically, the tenure of the workforce combined with the lack of citizen participation makes the town vulnerable to administrative upheaval should one or more staff resign or retire. This is especially true among the elected positions. Also, the ongoing incremental nature of budgeting has manifested itself in the lack of comprehensive/long-term planning in the areas of revenue, capital, maintenance and technology. Workflow efficiencies can also be achieved through a more strategic approach to task management, freeing-up time for more team-oriented administration.

Becket takes an incremental approach toward policy and operations. While this is admittedly standard practice for most small towns throughout the Commonwealth, it is not necessarily preferable for a town of any size. The budgets are prepared annually with little or no forecasting for subsequent fiscal years. Formal analysis of capital needs basically consists of a replacement schedule for equipment. There was no evidence that programmatic evaluations or performance reviews were taking place. It is our general observation that boards and committees rely upon their own intuitive sense about the state of the town to inform their decision-making. Questions such as: what type of community will Becket be in 10 years? what challenges does Becket face in the next 5 years? or what type of services would our citizens like to see? appear to be absent from broad policy deliberations.

---

<sup>1</sup> While the lack of regular reconciliations has the potential to cause serious problems, it should be noted that nearly all variances identified in the audit were receivables. Therefore, as of June 30, 2005, there was no material variance in cash balances between the treasurer's cash balance and those appearing on the general ledger.



This is not to say that we think no one has considered these weighty matters. On the contrary, interviews with the town administrator reveal considerable insight into operations moving forward. What we are suggesting is that such discussions take place as part of a coordinated effort of the town's elected leadership, with support from professional staff.

---

## Summary by Department

---

Town Administrator – The primary duties of the town administrator are established in town by-law adopted through special legislation (Chapter 662 of the Acts of 1989, as amended). He acts as the agent of the board of selectmen on all administrative matters taking place on a day-to-day basis. The administrator attends all board of selectmen's meetings and is responsible for implementing all policies, including financial policies, as directed by the board. He also regularly attends meetings of the finance committee and provides staff support and materials to assist their deliberations.

The administrator prepares revenue projections in late summer/early autumn. He coordinates the budget submission process for town departments and performs budget analysis in advance of finance committee meetings and town meeting. Traditionally, the selectmen and finance committee have relied upon the administrator for all material related to capital projects.

The administrator also functions as a quasi-technology director for the town. He performs routine fixes to the computer network and is relied upon as a resource for departmental technology needs. A private vendor is available as the town administrator sees fit when serious computer-related problems surface.

Accountant – In Becket, the town accountant position is part-time. The incumbent is an experienced individual whose full-time job is in the government finance field. The accountant completes her work at night and on weekends outside the normal business hours at town hall. The accountant verifies departmental expenditures for legal sufficiency and processes accounts payable on a weekly basis. Per state law, the accountant ensures that accounts payable checks are not sent out until the warrant is signed by the board of selectmen.

During our site visits, we found that reconciliations of cash and receivables to the general ledger were not being performed. The reconciliation process is a routine method through which financial staff can ensure that the largest assets of a community (cash and receivables) are safeguarded. Bank statements and cash book balances must reconcile to the general ledger. This is usually done at the behest of the accountant. However, in the case of Becket, we find there to be a lack of urgency and general inertia toward completing this mundane, yet absolutely essential task. In such cases, ultimate accountability belongs to the board of selectmen and, by extension, the town administrator acting as their agent overseeing day-to-day operations at town hall. Reconciliations should be conducted shortly after the closing of each month.

The primary reason given for the inability to perform monthly reconciliations was lack of time. Typically, work related to accounting is done at night and/or on weekends. By contrast, the treasurer and collector are each full-time, elected employees of the town, keeping regular office

hours at town hall Monday-Friday. This makes regular reconciliations difficult because, in the mind of the staff, a face-to-face meeting is required to complete them.

Treasurer – The treasurer is an elected position serving full-time during regular business hours at town hall. The incumbent handles all matters required under Massachusetts General Law including maintaining the cash book, posting department receipts, and making deposits. The treasurer also handles preparation of the payroll warrant and coordinates transmittal of time card data to the outside payroll vendor. She manages 11 bank accounts and maintains a manual cash book. She monitors cash balances and cash flow needs of the town. She reconciles bank statements to the cash book, which typically takes place mid-month. When necessary she is responsible for issuing short-term debt.

As of our first site visit on July 18, 2006, the balance in outstanding tax titles stood at \$871,406 due in large part to an unsuccessful development company venture. In August, the treasurer conducted her first auction of property in tax title since taking office and it is anticipated that another auction will take place in the autumn.

In the course of our review, some issues regarding the handling of cash and turnovers came to our attention. Issues raised by the auditors in the Management Letter appear to have been resolved through policy or simple practice modification. However, on some occasions, departmental turnovers to the treasurer have been left at insecure locations. Specifically, the treasurer complained that some turnovers have been slipped under her office door in her absence.

Tax Collector – The collector is an elected position serving full-time during regular business hours at town hall. The incumbent handles not only collection of town property and motor vehicle excise taxes through her office, but also the collection of property taxes assessed to homeowners in two of the three road districts in town (Sherwood Forest and Sherwood Greens). The collector maintains her own bank account independent of the treasurer for road district taxes. Turnovers are made to the treasurer several times a week.

The collector manages an online tax bill paying system. Turnovers are generated from online payment with road district charges segregated automatically. The collector and the assessors have an in-house database that tracks motor vehicle excise taxes and payments. However, whereas the home-grown module is not integrated with KVS, turnovers are manually posted to the general ledger.

Assessors – Becket's assessing department is managed by a three member working board. With two full-time members and one part-time member, the board values all of the town's real and personal property, assigns tax payments to owners, and generates the commitment authorizing the collector to collect real estate tax, road tax, and motor vehicle excise payments.

At first glance, an assessing department of this size, for a town of approximately 1,700 might seem large. However, for Becket, population is a deceptive statistic. About half of the single-family houses in town are second homes. In fact, there are almost as many houses as there are year-round residents. Given the number of parcels to be inspected, the fact that second homes contain personal property that must be valued, and the unique nature of the town's road district properties, the workload placed on Becket's assessors is actually more comparable to a much larger community. Furthermore, they do everything in-house rather than pay outside contractors.

The assessors set the tax rate, recommend the annual overlay and provide levy information for use in the Tax Recap Sheet submitted to DOR. They do this for both the town and two of the three road districts.

To ensure that residents are taxed equitably and accurately, the assessors maintain and update property records with information received in response to mailings, from deeds and through the on-site inspection. They work closely with the building inspector to ensure that they visit every property where a building permit has been issued. They use the information they gather during these visits to provide an estimate of new growth for use in the town's budget planning process.

Additional information is gathered during an on-going property measure and list program. In order to account for every parcel in town at least once every nine years, they visit approximately 350 properties per year. The office is also required by DOR to conduct an annual property value adjustment analysis and to prepare for State certification of property values every three years.

We found Becket's assessors to be highly capable and effective, especially given the complex nature of the town's mix of properties. All three are very active in maintaining their skills and knowledge through training and involvement with state and regional associations.

---

## Recommendations: Compliance and Remediation

---

### **Recommendation 1: Regular Reconciliation of Cash and Receivables**

We recommend that Becket reconcile cash and receivables to the general ledger on a monthly basis. Whereas the accountant's position is part-time, we recommend that the town administrator assume an active role in managing the process and report progress quarterly to both the board of selectmen and the finance committee. If the town administrator is unable to facilitate the needed change in practice, then the selectmen, in consultation with the finance committee, may need to explore an alternative structure to the accountant's position. Possible considerations here may be requiring core hours for the accountant to be present at town hall during some regular business hours throughout the month.

We were first made aware that regular reconciliation was an issue when reviewing the management letter that accompanied the audit report. We obtained a copy of the audit adjustments, which indicate that a variance of \$98,334 existed at the close of FY2005, primarily related to deferred revenue receivables. The official response from management states that the board of selectmen adopted a new policy on May 3, 2006. After reviewing the policy, we believe the procedures embodied within it are satisfactory as far as addressing the audit's finding of a material weakness. However, on our site visits, it was disclosed openly by all relevant staff that the portion of the approved policy pertaining to the general ledger had not been put into practice and that such reconciliations had not, in fact, taken place since the audit was performed.

Prompt and frequent reconciliations between the accountant, treasurer and collector are essential in order to maintain control and ensure checks and balances are in place. While each official is responsible for conducting their own independent operation, they share a duty to ensure fiscal accountability. To ensure that information was processed properly and that the financial offices' records are accurate, reconciliations are performed. It is best that these activities be prioritized and completed immediately after the close of the month rather than putting them off to a later time.

All parties acknowledge the legal and practical need to do regular reconciliations of cash and receivables. After discussing this matter with the accountant, treasurer and collector, we have determined from their responses that each possesses the technical capabilities and knowledge necessary to perform this function. Yet, the fact remains that the financials continue to go unreconciled.

It is our opinion that keeping common office hours, while preferable, is not essential to conducting a routine monthly reconciliation. If the treasurer and collector have their materials prepared for these activities, then providing such material to the accountant should be sufficient,

provided that the accountant conducts a review of the information and compares it with postings to the ledger.

While we defer to the town concerning *how* they go about making monthly reconciliations happen, we do want to emphasize their importance to the overall integrity of the financial system. As a related matter, given the vital importance of the accounting function, the town should reevaluate the resources dedicated to this area and consider whether or not they are sufficient for meeting the organization's needs. The general ledger is the basic source of information for monitoring and controlling current year spending as well as for planning next year's budget. Therefore, the board of selectmen and the finance committee need to be aware of this situation. Furthermore, both bodies should consider whatever collaborative steps are appropriate to ensure that a regular schedule of reconciliations takes place moving forward.

## **Recommendation 2: Resolve Backlog in Tax Titles**

We recommend that Becket make the resolution of properties in tax title a priority until the balance is substantially reduced.

Staff has indicated that the attorneys responsible for pursuing tax title issues in the past were not responsive to the town's needs. With the acquisition of a new firm taking place a few months ago, there is optimism that the situation will improve. The town has recently held an auction to dispose of 15 properties in tax title. We consider both of these developments to be positive progress on this issue. Still, the board of selectmen and the finance committee should request periodic status updates.

## **Recommendation 3: Perform Audits on Annual Basis**

We recommend that Becket continue to conduct audits of its basic financial statements on an annual basis. Prior to the audit performed by Melanson Heath for fiscal year 2005, Becket had not requested an independent audit for quite some time. Annual audits are important to ensure the quality of a town's financial health by providing an independent lens to either confirm sound financial practice or point out systemic weaknesses. The management letters that accompany the financial statements are particularly useful in assessing the latter.

At this time it is unclear whether or not the town will seek an independent audit for fiscal year 2006. Per our recommendation, we strongly encourage the town to do so. By only conducting audits periodically, the audit firms must verify the trial balances for not only the year in question, but also those years for which an audit was not performed. Furthermore, if there is a situation in which a reportable condition or material weakness exists (as was the case in Becket), the problem could linger for several years before being identified.

We understand that the engagement of an audit firm is an additional expense for a town where an audit is not required. However, independent confirmation that taxpayer dollars are being spent in accordance with the law reassures citizens and builds confidence that adequate accountability mechanisms are in place. Therefore, the officials that represent the town deserve to have the information that a comprehensive and rigorous audit provides.

### **Recommendation 4: Begin Fixed Asset Tracking and Other Reporting Requirements (GASB 34)**

We recommend that the town administrator devise a plan for creating a comprehensive inventory of fixed assets and that the accountant be directed to track any purchase over \$5,000 to update the fixed asset inventory moving forward. With the advent of Government Accounting Standards Board statement 34 (GASB 34) came the requirement that governments begin to account for depreciation of fixed assets. While this has traditionally been standard practice in private sector accounting, it has only been in the last five years that these standards have been applied to the financial statements of state and local governments.

Becket has not compiled a full inventory of fixed assets for accounting or depreciation purposes. This resulted in a qualification of opinion by the auditors in the town's audit report for FY 2005. A qualified opinion means that the financial statements in the audit do not fully reflect the organization's true financial position. While data on fixed asset accounting and depreciation is unlikely to generate a great deal of discussion at board of selectmen or finance committee meetings, it is nonetheless a requirement for compliance with generally accepted accounting principles. The town will not receive a clean audit report until this is done. Furthermore, it is wise management practice to have a comprehensive inventory of property, equipment, buildings and infrastructure in order to gain a full sense of those things that a community owns.

The first order of business for the town will be to generate and catalog its current inventory of fixed assets. To accomplish this task, the town administrator may be able to devise a plan to create such an inventory using in-house resources. Once the inventory is completed, it will be up to the accountant to make sure that items are added to the inventory at the point of delivery. This will require some sort of "flagging" procedure incorporated in the accounts payable process. Capital items will also become part of the fixed asset inventory upon completion after the accountant has closed-out the capital projects account. Tracking projects and equipment purchases over \$5,000 is usually sufficient for maintaining a fixed asset inventory. The Department of Revenue offers a comprehensive guide available online at [http://www.dls.state.ma.us/publ/misc/GASB\\_34.pdf](http://www.dls.state.ma.us/publ/misc/GASB_34.pdf). The town may find the information and resources in this package useful in transitioning for fixed asset accounting.

We also recommend that next year the town administrator or accountant attempt to write the Management's Discussion and Analysis (MD&A) section of the audit and work toward

combining the basic financial statements with additional material in the form of a Comprehensive Annual Financial Report (CAFR) at some point in the future. The MD&A is another requirement under GASB 34 in addition to those related to fixed assets. The audit report stated that the MD&A was missing from the financial statements and, therefore, a departure from GAAP. However, for the town's purposes this did not stand in the way of achieving the goals of the audit.

There is no legal or GAAP requirement that towns publish a CAFR. Though typically found in larger communities, a CAFR is a great tool for any community to better communicate the complex information contained in financial statements to its citizens. A standard CAFR consists of three sections: An introductory section, a financial section, and a statistical section. Whereas the vast majority of citizens do not possess the technical knowledge to understand the various tables and notes found in financial statements, the CAFR contains supplemental information summarizing and explaining the town's financial position. Examples can be found on many city and town web sites. Discussion of CAFRs as a best practice can be found through the Government Finance Officers Association (GFOA) web site at [www.gfoa.org](http://www.gfoa.org).

Most accounting firms that deal with municipal governments have experience with the production and usefulness of both the MD&A and CAFR. Additional support can be sought from outside consultants to complete these documents, but this can often be expensive. Consultation with the auditors assigned to the town's next engagement should provide insight as to the best way to proceed. Any CAFR produced by the town will include the audited basic financial statements.

### **Recommendation 5: Provide Secure Location for Departmental Turnovers to Treasurer**

We recommend that the town provide a secure location such as a lock-box or some other mechanism to insure that departmental turnovers are not at risk of being misplaced, lost, or stolen. The treasurer indicated in on site interviews that departments occasionally submit turnovers under the office door. Given the traffic in town hall and the accessibility of the treasurer's office, we do not regard this as a secure location for submitting department turnovers.

As far as other audit findings, we recommend that town personnel continue to adhere to the new policies on petty cash, ambulance billings and departmental receipts. We find that the policies and practices established in response to the management letter for these areas are adequate to resolve the initial concerns. In the selectmen's office, specifically, there have been vastly improved internal controls in response to the audit findings. New procedures for handling cash, transfer station stickers, and parking fines have been instituted along with regular turnovers to the treasurer, a secure location for cash, and generating customer receipts. Purchase of a register and locks for drawers are additional enhancements.



## Recommendations: Structure, Efficiency and Capacity Building

---

### Recommendation 6: Convert Treasurer and Tax Collector from Elected to Appointed

We recommend that the treasurer and tax collector be converted from elected to appointed positions. The individuals currently holding these positions are competent and knowledgeable in their respective duties. However, an organization's structural composition transcends the individuals in a given position. In Becket's case, should one or both of these officials resign or choose to not seek reelection, the town would likely have to recruit candidates from a narrow applicant pool to subsequently run for office. Also, there is no guarantee that those possessing the necessary knowledge and capabilities will, in the end, win what has the potential to be a contested election.

The conversions can be accomplished through a two-step process involving both the town and the legislature. First, the town will need to place two separate questions before the voters. In both cases, the question must take the following form:

“Shall the town vote to have its elected [treasurer/tax collector] become an appointed [treasurer/collector] of the town?

Yes \_\_\_ No \_\_\_”

Provided a majority votes in the affirmative, the second step is to petition the legislature to amend Chapter 662 of the Acts of 1989 (see Article 2B, Section 2 of the town by-laws) to remove the treasurer and tax collector from Becket's list of elected town officials.

Converting the treasurer and collector to appointed positions protects the town in two ways. First, the board of selectmen, finance committee and town administrator will be able to better scrutinize the technical skills, qualifications and work habits of candidates through a comprehensive interview and performance appraisal process. Such scrutiny rarely takes place as part of the local election cycle. Second, the town will be able to broaden the pool of potential applicants for the position in order to seek the best candidates from the entire region's workforce. As it stands now, only town residents can declare their candidacy for election to these positions.

These are both key positions in the town's financial management team. Their functions are primarily technical and administrative, not policy driven. As such, they ought to be accountable to the chief administrative board and/or officer of the town (in this case, either the board of selectmen or town administrator). Changing these positions from elected to appointed will have the result of making the positions report to the town administrator.

Whereas policy related boards and committees are appropriately subject to the more democratic electoral process, as a best practice this ought not be the case with professional staff. Becket has been fortunate in the past to elect qualified candidates in these positions. We have observed present operations in both offices and found them to be generally well suited for a community of this size. However, there is no guarantee that the town's good fortune will continue moving forward. Indeed, a large part of our focus in this case is to protect the town from administrative upheaval should one or both of the incumbents leave town employment for any reason.

### **Recommendation 7: Conduct Quarterly Revenue and Expenditure Projections and Monthly Budget Reporting for Current Fiscal Year**

We recommend that the town begin the practice of providing quarterly budget projections to both the board of selectmen and finance committee for the current fiscal year. Quarterly projections are a tool used by governments to benchmark year-to-date income and spending against the budget. Literally speaking, projections should consist of a table showing the departmental year-to-date budget, year-to-date revenue/expenditures against the same line item and a projection of any variance (positive or negative) to the budget by year-end. Narrative analysis of the fiscal picture should also accompany each table to highlight the specific issues in a given department that may cause them to go over budget.

Such regular reporting gives decision-makers greater insight into the cash flow demands of the town. It creates opportunities for current-year adjustments if revenue is not meeting expectations or if departments are facing unanticipated costs. It is also a way to increase end-of-year turn-back of departmental appropriations by identifying larger than expected balances at the end of the 3<sup>rd</sup> quarter as a way to prioritize and manage 4<sup>th</sup> quarter spending. This last point will help the town in its effort to build reserves.

We recommend that the accountant provide monthly budget or expenditure reports to each department. This is a required practice under M.G.L. c.41, §58. Currently, departments do not receive regular reports on their year-to-date budget status. Many town departments track their expenses independently on an internal spreadsheet. However, there is no reconciling of those expenses tracked by departments with the actual expenditures appearing on the general ledger. Having monthly budget reports would confirm the budget status for those departments who perform independent tracking, as well as inform those who are not actively tracking expenses.

### **Recommendation 8: Convert to Bi-Weekly Payroll**

We recommend that Becket convert from a weekly to bi-weekly payroll method. The current weekly distribution of pay is more costly, duplicative and time-consuming. Most employers in both the public and private sectors, including the Commonwealth, compensate employees on a bi-weekly basis. Paying employees bi-weekly in Becket would have two clear advantages to the

town. First, on non-paycheck weeks, staff attention can be focused on other tasks, freeing up time that normally would be consumed by compiling hours/rate information. Second, outsourcing costs to the town's payroll vendor (approximately \$5,000 in FY2006) would be reduced, since part of the vendor's fee is calculated on a per check basis.

## **Recommendation 9: Greater Utilization of Technology to Maximize Efficiency**

We recommend that the treasurer and accountant work with the payroll vendor to create a bridge to the general ledger that will allow for electronic posting. Currently, the treasurer receives a hard copy of the payroll from the vendor (NEIS New England). She manually enters the data into the KVS system, which the accountant then balances and posts to the ledger. This is a weekly process that can take several hours. Many communities with seamlessly integrated payroll and financial systems are able to perform the same process in a matter of seconds. While we do not suggest that the town spend additional time and money bringing in a similar system, the town can achieve similar results by insisting on electronic transmission of payroll data, as opposed to hard copy transmission. After our initial discussion with the treasurer, it appears that NEIS New England is able to do this at a cost of \$10 per pay period. Furthermore, by incorporating a bi-weekly payroll into the process, the potential exists to save even more time.

We recommend that the town convert the treasurer's cash book from a manual to computer-based system. There are a number of advantages to keeping an automated cash book versus a manual cash book. Financial information can be imported from outside sources instead of having to be entered manually. It will also make reconciliations faster at the end of the month since cash balances are available instantly for any point in time.

Town staff can accomplish this recommendation by fully utilizing the capabilities of the KVS system, which has a cash book module as part of its financial package. There are also plenty of inexpensive off-the-shelf software packages available on the market that can serve to automate the cash book. Examples include Quicken and Quickbooks. Microsoft Excel could even be formatted to function in a similar way.

Even though the cash book is to be converted into electronic form, be advised that it is still a legal record that is required to be bound for retention in accordance with the Secretary of State's schedule. Therefore, the treasurer will need to print a single hard copy from the automated system at the end of each fiscal year.

We recommend the town provide the assessors with a laptop computer. This will allow them to collect and verify data more efficiently while conducting inspections. It will also save time by easing the volume of data entry in the office.

Currently, staff members visit properties to verify new growth and complete inspections. Before they leave the office to start this process, they compile a list of properties to inspect, as well as the property record associated with them. During the visits, they take detailed notes that they then bring back to the office to enter into the computer.

A laptop would allow the assessors to enter their notes directly into the computer while still in the field. When they return to the office they would simply upload the information into the property record database. Furthermore, while they are on the road they often spot building projects and renovations underway. To ensure that this new growth is accounted for, they have to return to their office to check the records. A laptop with a copy of the database that is updated on a regular basis, would allow the assessors in the field to instantly spot check properties.

We recommend the establishment of an employee technology committee. Technology is changing the way employees in town hall conduct their work. The town administrator, recognizing the need for technology support, has taken it upon himself to coordinate, procure and perform some maintenance on a lot of the town's IT infrastructure. As noted, the town administrator is approaching retirement and the natural functions of this position may not attract a candidate as well-versed in technology. Therefore, the town must undertake the task of building internal technological capacity among employees. The technology committee will discuss the various systems that the individual offices use and make recommendations to the town administrator (current or successor), on how to best to acquire, maintain and utilize the town's technology resources. While the current town administrator is still in office, he should use the technology committee as a platform through which he can impart his knowledge of the town's computer system to other staff members.

## **Recommendation 10: Financial Management Team Meetings and Cross Training**

We recommend that the town administrator conduct monthly meetings of all key finance staff (accountant, treasurer, collector, lead assessor). Through regular meetings of the financial team, staff can collectively coordinate financial operations, facilitate communication and identify areas where additional resources may be needed to accomplish important financial goals. This may also help the town administrator manage the town's budget process, including coordinating annual revenue estimates, analyzing operating budget requests, and recommending financial strategies to the board of selectmen and finance committee. These meetings would serve as an appropriate forum to discuss and implement some of the recommendations contained within this report, particularly those relating to reconciliations, budgeting and GASB 34.

While staff levels in Becket are in most cases adequate to meet workload demands, there is always a risk that unexpected or long-term absences can cause problems. The town

administrator seems well-versed in each position's responsibilities. However, a formal practice of cross-training personnel on essential functions is important to maintaining operations.

We recommend that staff be cross-trained to ensure the performance of mission critical functions in the event that the person normally responsible is unavailable for any reason. Every finance staff member should be capable of processing payroll to the point that checks and direct deposits can be generated/transmitted on time. The same should be true for initiating the process of paying bills, generating accounts payable checks, and creating vendor warrants.

To insure that proper back-up exists for these functions, each member of the staff should draft a brief procedure describing the various steps needed to perform each of their respective functions. Some of these tasks are restricted by law to the purview of the designated staff member. However, this does not mean that any key staff member should not be capable of assuming an acting or interim role should the situation so require.

---

## Recommendations: Planning and Sustainability

---

### **Recommendation 11: Boards/Committees Make Long-term Planning a Priority**

We recommend that the finance committee, board of selectmen, and all elected boards place a high priority on strategic planning as a primary function of their respective roles as town officials. Specifically, the town could benefit from coordinated, long-term planning in the following areas:

- Fiscal sustainability (growth in revenue, expenses, and the need for future overrides)
- Service provision (who are our customers and what do they want?)
- Capital projects (what needs to be done and how do we pay for it? – pay-as-you-go, debt, Chapter 90, etc.)

There are multiple platforms from which initiatives of this nature could be launched. The board of selectmen could lead regular inter-board meetings of all elected boards and committees within the town. The finance committee could require multi-year planning and/or strategic goals as part of their budget instructions and incorporate a town-wide financial plan into their report at annual town meeting. Any town board might engage a select group of citizens to be part of a “visioning” session or series. Citizens with specialized knowledge in relevant fields such as construction or information technology could be recruited to focus on a special issue that relates directly to their field of expertise. Some of these solutions would not only help to address the lack of strategic planning, they can also serve as tools for outreach that can mitigate citizen apathy, which was cited by several interviewees as a chronic problem among the townspeople.

We recommend that Becket adopt a formal capital budget process encompassing project and large equipment expenditures for at least the next five fiscal years. Investing in and maintaining capital assets is one of the biggest challenges facing local governments. This challenge is exacerbated by the revenue-restricting environment created under Proposition 2 ½. An important component to managing under these conditions is planning. Currently, Becket does not have a formal process through which the impact of one-time, capital-related financing can be forecasted for several years in advance. Town meeting acts on capital and equipment proposals through a series of single request budget articles.

This practice, in conjunction with other subsequent recommendations, will provide the necessary forecasting to assist decision-makers in planning the town’s financial future. Several elements that are important for inclusion in any capital plan are:

- Established criteria for determining what qualifies as a capital expenditure as opposed to an operating expenditure. Typical distinctive characteristics include useful life thresholds, dollar amount thresholds, and/or one-time nature of the expense.
- Objective criteria for determining the priority of capital spending. For instance, projects/equipment required to meet legal obligations would qualify as a higher priority than those required for new programs or service expansion.
- Detailed data on year-to-year estimated expenses by category (e.g.: architectural/engineering costs, construction costs, equipment costs, etc.)
- Detailed data on funding sources for each estimated expenditure (e.g.: Pay-as-you-go, Free Cash, Stabilization Fund, General Obligation Bonds, Chapter 90, etc.)

In addition to the information and financial data included in a capital plan, the proposal and deliberation process also must be considered. The capital planning process runs on a separate parallel track from the operating budget process. Sometimes the capital process will begin earlier in the cycle than that of the operating budget. The chronology of a typical process might look like the following:

*Late summer* – finance committee, with staff support from the town administrator, sends capital instructions to all departments complete with templates, guidelines and submission timetables.

*Mid-October* – departments submit capital requests to supervising board or committee for review. For example, the highway department would submit capital requests to the board of selectmen.

*October/November* – boards/committee deliberate on their final capital request.

*December* – boards/committees submit approved requests to finance committee.

*Winter* – finance committee reviews, prioritizes and deliberates on combined requests. Finally, a recommendation is developed in preparation for town meeting.

We recommend that the entire capital budget be deliberated by town meeting through a single capital article on the warrant. The omnibus capital plan can be amended and approved as town meeting sees fit. However, the presentation of capital information by this method will help town meeting consider planning more comprehensively. Town meeting should have the opportunity to view all five years of the plan in their entirety through a presentation given by both the selectmen and finance committee in order to achieve a thorough understanding of the town's infrastructure needs. Keeping in mind that one town meeting cannot bind another, town meeting will only be voting on that portion of the capital plan that applies to the next fiscal year.

To facilitate a new emphasis on strategic planning and analysis, we recommend that the town utilize the new Revenue and Expenditure Forecasting Tool available free through the Technical Assistance website ([www.dls.state.ma.us/MDMSTUF/Technical\\_Assistance/techassistance.htm](http://www.dls.state.ma.us/MDMSTUF/Technical_Assistance/techassistance.htm)).

As implied above, we feel that towns such as Becket can benefit from a long-term look at revenues and expenditures. Currently, Becket does not present multi-year budget projections as part of a town-wide financial plan. The forecasting tool is available to any municipality in the Commonwealth. It contains detailed information and pre-set calculation tables that can help communities customize revenue and expenditure assumptions to produce multi-year budget projections. It is a powerful tool that is easy to use and comes complete with a user's guide also available online. Staff members are also available to assist the town in integrating this tool into the budget process.

## **Recommendation 12: Develop Reserve Policies**

We recommend that Becket establish policies defining adequate reserve levels based on the community's needs and the circumstances under which reserves will be spent. The combination of competing spending priorities and limited revenue options make building reserves a challenging task. Often depending on the culture of town meeting, it can be difficult to justify a budget that requires a Proposition 2 ½ override while the town is sitting on any sizable reserve balance. However, communities in Massachusetts have been able to build and maintain reserves through a combination of exercising fiscal restraint, conservative revenue estimates, and current year cost containment. Each of these practices will help a community generate additional free cash. Once free cash has been certified by the Bureau of Accounts, the community is able to spend from this one-time source as town meeting sees fit.

When we talk about reserves in a municipal context, we are talking about the sum of free cash and stabilization fund(s) balances. In Becket's case, the combining total for FY 2005 is approximately 3.9% of general fund revenue. There is also a reserve fund of \$10,000 appropriated by town meeting to the finance committee for unanticipated current year expenses. But this fund does not calculate into what we are calling "reserves" since, technically, it has been appropriated to a town committee.

Typically, the Department of Revenue recommends that reserve levels be in the 5-10% range. Of course, there are plenty of highly rated communities in Massachusetts, including some rated AAA, that take exception and fall below this level. However, even in these communities, there are mitigating socio-economic factors that enable rating agencies to justify a higher credit rating in the absence of reserves.

While the average reserve level for the 20 communities closest in population to that of Becket is 20.5%, the spread of the data suggests no unifying measure of central tendency for this group. Communities range high- to low-end from 53.5% to 2.6% with a median of 17.1%. Quartiles are



25.0% and 6.7% for first and third, respectively. There is no apparent correlation between a town's revenue and reserve levels. Still, of this group, Becket's reserves rank 19 out of 21, suggesting that an effort to increase reserve levels should be undertaken.

As a best practice, reserve policies should focus on two key elements (free cash and stabilization). The free cash portion of the reserves should be in the 3-5% range on an annual basis. Free cash in excess of this amount should be treated as one-time revenue and, therefore, only be put toward one-time expenses or stabilization. There should be sizable balances in stabilization to bring the total reserve balance up to the 10% level or beyond.

In Becket, FY2005 free cash as a percentage of revenue was 2.4%, which is slightly below the recommended range. FY2006 figures are not yet available. Assuming nothing has changed since June 30, 2005, the difference might be made up over a single fiscal year by current year cost containment. Free cash levels can also be made up in the next fiscal year through a combination of more conservative revenue estimates and cost containment.

Becket's stabilization fund level is 1.5%, which is very low. This fund will need to be replenished by generation and appropriation to the fund of additional free cash as those balances improve. If town officials can muster the political support of town meeting, an appropriation directly to the stabilization fund can also be made for FY2008.

### **Recommendation 13: Analyze Other Post Employment Benefits (OPEB) Liability (GASB 45)**

We recommend the town conduct an actuarial analysis of its non-pension retiree benefits liability. The Government Accounting Standards Board has recently issued statement 45 (GASB 45), which requires all local governments to begin accounting for post-retirement health and other benefits as an accrued liability on the town's balance sheet. In order to avoid higher long-term pay-as-you-go costs, the town will need to begin making an appropriation to fund the liability based on its calculated annual required contribution (ARC) according to an actuarial schedule. Those who are familiar with private-sector accounting rules will equate GASB 45 with FASB 106, which was issued in the early 1990's. Based on the Board's implementation schedule, Becket will need to conform to GASB 45 for the fiscal year ending June 30, 2008.

Becket town employees are part of the Berkshire Regional Retirement System. Employees make the required payroll contribution to a standard defined benefit program and, when employees retire from the town, their pension is paid by the system. According to PERAC's most recent actuarial valuation of the system, as of January 1, 2005 the funded ratio for pensions was 76.8% with an unfunded actuarial liability of just over \$29 million. The costs of funding the system's liability are born by the cities and towns through a prorated assessment. For FY2006, town meeting appropriated \$123,025 for this purpose. However, the retirement system does not cover

post-employment benefits for retirees covered under M.G.L. c. 32B. That responsibility falls to the town government as part of the appropriation for employee benefits. Therefore, unlike the accounting for pension liability under GASB 25 and 27, the town must account for the benefit liability under GASB 45 on its own financial statements. To the town's credit, there are no part-time elected officials receiving health insurance from the town and in 2000, the town adopted the provisions of M.G.L. c. 32B, §18, requiring eligible retirees to enroll in Medicare at age 65. Both of these factors will result in a lower actuarial liability than would otherwise be the case.

What the preceding paragraphs are trying to explain is that Becket will need to account for the cost of post-employment benefits *at the time employees render their services to the town*. This is a departure from current practice, where the cost of benefits is appropriated for active employees and current retirees only (\$202,000 in FY2007).

There is a large amount of information available on this subject, including a number of steps towns can take to reduce the size of their liability. For instance, there is a "Best Practice" write-up on the Technical Assistance Section web site at: [www.dls.state.ma.us/MDMSTUF/Technical\\_Assistance/techassistance.htm](http://www.dls.state.ma.us/MDMSTUF/Technical_Assistance/techassistance.htm). However, the first step is to perform an actuarial analysis and understand where the town stands in terms of its OPEB obligations and the general magnitude of any appropriation needed for the ARC. GFOA provides a helpful "RFP Checklist for OPEB Actuarial Valuation" through its website at: [www.gfoa.org/services/specials.shtml](http://www.gfoa.org/services/specials.shtml). Future discussions of cost containment and benefit changes will logically follow from the information contained in the valuation.

## Acknowledgements

This report was prepared by The Department of Revenue, Division of Local Services (DLS).

Gerard D. Perry, Deputy Commissioner

The project staff included:

Frederick E. Kingsley, Bureau Chief  
Municipal Data Management and Technical Assistance Bureau (MDM/TAB)

Christopher J. Ketchen, Project Manager/  
Financial Analyst, MDM/TAB

Scott Dressel, Project Manager/  
Financial Analyst, MDM/TAB

James Podolak, Staff Accountant  
Bureau of Accounts

In preparing this review, DLS spoke with the following persons and numerous other town hall staff members:

William F. Cavanaugh, Chair, Board of Selectmen  
L. Douglas Walter, Board of Selectmen  
Michael Falk, Chair, Finance Committee  
Jeremy Dunn, Secretary, Finance Committee  
Richard Pryor, Finance Committee  
Richard E. Furlong, Town Administrator  
Christine Bleau, Town Treasurer  
Kathleen Hayn Burt, Tax Collector/Asst. Treasurer  
Beverly Cooper, Town Accountant  
Susan Donnolly, Chair, Board of Assessors  
Elizabeth Will, Board of Assessors  
Geraldine Walter, Board of Assessors  
Jeanne Pryor, Town Clerk  
Nina Weiler, Secretary/Asst. Town Clerk  
Kevin Fox, Melanson Heath & Company, PC