



Town of Canton

Financial Management Review

Municipal Data Management and Technical Assistance Bureau

April 2007

Introduction

At the request of the Board of Selectmen, the Department of Revenue's Division of Local Services (DLS) has completed a financial management review of the Town of Canton.

We based our findings and recommendations on site visits by a technical assistance team consisting of staff from the DLS Municipal Data Management & Technical Assistance Bureau, Bureau of Local Assessment, and Bureau of Accounts. During these visits and by telephone, the team interviewed and received information from the members of the board of selectmen, town administrator, finance director, town accountant, information systems manager, assistant treasurer/collector, director of assessing, as well as other staff members, as available, in each office.

DLS staff examined such documents as the tax recapitulation sheet, warrants, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness, town bylaws, various town policies and procedures, as well as other assorted financial records. Other documents reviewed included the Comprehensive Annual Financial Report, Comprehensive Financial Condition Evaluation Committee Report, and the outside audit for FY05 and FY06 completed by Powers & Sullivan.

In reviewing the town's financial management practices, we focused on:

1. Town government structure in the context of the duties and responsibilities of financial officers;
2. The town's budget, warrant, and capital planning processes;
3. The degree of coordination and communication that exists between and among boards, officials and staff involved in the financial management function; and
4. 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, the town administrator, 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, which can be implemented provided there is sufficient cooperation and political will among the various town boards, committees, and officials.

Executive Summary

The Town of Canton, incorporated in 1797, is a developed, primarily residential suburban community, located 17 miles southwest of Boston in eastern Massachusetts. Bordered by the towns of Sharon, Stoughton, Randolph, Milton, Dedham, Westwood, Norwood, and Boston, Canton is an accessible community that enjoys an economic proximity to Boston. Under the shadow of Great Blue Hill (elevation: 635'), the town of approximately 21,571 residents enjoys the beauty of abundant wooded landscapes, lakes, and ponds. Numerous recreational opportunities are available to residents including the Eleanor Cabot Bradley Reservation and Pequitside Farm.

The community maintains a strong connection to its heritage, having served as the location for Paul Revere's copper rolling mills in post-colonial America, and to its more recent history of woolen, rubber, and chemical manufacturing. Continuing the trend as a commercial and industrial center, Canton is the present location for the corporate headquarters of Reebok, Dunkin' Brands, Tweeter, One Beacon Insurance, and Boston Mutual Life Insurance.

Canton's convenience to Boston and the intersections of Route 128, Interstate 95, and Route 24, contribute to the town's economic diversity. In addition, commuters are afforded regular service to and from Boston by the Massachusetts Bay Transportation Authority (MBTA) commuter rail, with railroad stations located at Canton Center and Canton Junction.

Canton's appeal can be attributed to various community characteristics including income per capita and property values that are well above state average. Together with finance-related factors, that have led to a respectable Aa2 bond rating with Moody's and a AA+ bond rating with the Standard & Poor's. These ratings are just below the AAA or Aaa rating. The ratings reflect the strength and experience of management, the vibrant and diversified economy of the town and its proximity to Boston, as well as a strong record of accomplishment in financial management.

Today, however, community leaders are struggling to balance the growing expense associated with providing a wide variety of municipal services, with limited revenue growth. This financial condition is common for many of Massachusetts' towns, as expenses continue to outpace revenues. As a substantially built-out suburban community, where revenues are generated primarily from property taxes and local aid, the town does not realize year-over-year income growth sufficient to offset the dramatic increases in health care and education costs.

Because of these financial constraints, on January 23, 2007, a special town election was held to permanently increase the levy limit. The Proposition 2½ override was intended to eliminate the ensuing fiscal year deficit by providing revenues to maintain service levels. The \$3.95 million override would have covered Canton's FY08 \$2.4 million projected budget deficit, and provided reserves to help carry the town through FY10 when the deficit was projected to rise to over \$4.5 million. When the override failed, town departments were asked to submit operating budgets that were a five percent reduction of current fiscal year levels.

Still, in this environment, local officials have taken steps to improve overall town government. The town transitioned from a three to a five member board of selectmen, then consolidated the human resource department and more recently hired a new human resource administrator. Among other initiatives, it established an economic development committee that now acts as a liaison between businesses and local government, and formed the Comprehensive Financial Condition Evaluation Committee (CFCEC).

The CFCEC was comprised of 13 elected and appointed officials representing all operating departments of the town. The group analyzed and formed conclusions on the town's current and anticipated financial condition. In a report dated October 25, 2006, the CFCEC concluded that the town faces a structural deficit, as projected spending outpaces recurring revenue sources, and it identified, without necessarily endorsing, 60 possible steps to mitigate against possible budget shortfalls. Decision making responsibility and a timeframe for adopting each option were assigned to town officials, managers, boards, and committees.

With the board of selectmen's request for this financial management review, Canton will have a more complete and comprehensive analysis of its local government and specific recommendations on how it might improve.

Our financial management review examined a ten year window of Canton's finances and studied how the town addresses a wide assortment subjects. Included were municipal debt, reserve, and stabilization policies; revenue and expenditure forecasting, strategic, capital, and other long-range planning; the budget process; and management and staff capability. Our review process sought to find areas where the town can gain efficiencies, tighten financial controls, and generally improve operations. In addition, we reviewed the structure of government, formal and informal authority, and the levels of communication and accountability that exist within the present framework of government. It is these latter areas where our observations are most striking and our recommendations are strongest.

The town of Canton operates under a structure where the town administrator has little formal authority to run government. Appointed by the selectmen, he has virtually no delegated appointing power. Few department heads report to him and although he participates as a member of the revenue forecasting committee, he has no formally defined role in the annual budget process. In fact, the town administrator position is mentioned nowhere by name in the town bylaws.

An entire section of the bylaws is dedicated to the finance director who is also appointed by and reports directly to the selectmen. He has the authority, with selectmen approval, to hire and fire the treasurer, collector, accountant, and the town's technology manager. Among other finance related responsibilities, he develops the annual budget and submits it to the selectmen, before it goes on to the finance committee. The finance director also holds the title of treasurer/collector, but it appears that treasurer/collector responsibilities are in fact completed by either the town accountant or assistant treasurer/collector.

Normally, we would expect a finance department to include the assessing function, but in Canton, it does not. The assessing department is overseen by an elected, three-member board, which appoints a director of assessing to manage the office. He reports directly to the board. The director of assessing is not always included in meetings of the finance officers called by the finance director and would not likely attend even if invited. In addition to strained relationships, friction arises on the subject of the overlay and overlay surplus, and has extended more recently to the matter of new growth estimates. Decisions in both these areas are statutorily within the purview of the assessors, not the finance director, however, the on-going communication and collaboration between the two that we would expect does not occur.

Conclusion - Despite criticism from the town's outside auditor on its handling of abatements and exemptions, the assessing department otherwise functions adequately and in accordance with state laws and DOR regulations. The same can be said of staff that fulfill the accountant, treasurer, collector, and technology functions. Overall, finance department offices are staffed by knowledgeable and competent personnel. Consequently, our recommendations for these offices are relatively few and are intended to help promote efficiencies.

Of greater concern is the structure and division of authority under which Canton government operates. With the formation of the department of municipal finance in 1990, the town established a fiscal management role in town government independent of the town administrator. It also set the foundation for the town's current decentralized organization. Today, the role of the town administrator position is diminished; line authority and accountability in town hall is fragmented; and meaningful communication is limited. In some instances, it is virtually non-existent.

This runs contrary to trends among Massachusetts communities which have recognized the proven benefits of establishing a strong, single management presence in town hall. Instead, by creating parallel reporting relationships to selectmen, Canton has created a two-headed government in the town administrator and the finance director positions. At the same time, it has allowed to evolve two, sometimes clashing, finance-related power centers in the finance department and the assessing department each of which is directed by a different elected board.

Because department staff perform well, day-to-day tasks generally get done and on time. However, more deep-seeded problems remain hidden. When personalities, or even legitimate disagreements and other work conditions hamper communication, there is no person with the standing and overall authority to demand accountability and who can remove obstacles that block the attainment of town-wide goals.

Therefore, major among our recommendations are those intended to address the issues of organizational structure and the impact they have on operations.

Summary of Recommendations

Overall Financial Management (page 5)

- 1) Explore Charter Adoption and Review Bylaws
- 2) Consolidate Appointing Authority in the Town Administrator
- 3) Shift Information Systems Manager
- 4) Bring Assessing within Finance Department
- 5) Resume Employee Performance Evaluations
- 6) Initiate Long-Term Planning
- 7) Develop a Formal Budget Process
- 8) Adopt Formal Debt and Reserve Policies
- 9) Conduct Financial Management Team Meetings
- 10) Formulate Other Post-Employee Benefits Liability Policy
- 11) Periodically Review Fees
- 12) Reconcile Expenditure Reports
- 13) Revise Water and Sewer Rate Schedule

Department of Municipal Finance (page 14)

- 14) Return Treasurer to the Warrant Process
- 15) Discontinue Practice of Manual Checks
- 16) Eliminate Payroll Warrant Withholding Information
- 17) Authorize Departments to Perform Payroll Entry
- 18) Require Turnover Currier to Complete Sign-In Sheet
- 19) Establish Secure Location for all Monies
- 20) Update Town of Canton Website
- 21) Encourage Technology Continuing Education

Assessors' Office (page 19)

- 22) Revisit Overlay Policies
- 23) Review Abatement and Exemption Policy and Procedure
- 24) Inspect All Sale Properties; Send Questionnaires

Overall Financial Management

A review of the town's overall financial management practices centers on the fiscal policies and procedures in place that typically involve finance related departments, but that impact town government as a whole. Accordingly, we examined the budget process, the payroll and vendor warrant process, capital planning, and financial forecasting. We looked at financial monitoring, as well as the department of municipal finance's organizational structure and its impact on the operation of government. Lastly, we reviewed local compliance with state laws and regulations relating to finance issues, adherence to acceptable form, and to timetables for the submission of periodic reports to the Massachusetts Department of Revenue (DOR).

On balance, staff in finance related offices are effective in carrying-out routine procedures necessary to produce payroll and vendor warrants. Checks and balances are, for the most part, in place and offices are in compliance with state laws and regulations. With the exception of the Tax Recap (for tax rate approval) for FY04, FY05 and FY07, the town has historically been timely in submitting to DOR its Balance Sheet (for free tax certification) and its Schedule A, a year-end report of actual revenue, expenditures, and change in fund balances.

Although there are no set schedules, revenue projections are initiated in the fall by the revenue forecasting committee. The finance director subsequently receives departmental appropriation requests, and formulates the annual operating budget. The process is not formally laid-out, and while decisions appear to follow consistently held views on spending, financial guidelines are not formally adopted. This does little to move the town away from its reliance on local reserves and one-time revenues to fund the budget.

By bylaw, the finance director presents his budget recommendation to the board of selectmen for approval, after which it is submitted to the finance committee for review. The capital improvements committee submits its recommendations directly to the selectmen. Although he may have input, the town administrator has no designated role in developing the town-wide budget.

Essential to the budget process is the involvement of the assessing department. In addition to their departmental budget request, the assessors provide an amount to raise for the annual overlay reserve and generate new growth estimates which contribute to tax revenue. While these are analyses and decisions solely within the authority of the assessors, we are not confident that normally expected levels of communication and discussion take place between the assessors and others instrumental in the budget process.

Organizationally, the selectmen are responsible for appointing department managers and for reviewing staff appointments made by department managers. The finance director appoints the treasurer, collector, accountant, and informational management director, with the approval of the selectmen, and the board of assessors appoints the director of assessing. Although the relationship between the finance department and the assessing department appears strained, it is

unclear how non-finance departments communicate, who they communicate through or how those relationships can be characterized.

Conclusion – The present organizational structure in Canton is not conducive to a centralized management approach and does little to create uniform accountability in town hall. Department managers report to either the selectmen, the town administrator, the finance director, the board of assessors or other boards in a starkly horizontal structure. Day-to-day financial responsibilities are being fulfilled by staff, but there is evidence that communication and coordination at higher levels of management, where critical decisions are made, is lacking. This hampers the town’s ability to successfully pursue initiatives like those identified by the CFCEC, as well as its capacity to adopt and attain long-term goals

Therefore, our recommendations speak to strengthening the structure of government and improving communications. We also offer recommendations that would formalize budgetary procedures and other forward looking practices.

Recommendation 1: Explore Charter Adoption and Review Bylaws

We recommend that the town begin work toward the adoption of a charter. As the town of Canton considers decisions on how it might be governed in the future, it should look to a charter to create an organizational structure, define relationships among officials, boards, and commissions, and more clearly set out financial procedures. Charter provisions can outline the authority and responsibilities of a town administrator, establish lines of accountability, and address issues of elected versus appointed officers and boards. The budget process, capital planning, employee performance evaluations, reporting relationships, as well as the duties of town officials are often set out in charter provisions.

A charter has become the preferred vehicle, over by-laws, to accomplish these goals and to achieve long-term continuity and stability in government. A charter also acts to discourage frequent, premature, or frivolous amendments. Residents can elect a charter commission as the start of a two-year process, or a home rule petition can be submitted to the State Legislature. Both procedures are outlined in M.G.L. c. 43(b), and would involve a process for community input into the development of charter language. In either event, we suggest that a town committee research each path to charter creation, and provide a framework of charter issues. Its members or a separate study committee can be established to formulate and present a new charter proposal to town meeting and the voters.

As part of the charter proposal process, we suggest a comprehensive review of the town’s bylaws to determine that they are accurate, current, and complete. While the charter provides a stable structure under which the town government functions, it is complemented by a series of bylaws under which the town operates (e.g., human resource rules, zoning regulations, health codes, et cetera).

Recommendation 2: Consolidate Appointing Authority in the Town Administrator

We recommend the town consolidate appointing authority over all non-elected department managers in the town administrator. We advocate a more vertical structure where all the department managers would be appointed by and report to a town administrator, including the finance director. Although subject to review by the town administrator, department managers would have a primary role in hiring their staff. This delegation of appointing authority by the selectmen to the town administrator will create clear reporting relationships, line accountability, and enhance prospects for a team management approach to government. The most expedient route to covert appointing authority is through the adoption of a bylaw. However the town administrator's responsibilities, and the shift in appointing authority we envision, would be more appropriately incorporated within a town charter.

Under the proposed authority, the board of selectmen would continue to formulate policy, provide expert guidance, and make customary decisions and recommendations, while the responsibility of overseeing day-to-day government operations and the implementation of town-wide goals and initiatives would be placed directly in the hands of the town administrator and department managers. A determination may be made that independent elected boards should retain appointing authority for employees they oversee.

Recommendation 3: Shift Information Systems Manager

We recommend that the information systems manager report to the town administrator. Technology is an area of global impact where advances and problems can simultaneously cross over multiple town departments. Despite apparent emphasis on financial management systems, judgments are frequently necessary to assign priority to expenditures or to resolve competing computer and software needs of different and wide-ranging town offices. Development of a long term plan for technology upgrades requires integration of projected costs into the capital improvement program. On balance, these decisions are more appropriately placed under the wider perspective of an executive department. Therefore, we advise that the office of information management be organizationally reassigned to the town administrator's office and that the information systems manager report to the town administrator.

Recommendation 4: Bring Assessing within the Finance Department

We recommend that the director of assessing be more involved in the town's finances. The current structure of municipal government and the absence of higher level interaction between leadership in the assessing department and finance department is counter productive to

effective operations. The issue can, and should be addressed in one or more of the following ways:

1. Include the director of assessing in financial management team meetings.
2. Shift the authority to appoint the director of assessing to the town administrator.
3. Reorganize to bring the assessing department within the finance department.
4. Shift the authority to appoint the director of assessing to the finance director.

Recommendation 5: Resume Employee Performance Evaluations

We recommend that management resume the comprehensive performance evaluation program previously developed for employees. It is our understanding that the town has developed a thoughtful and thorough policy and procedure for evaluating employee performance. However, evaluations have not been routinely completed on an annual basis.

Performance evaluations provide a framework for determining if employees are fulfilling their responsibilities and duties as benchmarked in their job descriptions. The process provides employees with constructive feedback on their job performance, as well as outlines future objectives and goals. Performance evaluations also serve as a mechanism for employees to express their opinions and can give management insight into the morale of town hall. Ultimately, positive changes in the efficiency, effectiveness, and accountability of managers and staff can result.

Therefore, based on defined criteria, an annual review should be performed by the town administrator for all department managers under his supervision, and department managers for all department staff under their direction (subject to collective bargaining agreements). Where appointing authority continues to reside in the board of selectmen, rather than in the town administrator, the selectmen would be responsible for evaluating the department managers who report to them.

Recommendation 6: Initiate Long-Term Planning

We recommend a coordinated long-term planning effort that blends multi-year revenue and expenditure forecasting with developing goals and objectives for town departments. The rejection by voters of the Proposition 2½ override on January 23, 2007 has required town officials to implement a five percent reduction in FY08 requested department budget levels. The difficult decisions involved with this task should also prompt town officials to place a stronger emphasis on long-term planning.

Appropriately, the town begins its budget process with revenue projections developed by the revenue forecasting committee. This inclusive nine-member committee of town officials is chaired by the finance director and looks to a three-year history of revenue and expenditure

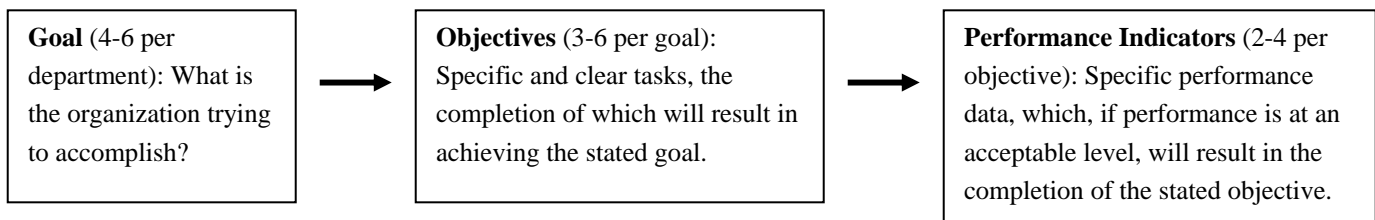
trends before arriving at a consensus on future revenue estimates. Although the committee also looks out three years, it is our understanding that focus is placed on the upcoming fiscal year, to set the budget, and little credence is given to revenue estimates in the two outlying years.

While fiscal circumstances will always change over time, we recommend the revenue forecasting committee give more weight to three, and even five, year revenue projections. When matched with projected expenditures, the town will have a solid sense of the future fiscal environment within which program decisions will have to be made.

To help with those decisions, the town could benefit further from a planning effort that produces a clearly defined set of goals and objectives for town departments. The selectmen have taken an initial step in developing a comprehensive mission statement for the town. A similar exercise, typically conducted by a town administrator, should lead to agreement on the essential services that each department provides. Annual reviews would analyze the department’s success at fulfilling essential responsibilities, identify departmental achievements and determine future program goals in the context of fiscal projections.

As part of a comprehensive management system for all of town government, a progressively sophisticated plan would link goals and objectives to indicators that measure performance, also known as a management-by-objectives (MBO) program. This approach is generally accompanied by a continuous monitoring program where performance is reviewed via regular management reports. Management reports illustrate where departments are, at any given point in time, with respect to meeting measurable goals.

The example below illustrates a schematic model of a typical MBO program:



Recommendation 7: Develop a Formal Budget Process

We recommend the development of a formal budget process. The budget is a key policy making tool and is the means by which the town makes decisions on the allocation of scarce resources. In February of this year the Canton finance committee, in cooperation with the department of municipal finance, developed a budget process outline. We recommend that appropriate detail be added and that the process be formalized in a bylaw.

A clearly defined budget process outlines the role of various parties involved and follows a formal calendar specifying when milestone events should occur. A budget calendar typically begins in the fall with a deadline for upcoming year revenue forecasts, and sets a date for the

distribution of subsequent budget guidelines to departments. The process ends with finance committee hearings and final changes before a presentation at town meeting.

To establish a budget calendar, we advise working backwards from the annual town meeting, and to consider when the following dates would occur:

1. Completion and presentation of revenue projections;
2. Distribution of budget guidelines and requests to departments;
3. Departments deadline to submit appropriation request;
4. Town administrator completes hearings and creates draft budget;
5. Board of selectmen approve budget and submit to finance committee; and
6. Town meeting votes on finance committee budget recommendations.

In conjunction with the budget calendar, the town administrator and finance director may find it advantageous to incorporate other municipal deadlines in the calendar, such as required submissions to the Department of Revenue. In addition, indirectly related governmental matters may also be included, for instance, employee performance evaluations, and other important deadlines.

For additional information regarding the annual budget process, visit the Department of Revenue, [Division of Local Services website](#).

Recommendation 8: Adopt Formal Debt and Reserve Policies

We recommend the town define and adopt debt and reserve policies. A debt policy is directly related to a town's capital improvement program. A policy would typically control the amount of debt issued, often times by tying debt service levels to a percentage of total general fund revenues (exclusive of free cash, stabilization, debt exclusion revenue). A policy may specify what spending purposes would qualify for bonding, for a direct dollar outlay or for a capital exclusion. Further, a policy would direct an annual review of previously authorized or issued debt, with the purpose of redirecting any remaining balances where projects are completed, abandoned, or have yet to begin after a certain period has passed since authorization (often, this is set every two years).

A reserve policy should create target levels for free cash that range between three and seven percent of annual general revenue. Sources of funding should be identified, and the policy should specify that reserves could only be used for one-time expenditures. If the town chooses to direct a portion of free cash to a recurring spending purpose, then an equal amount should be retained as unexpended so that it might carry forward into the subsequent year's free cash calculation. As a matter of practice, free cash should not be made available to supplement current year operations, but would be appropriate to fund a capital expenditure, or to serve as a funding source for the ensuing year's budget.

Recommendation 9: Conduct Financial Management Team Meetings

We recommend the establishment of a financial management team that meets on a scheduled basis. A financial management team would likely comprise the town administrator, finance director, town accountant, assistant treasurer/collector, management information systems director, and the director of assessing. The school business manager might be included as well.

The town administrator, who would serve as chair, can use the meetings to review upcoming deadlines and responsibilities related to town meetings, the budget, Schedule A, the Tax Recapitulation, and Free Cash Certification. Additionally, meetings can be useful in identifying critical junctures and gaining input on early strategies to deal with anticipated fiscal events. Furthermore, financial management team meetings can be a place to share and analyze problems, spur creative thinking, discuss innovative approaches, and develop and incubate new ideas. Meetings can serve as a means to open lines of communication, improve coordination between and among finance departments and officials, and provide for point-of-contact.

Recommendation 10: Formulate Other Post-Employee Benefits Liability Policy

We recommend the town formulate a policy in response to the Other Post-Employment Benefits (OPEB) liability. The OPEB unfunded liability is the cost assigned to benefits (other than pensions) already earned by public employees and to be distributed upon retirement. While there is no requirement to fund the OPEB liability thus far, the Governmental Accounting Standards Board (GASB) Statement 45 requires that, through actuarial analysis, the dollar value of the unfunded OPEB liability be determined every two years. On recommendation of the town's outside auditor, Canton has initiated steps to determine their liability by means of the actuarial evaluation. Canton, like most municipalities, presently covers OPEB expenses on a pay-as-you-go basis, i.e., only paying for benefits of current year retirees. If a community chooses to fund the liability, the adoption of special legislation would be necessary to create an OPEB reserve.

After it completes an actuarial evaluation, which is required as of June 30, 2009 under GASB 45, the town should define an OPEB policy. It may be as simple as confirming that costs will be covered on a "pay-as-you-go" basis, working toward the establishment of a reserve through special legislation, or a combination of the two.

The town should also consider reducing the overall OPEB liability by initiating several steps that include: adopting M.G.L. c. 32B §18 which allows a community to shift a significant portion of its retiree health care costs to the federal Medicare program; eliminating salary or stipends for part-time, elected positions that would qualify for health care benefits on retirement;

eliminating present health care benefits for and/or health care benefits for part-time, elected positions that receive a salary or stipend; and a re-examining current benefit packages, and co-pay levels, in particular.

Additional information regarding OPEB, and steps to reduce the size of the liability, see resources available on the Department of Revenue, [Division of Local Services website](#).

Recommendation 11: Periodically Review Fees

We recommend initiating a procedure to periodically review municipal fees. Municipal fees, charged for a specific service, should be sufficient to cover the cost of providing the service. As such, Canton should adopt a policy and procedure to routinely review fees.

Appointed or elected boards that oversee particular departments are typically responsible for conducting an annual review of fees, and would forward recommendations to the board of selectmen. The board of selectmen, acting as the town's chief policymaking body, would approve increases. Reviews should involve an examination of direct and indirect costs associated with providing the service, and might include a survey of similar fees in other communities for benchmarking purposes.

The concept of fee review and recommendations should be applied to all operations, e.g. annual review of enterprise fund revenues measured against enterprise costs. In general, a review of revolving funds might also include a cost analysis for providing a particular service. It is important to recognize, however, that according to *Emerson vs. City of Boston, et al* (391 Mass 415), a municipal fee must reasonably reflect the cost to provide a service to which the fee applies.

Additional information regarding user fees is available on the Department of Revenue, [Division of Local Services website](#).

Recommendation 12: Reconcile Expenditure Reports

We recommend that department managers review monthly departmental expenditure reports. Currently, the accounting office produces expenditure reports monthly for each department. Normally, managers should review the information within the reports to confirm the status of their department budget and identify errors. In addition, a person in each department should reconcile the expenditure report to an expenditure log which is independently maintained on an Excel spreadsheet. The review provides department managers with useful information for monitoring the financial performance of their departments, for analyzing the underlying causes of any line-item shortfalls or excesses and for making necessary mid-course budget adjustments.

Recommendation 13: Revise Water and Sewer Rate Schedule

We recommend that the water and sewer rate and policy committee review and revise the current rate schedule to reflect distribution among users. It is our understanding that water and sewer rates were initially set by consultants to reflect usage between residential and non-residential properties. Beginning in fiscal year 2004 rates were set by the water and sewer rate and policy committee, and a decision was made to further fragment rates to residential, commercial/industrial/agricultural, residential multi, condominium, commercial apartments, and commercial elder living apartments. In addition, each classification was divided into blocks by total usage, and split between water, sewer, and irrigation. It is our understanding that the methodologies for determining this structure have been lost.

The distinction between these rates does not necessarily reflect the cost associated with customer use. We encourage the water and sewer rate committee to continue in its current role, however, we would prefer that the determination of rates reflects expenses, covers the true cost of the service, and mirrors the property classifications established by the assessing office.

To this end, the water and sewer division may want to request the services of an outside consultant. A consultant can review previous rate structures and determine the most appropriate schedule for the town. The consultant would enable a “fresh start” for rate determination. Once the new schedule is defined, the water and sewer rate committee would be in the best position to make recommended annual adjustments.

The department supervisor and committee may want to discuss with the finance director, the inclusion of an appropriation to fund a consultant for fiscal year 2008 budget at annual town meeting. The appropriation for a consultant could be funded through the water and sewer enterprise balances.

The town should strive for fair and consistent rates that can be appropriately justified. In general, municipalities divide rates between residential and commercial/industrial/agricultural, with blocks reflecting usage volume and a distinction for irrigation.

Department of Municipal Finance

According to town bylaws, “the department of finance is responsible for the management of the fiscal and financial affairs of the town and for the supervision and coordination of all activities of all government agencies in relation to any fiscal or financial matters except for those fiscal or financial matters which are authorized to be under the administration of the School Committee at the time this by-law is enacted.”

The department of municipal finance, created in 1990, is managed by the finance director who oversees the offices of accounting, collections, treasury management, and information systems.

The office of accounting, managed by the town accountant and supported by an accounting senior specialist and two accounting coordinators, is responsible for the examination of books and accounts; prepares and processes warrants and vendor checks; and administers payroll. The division serves an internal auditing function to assure proper record keeping. The office has access to all town books, accounts, bills, vouchers, and all other records of financial transaction required to perform the auditing function. The town accountant has all powers and duties granted by the Massachusetts General Laws.

The office of treasury and collections is administered by the assistant town treasurer/collector. A treasurer/collection coordinator and senior account specialist support the assistant town treasurer/collector. The division is responsible for the reconciliation of all bank accounts; the balancing of monthly cash balances with bank statements; the investment of town funds; the collection and deposit of real estate taxes, motor vehicle excises, as well as other miscellaneous receipts.

The office of management information systems (MIS) is supervised by the information systems manager, and supported by a network coordinator and network technician. MIS is responsible for performing systems management, and for providing direction and guidance on the implementation of technology. To this end, the division provides coordination, oversight, and guidance for all information system functions within town, and administers the operation of the town’s information systems communication network, computer facilities, and related personal computers and peripherals. The division also provides technical support for all users, as well as advice, assistance, and training. MIS maintains a strategic plan to identify and implement cost effectively opportunities that are consistent with the long-range plan.

Conclusion - As previously noted, the office of the accountant, treasurer/collector, and management information systems function well. Staff is organized, knowledgeable, and diligent in performing requisite responsibilities, which appear clearly delineated. The finance director manages the budget process and appropriately focuses on other higher level tasks, but seems to give little attention to treasurer/collector duties. In our recommendations, we therefore address this issue as well as areas where operations can be tightened and brought into closer compliance with state law and sound practices.

Recommendation 14: Return Treasurer to the Warrant Process

We recommend the finance director, who also has the title of treasurer/collector, review the vendor and payroll warrants. In Canton, the treasurer/collector acknowledges having no role in the disbursement of town checks pursuant to warrant approval. In the case of vendor payments, the accountant appropriately receives invoices and fulfills his statutory responsibility to review and certify that funds are available to cover requested expenditures. He also verifies that the purpose of a payment is consistent with the intent of the appropriation, and confirms that no fraud is evident. Then, he prepares a warrant. Atypically, once the warrant is approved by the selectmen, the accountant prints the checks from the blank checks in his possession, applies the treasurer's signature using the print cartridge in his possession, and then disburses payments.

Even though convenient, and notwithstanding the integrity of the accounting staff, this procedure removes control of the town's blank check stock and the ability to write checks on town accounts from the treasurer. In effect, the accountant is functioning as a treasurer and, by doing so, violates state law and voids a fundamental check and balance over town finances. The statutory separation of duties between the treasurer, collector, and accountant is intended to prevent one person from receiving money or managing cash, and also maintaining the official record of the town's financial activity.

Accordingly, at the very least, we recommend that the finance director, in his capacity as treasurer, maintain control over blank check stock and signature printing devices. He should review warrants to confirm accountant and selectmen approval, and review the check register to confirm that the total dollar amount on the printed checks matches the warrant. He should also confirm the range of check numbers is correctly recorded. He can then release blank checks and allow his signature on checks. At this point, allowing accountant staff to continue the process by printing, signing, stuffing, and mailing checks is more acceptable.

Recommendation 15: Discontinue Practice of Manual Checks

We recommend the treasurer/collector discontinue the issuance of checks in advance of warrant authorization. On occasion, manual checks are drawn-up, signed, and delivered before selectmen approval. This might occur when an invoice is inadvertently omitted from the warrant or as a personal accommodation. In any event, payments without prior accountant review and warrant approval is a violation of M.G.L. c. 41 § 56. Whether for convenience or otherwise, issuing manual checks sidesteps an important check and balance built into the financial system.

Recommendation 16: Eliminate Payroll Warrant Withholding Information

We recommend employee withholding information be eliminated from the payroll warrant. Currently, individual employee withholding detail is listed on the payroll warrant. However, this detailed employee information is proprietary, and should be securely retained in personnel files, available only to legally authorized individuals.

In order for the selectmen to fulfill their legal obligation to review the payroll warrant and to provide necessary detail for checks to be issued by the treasurer, it is sufficient that warrant information include gross or net salary amounts due each employee. This information can be incorporated into the warrant or listed separately as an attachment. The warrant should continue to include a list of withholding categories with aggregate amounts due and the total amount due all employees for the payment period

Recommendation 17: Authorize Departments to Perform Payroll Entry

We recommend that designated department employees perform time and attendance payroll entry. In Canton, individual timesheets are completed by department employees, submitted to the department manager for verification, and then submitted in hardcopy to the payroll accounting coordinator for further review and manual entry into MUNIS.

Instead, we recommend that employee hours be entered into the MUNIS time and attendance module at the departmental level. A hardcopy summary report, with the department manager's signature could then be forwarded to the town's payroll coordinator for review and warrant preparation. Included in the MUNIS record should be hours credited to regular, sick, vacation, or other time during the given pay period. The department retains all individual employee timesheets.

Relieved of data entry and detailed verification of employee hours and calculations, the payroll accounting coordinator would be available to perform other tasks or duties. The process places responsibility for the accuracy of time sheets on the employee and the department manager, where it rightfully belongs.

Recommendation 18: Require Turnover Currier to Complete Sign-In Sheet

We recommend the courier responsible for delivering turnovers to the bank be required to complete a sign-in sheet. The current procedure does not require sign-in by the bank courier when he takes possession of town receipts and delivers them to the bank for deposit. Although it is a routine daily occurrence, when town funds change hands, a record of the transfer that identifies the individual receiving the funds and the time of pick-up is a prudent practice.

Recommendation 19: Establish Secure Location for all Monies

We recommend departments secure all over-the-counter and interdepartmental transactions. As departments receive payments over the counter, they are typically counted and a receipt is issued. However, we observed where cash is left-out in an open box into which residents deposit payments, i.e., for copies, and from which they make change. Also, and perhaps more importantly, in the collector's office, receipts primarily in the form of checks were left exposed and unattended on desktops awaiting preparation for deposit and posting by staff.

While arguably minor, we recommend that the finance director review these and other practices that go to the issue of security. While we always encourage the transfer of town receipts between responsible individuals, a safe, lockbox, or cash register offers a secure alternative. In any event, department managers should be instructed not to leave monies unattended. This recommendation reduces errors, saves time, and encourages responsibility.

We recommend that the finance director establish security procedures for departments that take in money. It is common that various municipal departments take-in money over the counter or by mail as payment of fees or in exchange for services. Most departments generally turnover receipts on a regular basis, however, for those that do not and because other departments can hold money for days at a time, the finance director should establish security measures for retaining funds over time. At a minimum, a policy should require that departments store funds in a lock box which should be placed in a secure location overnight, such as a locked desk draw, file cabinet, safe or vault. In addition the finance director should ensure that any town employee receiving money is bonded.

Recommendation 20: Update Town of Canton Website

We recommend the town regularly review and update the municipal website. Today, communities are finding it advantageous to build and promote a municipal website to achieve rapid and convenient service. A website has become a means to engage the community, and as such, should be routinely reviewed, and continually updated and improved. The town of Canton does a good job of including valuable content for citizens, such as, town bylaws, annual town reports, a calendar of events, a directory of contacts, online bill payment method, among other publications. The town was innovative when developing the knowledge base/citizen request database which functions as a search engine for municipal services. Residents can provide key words or ask questions on a variety of topics and receive useful and appropriate responses.

Though the website is progressive in terms of content, the design of the website is distracting and difficult to navigate. Simple improvements and standardizations can enhance the user experience and draw individuals to the site. To continue to be innovative, the MIS director should be asked to explore and recommend improvements to website content and design. As

part of the process, it might be useful to solicit opinion from the public on expectations for a municipal website. As an alternative the town might also consider contracting-out website design. A cost benefit analysis or impact statement may be deemed appropriate to evaluate the direction for development.

Recommendation 21: Encourage Technology Continuing Education

We recommend technology training and continuing education for all employees. We found the MIS director to be resourceful, knowledgeable, and experienced, and to his credit, he has taken steps to encourage technology use to increase productivity. However, because the learning curve can sometimes be daunting for others, we encourage a technology plan in Canton that advances employee technology training. Defined policies, procedures, and effective training can help boost confidence, overcome anxiety, and advance the electronic exchange of information. Otherwise, as government environments move increasingly toward a paperless environment, the town will be less and less able to communicate interdepartmentally and with the outside world. Employee performance reviews can offer a useful means to gauge employee participation in training by establishing a required threshold of training and education that must be met in order to progress in any given position.

Assessors' Office

The assessors' office is responsible for valuing all of Canton's real and personal property, assigning tax payments to owners, and generating the commitment authorizing the treasurer/collector to collect real estate tax and motor vehicle excise payments.

To ensure that residents are taxed equitably and accurately, the office maintains and updates property records with information received on the real estate multiple listing service, from deeds, and through onsite inspections of sale properties and properties where a building permit has been issued. Additional information is gathered during an ongoing cyclical property inspection program. Upon application, the assessing office acts on and tracks exemptions and abatements. It estimates new growth and conducts classification hearings. The assessing office sets the tax rate, recommends the annual overlay, and provides levy information for use in the Tax Recap Sheet submitted to DOR. The office is also required by DOR to document an annual property value adjustment analysis and to prepare for State certification of property values every three years.

The volume of work in the Canton assessors' office involves valuing roughly 6,628 residential real estate parcels, 446 commercial/industrial accounts, and 449 vacant parcels. There are an additional 425 personal property accounts. All are billed on a quarterly basis. In addition, there are roughly 20,600 registered motor vehicles with a total excise of \$3,222,639. In fiscal year 2006, the office issued approximately 14 residential and 2 commercial abatements, and issued about 380 personal exemptions. The total liability to Canton for abatements and exemptions is around \$251,000.

A director of assessing, full-time assistant assessor, and two part-time assessing technicians perform day-to-day office functions, while property inspections, data analysis, value determinations, and other higher level assessing duties are completed by the office and outside consultants. The firm of Paul S. Kapinos and Associates was engaged to replace ACONE which was experiencing financial problems. Through no fault of the assessing department, ACONE's financial failure delayed completion of the town's triennial revaluation and issuance of its third quarter tax bills for FY07.

Generally, building permit inspections are completed by the director of assessing (for which he receives a \$10,000 stipend) together with the assistant assessor. However, more of that task has been assigned to the town's revaluation consultant. On-site visits are made to properties where sale transactions appear unusual, but the office otherwise sends-out no sale questionnaires and additional sale inspections are reportedly few. Instead, the office relies on its access to the Multiple Listing Service for property descriptions. Because the town's nine-year cyclical property re-inspection program lagged, \$80,000 was paid in 2000 to an outside consultant to measure and list properties. Although not preferred, this approach is taken by some municipalities. To his credit, the director of assessing plans to expand building permit inspections to qualify as re-inspections, but still expects to contract out for inspection services as

2010 approaches. Finally, in addition to his Canton job responsibilities, the director of assessing also provides personal property consulting services to seven other communities.

The assessing function is not part of the finance department, but the office is guided by an elected, three member board of assessors which meets on an ad hoc basis. Among its responsibilities is the approval of exemptions and abatements which have drawn attention in recent years. The board has sole authority to approve new growth estimates and to set the annual overlay reserve, which has also been a subject of discussion among finance officials during the annual budget process. The question has been raised whether the overlay is in excess of what it needs to be. There are also conflicting views on the appropriateness of the town to include underground utilities in the calculation of new growth for FY08.

Conclusion - Our recommendations below are few reflecting a positive opinion of the assessing department operation and of the ability of staff to complete requisite tasks. That being said, there appears to be on-going tension between the assessing department and the finance department which, during our visits, manifested itself in various subjects. Among them were conflicting views on the treatment of new growth and the overlay reserve.

It is our understanding that the finance director was budgeting a new growth estimate not supported by the assessors. The issue was resolved when the director of assessing, with the approval of the board members, reached an agreement with a major commercial taxpayer on the valuation of personal property, which was in dispute. Although we would normally expect communication and even collaboration to take place between the budget formulators and the assessors, the new growth estimate is a decision best made with the cooperation and input of the assessors.

We hold the same opinion relative to overlay and certification by the assessors of overlay surplus. However, in this instance, the assessors' policy and practice is justifiably subject to question. We address the issue in a recommendation below.

Recommendation 22: Revisit Overlay Policies

We recommend defining the overlay and surplus reserve policy to reflect current need and historical trends. Each year, the assessing office maintains an overlay account which is funded to cover anticipated property tax abatements, exemptions, and to offset the revenue loss from un-collectible taxes in that year. Unused account balances accumulate from year-to-year, and should be retained in an amount necessary to cover that year's tax and excise receivables, plus potential liabilities arising from pending Appellate Tax Board cases. When the overlay reserve balance exceeds the total estimated liability, the board of assessors can certify all or some of the excess, as surplus, which makes it available in the general fund for appropriation.

It is our understanding that in response to an unexpected overlay deficit that occurred 15 years ago, the assessors have been firm in setting the annual overlay reserve at \$1 million. To

their credit, the amount was set as protection for the town. However, we believe the time is right to adjust the overlay downward.

Because annual overlay funding has historically exceeded the annual draw on the reserve, the assessors have built up a fund balance approaching \$2 million. According to the DOR Data Bank, the town has raised \$1 million, on average, each year since FY02 for the purposes of the overlay reserve. Approximately \$500,000 is used annually to offset abatements, exemptions and to cover prior year receivables and potential Appellate Tax Board (ATB) liabilities. Between \$500,000 and \$615,000 has been certified as overlay surplus in each of the last three years and been made available to help fund the town budget.

We have two concerns. First, the \$1 million annual appropriation appears arbitrary. Based on town experience, it exceeds the need and consumes town funds that might be expended elsewhere. Second, each year, while the finance director projects revenues, balances priorities among departments, and works to formulate the town budget, a parallel budget process has taken shape. Whether negotiated with the finance director or, from what we understand, in response to appeals directly by department managers, the assessors make independent decisions to release a portion of almost \$2 million in reserve to overlay surplus in order to fund a particular spending purpose.

Therefore, we recommend that the assessors analyze the actual overlay needs of the town and adjust the annual reserve appropriately. The primary factor in the estimate of an annual overlay is the annual amount attributable to abatements and exemptions. We further recommend that the assessors retain from its current reserve (approximating \$2 million) an adjusted amount as overlay reserve and to certify the remainder as overlay surplus. The overlay reserve should be sufficient to cover outstanding receivables for all prior years and potential liabilities associated with pending ATB cases. Normally, this would be a percentage of the total original taxes associated with the cases.

Recommendation 23: Review Abatement and Exemption Policy and Procedure

We recommend the board of assessors continue with steps to correct abatement and exemption procedures in accordance with the outside auditors' management letters. A review by the audit firm of Powers and Sullivan highlighted concerns that abatements and exemptions were granted where applications were missing or did not provide complete information by either or both the taxpayer and the assessing office. Questioned was the basis for which abatements or exemptions were awarded and whether assessing department actions complied with state law. It is our understanding that the assessing department challenged portions of the report, but has otherwise begun to implement corrective action. Our intent here is to concur with the findings of the audit firm and to underscore the importance of even-handed and fair implementation of the state tax laws.

Recommendation 24: Inspect All Sale Properties; Send Questionnaires

We recommend the assessing office include all sale properties in their inspection schedule. Pursuant to best practice, the director of assessing, assistant assessor, or a consulting company should perform sales inspections. Currently, no sale questionnaires are mailed and few sale properties are inspected. Instead, it appears that the office relies predominantly on the real estate industry's Multiple Listing Service to track and update property records when ownership changes occur.

Sales analysis provides evidence of market trends, which form the basis of property assessments and annual adjustments to value. On-site inspections of sale properties represent the best means of attaining, up-to-date quality information. All other sources, including the Multiple Listing Services, should be viewed as secondary and corroborative.

Therefore, to ensure the reliability of the data, the assessing office should send out questionnaires and inspect all, arms-length sales properties. At the very least, on-site inspections as soon after a sale occurs as possible will allow the assessors to identify property improvements that typically occur just before and just after a new owner takes possession.

Acknowledgements

This report was prepared by:

The Department of Revenue, Division of Local Services (DLS)

Robert G. Nunes, Deputy Commissioner & Director of Municipal Affairs

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

Joe Markarian, Supervisor, Technical Assistance Section, MDM/TAB

Zachary H. Blake, Project Manager & Financial Management Analyst,
Technical Assistance Section, MDM/TAB

Stephen Sullivan, Community Advisor, Bureau of Local Assessment

Martin DiMunah, Field Representative, Bureau of Accounts

In preparing this review,

DLS interviewed the following persons and other town hall staff members:

Victor D. Del Vecchio, Chair, Board of Selectmen

Avril T. Elkort, Vice Chair, Selectman

John J. Connolly, Clerk, Selectman

Robert E. Burr Jr., Selectman

Gerald A. Salvatori Jr., Selectman

William T. Friel, Town Administrator

Patricia Johnson, Chair, Finance Committee

James R. Murgia, Finance Director & Treasurer & Collector

Paul Gargano, Town Accountant

Sue Desjardins, Accounting Senior Specialist

Linda Brooks, Accounting Coordinator, Payroll

Louis Jutras, Information Systems Manager

Jane Consalvi, Assistant Treasurer/Collector

State Representative William C. Galvin, Chair, Board of Assessors

John Wieliczki, Director of Assessing

Karen Zukauskas, Assistant Assessor

Carolyn Floyd, Assessing Technician

Lorraine J. Redquest, Office Administrator, Water and Sewer