



Town of Dedham

# Review of Finance Department

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Division of Local Services / Technical Assistance Section

February 2015



February 11, 2015

Board of Selectmen  
Town of Dedham  
26 Bryant Street  
Dedham, MA 02026  
c/o Town Manager James Kern

Dear Board Members:

It is with pleasure that I transmit to you the enclosed Review of the Finance Department completed by the Division of Local Services for the Town of Dedham. It is our hope that the information presented in this report will assist the town in improving financial management operations.

As a routine practice, we will post the completed report on the DLS website [www.mass.gov/dls](http://www.mass.gov/dls) and forward copies to the town's state senator and representatives.

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

Sincerely,

Joseph J. McDermott  
Interim Deputy Commissioner &  
Director of Municipal Affairs

cc: Senator Michael F. Rush  
Representative Paul McMurtry

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## INTRODUCTION

At the request of the Board of Selectmen for the Town of Dedham, the Department of Revenue's Division of Local Services (DLS) completed a review of its finance department. Based on discussions with local officials, our review had two objectives: assessing the effectiveness of the department's organizational structure and reviewing its routine processes to gauge their efficiency and adequacy of internal controls. From site visits, interviews, document reviews, and consultations, our Technical Assistance Section team developed a picture of the current roles and interrelationships within the finance department and the distribution of assignments. We also documented in detail the everyday functions performed by department personnel.

On the whole, we found the employees of Dedham's finance department to be conscientious and dedicated. However, it appears that as the department evolved over the years, its design lacked a goal-oriented and objective-focused vision. This was exacerbated by piecemeal decisions associated with job assignments and task completion and the previous absence of a personnel department to help reassess job descriptions and implement a performance review program. The result is a department that is somewhat top-heavy and lacking in sufficient accountability measures. While essential tasks are completed, there is room for improvement to reduce inefficiencies and strengthen internal controls.

### Background

Dedham is a town in suburban Boston having almost 25,000 residents and a budget in FY2015 of just under \$103 million. Its town charter and supplementary bylaws provide basic guidelines for governmental structure and procedures. Through a charter review process, the town recently reassessed the suitability and effectiveness of its governmental framework, leading to the adoption a new town charter in April 2014.

The community continues to operate under a board of selectmen – representative town meeting form of government, though the new charter elevated the town administrator position to town manager. The board of selectmen appoints the town manager to provide central oversight of town operations, while this officer, in turn, appoints an assistant town manager to help carry out management responsibilities. The town manager's powers were expanded under the new charter to include authority for appointing every department head except for the school, parks and recreation, and library departments.

A special act in 2002 established Dedham's consolidated finance department under the oversight of a finance director, who reports to the town manager. The same act also combined the positions of

treasurer and collector into one. The finance department encompasses the town's accounting, collections, and treasury operations as well as its information technology (IT) office. Unlike some communities, Dedham's finance department does not incorporate the assessing office. However, the town manager's new powers means that the director of assessing is now appointed by and reports to that position rather than to the elected board of assessors, which retains only certain advisory and statutory functions.

Per the town charter, the town manager has primary responsibility for formulating Dedham's annual budget. To advise town meeting members, the finance and warrant committee considers and makes recommendations on all warrant articles. There is also a capital expenditures committee to analyze capital requests and propose projects based on a maintained five-year plan. These decision makers must all rely on the accuracy and currentness of financial records and analyses produced by finance department personnel. Good coordination is needed to avoid data inadequacies that can impair their ability to make wise judgments about decisions affecting the town's fiscal health.

In the last two years, town employees and officials have been challenged to navigate through multiple, and sometimes sudden, vacancies in central finance-related positions. These have included the finance director, treasurer/collector, and director of assessing at the management level. A budget analyst position was also vacated and not refilled. Additionally, the IT and treasurer/collector offices each lost one, full-time, non-management position without replacing them. Lastly, in April 2014, the town administrator who had served Dedham for 12 years resigned to take a position in another community.

The town hired a new treasurer/collector in August 2013. Replacements for the finance director and director of assessing had to wait until Dedham could hire a new town manager, since that is the only position authorized to appoint department heads. While the search was conducted, the assistant town administrator (now assistant town manager) served as acting town manager. Meanwhile, a consultant has been working part-time as interim finance director since April 2014. Effective November 17, 2014, the new town manager began his tenure, coming to the position after being Swansea's town administrator for a decade. Shortly thereafter, he appointed the new director of assessing, who was formerly the assistant director and had been functioning as the interim director since April 2014. The town posted for a new finance director in November 2014, but no hiring decision had been made at the time of this report.

The concentrated period of personnel flux was one impetus for requesting our review. While there had been some thought given to succession planning prior to this period, some decisions made in this direction served to create an ever more unconventional finance department arrangement and less certainty about the assignment of roles and responsibilities. Fortunately, the charter empowers

the town manager to reorganize departments reporting to him and to “provide for reassignment of powers, duties, functions and responsibilities.” With the new town manager, and in due time, a new finance director coming on board, there is a good opportunity to rethink how the finance department should be modeled.

Shortly before we began our review, the town hired a firm to conduct a comprehensive examination of the town’s and school’s IT operations. Given the all-encompassing scope of that study, our review did not include an in-depth assessment of the IT office despite its reporting structure within the finance department. However, any review of a modern finance operation must necessarily consider the intersection between financial functions and technological tools. Therefore, many of our recommendations touch on IT, and one offers some general IT management advice we feel ought to be considered for successfully implementing our other suggestions related specifically to finance department functions.

The personnel changeovers and weakly integrated financial management contributed to three conditions cited as material weaknesses in the external auditor’s management letter for FY2013, indicating “that there is a reasonable possibility that a material misstatement of the [town’s] financial statements will not be prevented, or detected and corrected on a timely basis.” These related to bank reconciliations, receivable reconciliations, and a late certification of free cash. Four other, non-material-level concerns were noted, including one that cited multiple instances of inadequately managed accounting and budgetary transactions.

However, despite the challenges of recent times, there are underlying strong supports to help maintain the town’s overall fiscal health. Local policymaking officials have guided good decisions that have led to a healthy level of reserves and debt burden. The budget process has historically worked smoothly, and the town produces an award-winning comprehensive annual financial report, including sound financial policy statements. There is good cross-training among finance department employees and an overall strong teamwork attitude. In July 2014, the town received a AAA credit rating from Standard & Poor’s.

Looking ahead, Dedham has an ambitious plan to create an expanded municipal campus, which will involve purchasing a building next to town hall and rehabilitating both. Progress towards this has already begun thanks to an approved article at the May 2014 town meeting and the creation of a special stabilization fund to receive local hotel and meals tax receipts as well as other appropriations to be voted on in future town meetings. Given the large costs that will ultimately be part of this project, a strong finance department that can produce timely and accurate analyses for sound financial forecasts becomes all the more essential. The town also needs to settle on a lasting personnel model for the finance department to design an appropriate physical layout for it in the new campus building.

## RECOMMENDATIONS

### **1. Reorganize the Finance Department and Reassess Job Functions**

Once a town creates a finance department through special legislation, it has broad leeway for deciding how to structure it. However, some common elements found among municipal finance departments are preferable because they provide for a framework that enhances coordination, makes it easier to clarify roles and assign tasks, and promotes accountability. Below we discuss some unique aspects of Dedham's finance department and present suggestions to consider for transforming it.

A finance director is in effect the manager of a department comprised of subdepartments. In communities of similar size to Dedham, the person holding this position tends to also be either the town accountant, treasurer, or treasurer/collector. In fact, Dedham's charter in describing the position begins: "In addition to all of the powers and duties conferred and imposed by law upon town accountants ..." So it appears the original intent was for this department head to be a finance director/accountant. At some point, that concept altered, and the position became a stand-alone finance director. Dedham now has a separate person delegated the responsibilities of a town accountant. At the time she was hired in 2012, her title was assistant finance director/accounting and reporting, although later her formal job description title changed simply to town accountant. While town leaders have decided it is best to maintain a stand-alone finance director position at this time, we mention the prior local history and common workability of a combined position to be considered as a future option.

We also propose repositioning the IT division because its placement within the finance department weakens town-wide IT coordination and internal controls. The unit can most effectively serve the IT needs of all town departments when the IT director holds a senior-level position reporting to the town manager, which provides a wider management perspective. Additionally, the best control environment would position the IT director apart from those responsible for day-to-day financial transactions. An IT director should be the person in town with administrator rights for all systems, including being the gatekeeper for all user profiles with their particular edit or read-only permissions. Segregating this oversight from department managers is an effective means to deter fraud, safeguard data integrity, and ensure employee accountability.

As mentioned earlier, Dedham's finance department does not include the assessing function. Based on conversations, there appears to be a good working relationship between the current assessing director and finance department managers, and he is invited to and attends finance team meetings. All the same, formally incorporating the assessing office into the finance department would

maximize the coordination of common objectives, including referring commitments, synchronizing abatements and refunds, creating the tax recapitulation sheet, and analyzing financial data for setting the annual overlay. We therefore recommend that this change be reconsidered whenever the town decides to conduct another charter review in the future.

Dedham has one employee who has retained an assistant finance director title, specifically the assistant finance director/revenue and asset management. Functionally, he reports to the treasurer/collector. Past attempts to remodel the finance department and create succession plans led to this unusual arrangement, but this history is immaterial now. Presently, by job description, title, and in practice, this position has no specifically defined role but has much crossover with other finance department positions. Some of the functional gaps that seem to be missing as part of a good financial management structure are centralized procurement oversight, risk assessment, and internal audit. An assistant finance director/quality assurance (QA) manager title could encompass all these duties as well as conducting cost savings and efficiency reviews, doing sewer abatements, and serving as the department's liaison to a potentially repositioned IT division.

Besides, or in some ways because of, the finance department's unconventional structure, we found that a few employees do not perform some of the typical functions of their roles. Since April 2014, Dedham has not had a full-time finance director. Instead, the town has paid for an outside consultant to serve in the role three days a week. However, most of her work time has been devoted to doing reconciliations of the town's receivable records in the effort to resolve long-time variances. Reconciliations would not normally be the finance director's responsibility but rather the accountant's in conjunction with the treasurer/collector.

In most communities, the finance director orchestrates the annual budget process or, at minimum, functions as primary budget analyst. Instead, a few years ago, the town created a position called budget and contract administrator. This person did most of the budget analysis and coordination as well as some procurement oversight, but he left town service in September 2014 and has not been replaced. It is our understanding that the assistant town manager has taken on some of these functions ad hoc since then. With the town now conducting a candidate search for a new finance director, we do not see a compelling reason why the budget analyst position should be backfilled.

A finance director's overall mission should be to coordinate the town's financial management, monitor its fiscal health, and analyze data for long-range planning. In addition to supervising and directing the activities of finance department managers, the officeholder would collaborate with other department heads on budget and capital planning and assist them with revenue and expenditure tracking. Other, specific duties of the position would include:

- Ensure timely compliance with internal and external reporting



- Facilitate the annual audit engagement and develop and monitor corrective action plans
- Prepare multiyear revenue and expenditure forecasts
- Maintain a long-term capital plan and monitor progress of capital projects
- Provide periodic and ad hoc fiscal analysis to departments, boards, and committees
- Participate in collective bargaining
- Assure timely and accurate free cash certification and tax recap submissions to DLS

Besides reconciliation responsibilities, we identified some other functional gaps relating to the town accountant's position. Although she had been assistant finance director in another community previously, her two years working in Dedham constitute her first town accountant experience. For FY2013, Dedham paid a consultant to do the year-end balance sheet and tax recap submission to DLS because the finance director was not available and the accountant did not have the knowledge. A town accountant is usually responsible for these duties, even if they are ultimately overseen by a finance director, and she also needs to be able to do them in the event of the director's absence. We therefore recommend that the finance director formally assign these duties to the town accountant and provide the appropriate training as needed.

The structure and job assignments in the treasurer/collector's office also appear to be irregular. Along with the assistant finance director position already mentioned, the unit has an assistant treasurer, payroll administrator, and three senior tax clerks. The town does not conduct annual employee performance reviews, which would reinforce supervisory lines, but in practice, the assistant director performs an informal supervisory role over the clerks. On the treasury side, the assistant treasurer is not formally or informally empowered to do the same. In towns of this size, we would generally see a structure that would include either an assistant treasurer/collector or separate individuals designated as assistant treasurer and assistant collector.

We also believe that, at present, the assistant treasurer is being underutilized. Rather than maintaining a full cashbook, she only records overall receipts and details of bank interest revenues. Maintaining this cashbook limitation could be detrimental if the treasurer/collector has an extended absence. Besides doing or sharing cashbook maintenance duties, we would expect an assistant treasurer to pursue tax title accounts, and to not only track but also work to resolve tailings. Further, she should share the load of receiving turnovers from departments and be a back-up to the treasurer/collector for doing monthly reconciliations of cash and receivables with the accountant.

In the report appendix are three organizational charts. The first shows the current finance department structure in Dedham. The second is our proposed arrangement based on the town's current charter and decision to hire a stand-alone finance director. The third chart shows a

structure to consider working towards in the future since it provides a more vertical and integrated framework to provide the best coordination and accountability.

Whether or not the town decides to implement our suggestions, we recommend that the town manager and human resources (HR) director conduct a project to review the job descriptions of finance department employees. The ones that we received were quite generic and had much duplication, so that they do not provide adequate guidance as to who has primary responsibility for many essential tasks. The town manager and HR director have told us of their intent to institute an annual performance evaluation program in the near future, so we trust that job description reassessments will be a part of that. A good employee performance evaluation program can be a very valuable tool for setting goals, reinforcing accountability, encouraging communication, and promoting professional development.

## **2. Channel Purchasing Decisions through IT Division and Commit to New World Implementation**

Dedham first established a technology division to manage its IT needs about 16 years ago and has retained the same IT director during that time. A decision was made some time in the past to move the IT division's reporting line of authority away from a direct line to the town administrator and to its present position within the finance department. This dissociation of the IT director from a higher-level, town-wide perspective weakened her ability to stay informed on decisions impacting the town's IT infrastructure and user community and to be a useful consultant to department heads. For instance, the lack of IT decision making oversight makes it harder for her to assess user training needs and respond to support issues.

Furthermore, since the division was created, there has never been a formal policy from the board of selectmen to require town departments to submit IT purchases for the IT director's review. The result is a wide array of software and hardware in use throughout town that in many cases cannot communicate with each other or that duplicate functions, a situation that is inherently inefficient and wasteful.

We therefore recommend that once the town decides what organizational changes, if any, to make in response to the IT study, the town manager should write a policy for endorsement by the selectmen requiring that all IT purchases first go through a review process by the IT department. Centralized decision making will help to ensure town-wide compatibility of hardware, software, and auxiliaries. It can also help minimize expenditures by avoiding the purchase of duplicate systems and because the IT director may know about effective options that are less expensive or existing systems that can be shared or expanded.

We also advise officials to make plans to maximize the software applications already at the town's disposal through its New World contract. In 2012, finance officers sought to replace the town's financial software vendor with one that could provide greater functionality. Their choice, New World Systems Corporation, a Michigan-based company, received the support of budget decision makers in part because its suite of applications encompasses a very wide scope of municipal financial functions. Also attractive was New World's human resource (HR) modules, since town officials had begun to realize the growing importance of having specialized oversight over HR operations. Along with this recognition, the town hired its first HR director in 2013.

The New World software package went online in July 2012. As is the growing trend in municipal government, its implementation allowed for the decentralization of some data entry functions previously tasked exclusively within the finance department. Personnel in each department now key in their own invoice and receipt information to New World. In the treasurer/collector's and accountant's offices, staff need only match entries with the original documents and receipts that the departments send or deliver to them before validating and posting them in the system.

At this point, however, Dedham has only implemented some of the numerous New World applications available and already paid for in its contract. In use thus far are the general ledger, accounts payable, miscellaneous billing, revenue/cash receipting, and budget management. In addition, the town manager has plans to use the annual budget process module for developing the FY2016 budget. Beyond these, the town is currently paying for, but not using, these other modules:

- Project Accounting
- GASB (government) Reporting
- Bank Reconciliation
- Purchasing Base
- Contract Accounting
- Payroll & Human Resources
- E-suite (a self-service module for vendors and employees)
- Business Analytics (a tool for generating customized reports from the New World database)

We recommend the town expedite the process of reviewing each available module in detail to determine which ones are appropriate to implement and then to do so as soon as possible. The IT director should meet with each financial and HR department head to determine their particular needs, and if there are New World modules that can fulfill them well, start the plans for initiating or converting to them. As a matter of policy, the town should commit to using each application already purchased in the New World package as the first choice for managing any particular operation unless significant program deficiencies are identified. The substantial financial investment in the

software alone justifies this. However, the town manager and IT office must also get the message to department heads and staff of the many ways New World will help them to do their jobs and to accomplish the goals of the town as a whole.

Implementing any module requires intricate planning, especially for user training, processing downtimes, managing support services, and possible data conversion issues. As each new module goes online, though, users will experience immediate data transfers and will benefit from seeing current information on their computers. These efficiency and data integration improvements should hold more weight than concerns about potential difficulties in transition.

### **3. Reconcile Cash and Receivables Monthly**

We recommend that the new finance director make monthly reconciliations of cash and receivables a top priority. Based on conversations, the prior finance director only required interdepartmental reconciliations once annually, at year-end. This record of laxity, combined with a poorly managed software conversion, created longstanding and stubborn discrepancies in financial records.

In the most recent management letter received from the town's external auditor (for FY2013), the firm cited the lack of ongoing reconciliation procedures as a material weakness. Additionally, upon being hired in August 2013, the treasurer/collector found that reconciliations of cash balances with bank statements lagged approximately six months. She has worked to bring these reconciliations up to date and was only a month behind at the time of this report.

Receivables have been more problematic, and the root cause was a transition to a new collections database application in FY2013. During the interim conversion period, collector staff should have input all receipt data into the old and new applications simultaneously. Unfortunately, there were sometimes failures to enter receipt data into the new system. Since April 2014, the interim finance director has spent the majority of her time in the arduous task of determining the true balances in the different receivable categories. If financial officers had done receivable reconciliations on a regular, monthly basis, they could have identified the data entry issues early and precluded a major unraveling task. Incorrect interest charges and demand notices could also have been avoided.

It is axiomatic that longer time periods between reconciliations cause greater difficulties in identifying and correcting variances. And beyond that, the finance director needs the certainty that results from regular reconciliations for accurate forecasting and decision-making. We therefore recommend that the finance director establish a formal, written procedure requiring that reconciliations between the accountant and treasurer/collector occur monthly. It would establish a date by which the treasurer/collector must submit her internally-reconciled records of cash and receivables to the accountant and also assign mutual responsibility to them for resolving any

variances. Each month, the accountant should detail the reconciliation on a worksheet for submission to the finance director to review and sign off.

#### **4. Establish an Internal Audit Function**

Given the number of experienced management personnel in the finance department, we recommend that the new finance director design annual work plans that integrate a series of internal audits. Complementing the independent audit in supporting strong fiscal oversight, internal audits seek to verify the existence and effectiveness of internal controls. These controls, which can be preventative or detective, include examples such as segregation of duties, approvals, authorizations, verifications, physical asset security, reconciliations, inventories, and policies and procedures. As mentioned in our first recommendation, primary responsibility for carrying out the internal audits could be assigned to a new assistant finance director/QA manager position.

To be effective, an internal audit program must begin with the establishment of a top-down control environment committed to quality, competence, and accountability. We therefore suggest that it be announced through a town-wide memo from the town manager and finance director declaring the intent to reinforce proper financial management and other fiscal controls through periodic reviews of department records. It should also include a statement requiring employees to be available to audit staff and to produce any materials requested by them. Finally, we suggest the town explore outside internal audit training opportunities. For example, some online webinars are available as well as short courses from professional organizations like the [Institute for Internal Auditors](#), which offers government employee discounts.

#### **5. Enhance Oversight of Procurement and Purchasing**

For a number of years, Dedham's procurement practices have operated with little central oversight and no formal policies and procedures. By instituting our recommendations below, the town can assure compliance with state laws, limit the risk for overspending budgets, and potentially experience cost savings on purchases.

Designate a chief procurement officer (CPO). Although Dedham's charter identifies the town manager as CPO, by past practice, department heads have been independently responsible for adhering to state procurement laws. We propose that the town manager delegate his CPO responsibility to a finance department manager, possibly the assistant finance director/QA manager mentioned earlier. With the appropriate expertise, this designee will be in a good position to ensure adequacy of funding and cash flow and to analyze opportunities for group purchases, potentially saving money for the town.

Most importantly, the new CPO would be responsible to review all purchases over \$10,000 for compliance with [M.G.L. c. 30B](#). This law outlines the steps a public official must take when purchasing goods or services within certain dollar parameters. Purchases under \$10,000 must be governed by good business practices; those between \$10,000 and \$24,999 necessitate solicitation of three quotes; and those \$25,000 and greater require requests for proposals (RFP) or sealed bids.

If not already certified, the town should provide the resources for the CPO to obtain training to become a Massachusetts Certified Public Purchasing Official. Offered through the Office of the Inspector General, this course promotes ethical and cost-effective purchasing practices through the exchange of ideas and best practices, stewardship of resources, and compliance with Massachusetts contracting laws.

Issue procurement policies and procedures. The town manager and finance director should issue a policy to department heads that explains the provisions of M.G.L. c. 30B and makes it clear that the finance department will reject for payment any purchase that violates procurement laws. The policy should also require department heads to engage the CPO to oversee the RFP process for purchases over \$24,999. Additionally, the policy should be accompanied by procedures that spell out the required evidence for solicited quotes and a form for submitting quote information and attaching invoices.

Given the importance, cost and scrutiny connected with Dedham's municipal campus project, we also advise the town to make the procurement policy applicable for certain otherwise exempt services. While state law exempts some professional services (e.g., by architects, engineers, and others) from bidding requirements, conducting an open process as a policy will help to foster competition for quality services at favorable prices. The [Office of the Inspector General](#) expresses this view also in its training sessions and on its website. To further protect the town's interest, these services should be formalized in contracts that clearly structure the business relationship and specify the engagement's price, timeline, parties' responsibilities, conditions for satisfactory task completion, and timing of payments.

Institute a purchase order (PO) system. While bylaw Article III § 39-21 requires POs for all purchases of supplies and services, we were told that only a few departments use them, specifically the schools, police, facilities, and engineering. In a PO system, the accountant encumbers, or reserves, funds for preapproved purchases. Requiring POs for purchases allows for policy compliance review, guards against overspending of accounts, and keeps New World data up to date to aid analyses by the town manager and financial officials. Encumbering funds also enables departments to have better information on the availability

of appropriation balances, which improves controls over spending decisions and enhances planning opportunities.

The town manager and finance director should issue formal policies and procedures laying out the details of the PO system. The policy could have a provision allowing department heads to make emergency purchases, but if so, we recommend that it also require the town manager to sign off on any emergency purchase over \$1,000.

Explore how New World might enhance efficiency. Finally, we did not have the opportunity to examine any procurement-related New World modules, although we were told that the town's current package includes one called Purchasing Base. We recommend that the finance director and IT director investigate what tools this module can provide, and if not adequate, have discussions with New World about what other, more advanced modules they may be able to offer at a reasonable price. It is possible that the company may have available options to make the PO process completely paper-free.

## **6. Modify Vendor Warrant Processing**

Our review of vendor warrant procedures revealed opportunities for increasing efficiencies, and we therefore offer the following suggestions.

Shift from a weekly to biweekly schedule. Processing vendor warrants biweekly would help improve cash flow and also ease workloads on the off weeks, thereby allowing more time for higher-level tasks. Furthermore, Dedham's charter sets off two departments to report to elected boards apart from the board of selectmen, namely the library and parks and recreation departments. Since these department directors must obtain board member signatures on their invoice submission reports, a biweekly schedule would reduce the time spent pursuing the signatures. This change should not impact the accountant's ability to comply with the 30-day requirement for paying the town's bills provided that departments continue to submit their invoices to her timely.

Accountant receive copies of all contracts and grants. We recommend that all departments, boards, and commissions submit signed copies of all their grants and contracts to the accountant's office to comply with M.G.L. c. 41, §57. We were advised that there are many gaps in the accountant's inventory of these documents, which prevents her from effectively confirming if sufficient funds exist in accounts being charged and verifying whether a particular covenant's terms are met. If a bill is submitted for payment and the document containing information as to payment terms is not on file, the accountant should not process the payment.

Consider increasing use of scanners. When the accountant receives a contract or grant, we recommend using her office's scanner to make an electronic copy of it. She then could discard the paper and not need to maintain paper files in a cabinet. For easy access, she could maintain the imaged documents either in New World or in a folder on a computer drive. Departments that also have scanners could opt to scan them there instead of photocopying and then email the images to the accountant.

We were informed that virtually every module in New World has the capacity to attach imaged documents to specific transactions. If this is the case and if New World data is securely backed-up daily, we suggest that the IT director and finance director explore the possibility of allowing departments to submit scanned invoices to the accountant. Instead of making photocopies of bills for back-up reference, the departments could scan them and attach them to their New World submissions.

Invoices are subject to the Secretary of State's document disposition schedule. Yet the town may retain imaged documents to comply with the schedule and destroy the originals if it receives permission from the Secretary using form [RMU-2E](#). Implementing our suggestion would reduce storage needs while allowing all parties to access invoices more easily. This could be rolled out department-by-department over time, if viewed as successful and not too expensive to purchase sufficient scanners. Subsequently, the departments, accountant, and external auditor would use the images as the legal source documents for expenditures.

## **7. Modify Payroll Processing**

Our review revealed inefficiencies and control weaknesses associated with Dedham's payroll processing and its intersection with HR. After the operations overview provided below, we suggest modifications designed to enhance efficiency, strengthen controls, and rectify legal compliance issues.

Since 2008, Dedham has processed payroll using Millennium, a software application provided through a contract with Harpers Payroll Services, Inc. Each week, the payroll administrator in the treasurer/collector's office accesses Millennium to input data and transmit files with Harpers. Before she can transmit the final, weekly disbursement file to Harpers, the accountant's senior payroll clerk must verify the accuracy of her entries and the accountant must approve the appropriateness of the expenditures.

In 2014, the town expanded the Harpers contract to include the company's HR laCarte software. So far, the HR department has only used HR laCarte as a repository for personnel data of the type



found in employee file folders (e.g., address, employment eligibility information, etc.). HR's benefits coordinator inputs the information, but the database is still far from comprehensive because she has mainly entered only employees hired since HR laCarte's implementation. For it to be truly useful will require a major project to input data for all the active and retired employees of the town and school.

Upon making a hiring decision, a department head fills out a payroll change notification (PCN) form and forwards it for sign-off by the town manager and HR director. The new employee then meets with HR's benefits coordinator to fill out required federal employment forms and optional insurance and direct deposit forms. The benefits coordinator then creates the new employee account in Millennium, including setting up the insurance deduction amounts. For any subsequent changes (e.g., to pay rates, deductions, new direct deposit bank information, etc.), the employee must complete a new PCN that is channeled through HR to the treasurer/collector's office. There, the payroll administrator completes the update in Millennium and returns the PCN to HR.

Dedham has no standard, town-wide compensation cycle. The school and parks and recreation departments are the only ones paid on a biweekly basis; all the rest are weekly. Only public works and parks and recreation employees receive their compensation in the week after each pay period ends. Employees of all other departments are paid on the second-to-last day of each pay period.

Dedham's practices connected with leave time maintenance also lack standardization. The varied rates that employees accrue sick, vacation, personal, and compensatory time are dictated by union agreements, personal service contracts, and personnel bylaw. Responsibility for tracking the accruals, recording time usage, and maintaining leave balances falls to each department. Although historic policy required departments to submit their employees' leave balances once a year to the town administrator, this was not uniformly adhered to.

Unused amounts of earned leave time represent future liabilities for the town when employees retire, and as such, the accountant must report the town's "compensated absences" figure on annual financial reports. The decentralized maintenance of leave time data and the lack of oversight of recording practices represent weak check-and-balance controls. During the year, neither employees nor management are kept apprised of balances, creating a risk of overcompensation. And the town is left without the ability to credibly corroborate or challenge employee claims for leave balances.

In its current contract with New World, the town has paid for a comprehensive Payroll & Human Resources module that includes applications for payroll processing, personnel management, employee event tracking, benefits administration, and position budgeting. While local officials

expressed satisfaction with the Harpers contract, at the present time, the town has access to efficiency tools from New World and Harpers but has failed to take full advantage of either.

If all other things were equal, it would make sense to choose New World over Harpers since its wide array of payroll and HR modules are already included in the New World contract. Furthermore, local commentary indicates a consensus that New World has more to offer than Harpers. Nonetheless, converting to New World will require a significant project commitment. The town could consider how much it pays Harpers and use the equivalent to pay a short-term consultant to speed the conversion. The greater savings of eliminating a contract and increasing processing times would make it worth it in the long term.

New World not only provides more tools for managing HR and integrating it with payroll processing, but it allows for a fully seamless posting of payroll disbursement data to the general ledger. With New World, employees could also use self-service tools to review their payroll and leave time data. The longer the town decides which way to go, the greater potential waste. Many of the recommendations we offer should only be implemented after a definitive choice is made.

Implement and monitor segregation of duty controls. We advise the IT director to meet with the HR director and treasurer/collector to determine the appropriate Millennium edit and read-only permissions for town and school staff and subsequently update user profiles with Harpers. Official, but unwritten, policy assigns the HR benefits person with responsibility for creating new employee accounts. This is an appropriate control because the office responsible for disbursing payroll (the treasurer/collector) should not also have responsibility for authorizing new employees (as HR does), and thus, this system guards against the potential creation of ghost employees. However, the treasurer/collector and payroll administrator still have this type of edit permission. The back-up for new employee account creation should be the HR director. An employee in the school business office can also create new employees. If this person is allowed to keep that edit permission, someone else in the school department should process the biweekly payroll.

The ideal control structure to prevent other types of payroll fraud would also restrict the payroll administrator from changing pay rates or adding overtime or bonus payments, as she currently can in Millennium. Given the regular complexities in municipal payroll, however, removing this edit permission would be unwieldy. Therefore, the finance director must periodically ensure that compensating controls function effectively.

One control in the initial processing stage is provided by the reviews and approvals of payroll data by the senior accounting clerk and accountant. We recommend that the HR director allow the accountant to retain copies of authorized PCNs to facilitate this, even if it is a shortened or

redacted version to exclude sensitive information. Another effective mitigating control is a quarterly review of system reports showing changes in active employee lists and increases in pay. Ideally, this review would be done by the HR director, town manager, finance director, or other manager not authorized to disburse payroll.

Extend the payroll schedule from weekly to biweekly for all departments. Although any payroll change must be collectively bargained with employee unions, switching to biweekly payroll would be very worthwhile. It eliminates substantial processing work in the finance offices without adding any workload to town departments. The change would also reduce paperwork and reconciliation tasks.

Pay all employees after pay periods end. To allow sufficient time for processing, all departments must submit payroll reports to the finance department about a week before payday. Whereas the town pays nearly all departments during their current pay periods, most payroll reports are only estimations made a week in advance, which can create correction work in subsequent pay periods. Also problematic is the disbursement of pay prior to completion of work, which is prohibited by [M.G.L. c. 41, §56](#). Therefore, in addition to negotiating with unions for biweekly pay, we advise officials to seek a revision in payroll timing so that all employees receive their compensation in the week after their work cycle ends.

The town should implement this change and the biweekly one at least six months apart because each occurrence will be experienced as a one-week delay in receiving compensation. One way to lessen the impact of this is to give employees the option of withholding a percentage of each paycheck in advance, like 10%, so that they can be issued a full paycheck during the gap week.

Disburse all bonus and stipend payments during one, universal pay week each year. Although this change would also need to be collectively bargained, disbursing all these types of payments at one time annually (say for example, in the first week of September) will simplify processing and tighten oversight controls.

The practice in Dedham has been for department heads to add information for the payment of extra money for things like longevity bonuses or extra duty stipends onto the particular employees' lines on payroll report summaries at the times they determine these should occur. The payroll administrator must therefore review the summary reports each pay period for these possible notations and add the amounts to Millennium. Although department heads have legal authority over their payrolls, this system is not only inefficient, but it also leaves open a risk for abuse. And with nothing to reference, it puts the payroll administrator in an unfair position of not knowing whether to process a submission that might be duplicative, an incorrect amount, or otherwise in error.

We suggest that this change be accompanied by a policy issuance from the town manager stating that all bonuses and stipends will be paid during the annual designated week to all employees eligible at that time regardless of their qualifying dates. The policy would also require department heads to notify the treasurer/collector at the start of the fiscal year of the stipend and bonus payments to be made on the universal date. This shift is important because, like salaries, stipends can only be paid after the pay has been earned. Implementing this change will bring predictability to cash flow and allow for closer oversight of departmental payroll reporting.

Maintain a centralized leave time database. Both Millennium and New World are capable of tracking the accumulation and use of leave time balances. Whichever software the town commits to, we advise the finance director to talk with the vendor about initiating a project to use its database as the official, centralized record of compensated absences. This will involve vendor programming to automate union and nonunion accrual standards and a manual project to data enter the leave balances currently maintained in each department. Following this, the chosen database will be able to automatically track all employee leave time in response to exception updates by the payroll administrator and to any new contract or personnel information provided. The completion of this project will also allow for current leave balances to be printed on employee pay advices.

If New World is chosen and fully implemented, eventually, departments could be empowered to data enter their own attendance information, which could be done either at the employee level or by department heads or their assistants. To provide a proper control, however, the system would need to have a task requiring each department head to make an online approval of the entered data before it could be further processed.

Begin payroll processing in the treasurer/collector's office. Under the current system, departments send payroll summary sheets to the accountant's office. There, the senior accounting clerk for payroll verifies that employee pay rates match the information in her master Excel database. After her review, she sends the summaries to the payroll administrator in the treasurer/collector's office. The payroll administrator completes Millennium data entry and sends the originals back to the senior accounting clerk, who then logs onto Harpers to check the accuracy of the entries against the returned summaries. She then forwards the paperwork to the accountant to verify and approve the departmental accounts being expended.

Since the payroll summary reports are done in Excel, for simplification, we suggest that departments could email them simultaneously to the treasurer/collector's and accountant's offices and send the signed documents to the accountant's office. That way, the payroll

administrator can start Millennium data entry right away without papers being sent back and forth and without a start and end check by the accounting clerk. The data entry will be easier too because the payroll administrator could just review the Excel sheets online for exceptions versus sorting through paperwork. When the Millennium data entry is done, the senior accounting clerk could then review the information against the summary reports and her Excel master list.

List individual employee payments on payroll warrants. The town's warrant template lists salary account numbers subtotaled by department and pay class. While this format is appropriate for accounting purposes, more data is required for the authorization process. Per M.G.L. c. 41, §52, the board of selectmen (or its designees, who in Dedham are the town manager and finance director) must be able to review every individual charge to approve the expenses. At minimum the information needs to include the employees' names and gross salary amounts, and it could either be incorporated into the warrant or attached as a report from Harpers or New World.

Assign responsibility for employment verification to HR. The task of responding to requests for employment verification has remained with the payroll administrator. Since the HR department rightly has responsibility for the accuracy and completeness of present and past employee records, it makes more sense to shift this duty to that office.

## **8. Revise Cashbook to an Integrated Format**

We recommend that the treasurer/collector convert her cashbook to a format similar to the samples available on our website at <http://www.mass.gov/dor/local-officials/municipal-data-and-financial-management/financial-mgt-assistance/calcdandforms.html>.

Our sample cashbooks are all Excel-based, as are the files that the treasurer/collector and assistant treasurer use presently. Typically though, cashbook data would not be spread across multiple documents. We received three Excel files called Bank Reconciliations, Cashbook, and Receipts, but all lacked the detailed records of interrelated daily transactions that make a cashbook truly effective for determining the town's cash status at any given time. The primary missing elements are the day-to-day listing of money going into and out of specific town bank accounts and the connection of these transactions to daily treasury receipts and weekly payroll and vendor warrant disbursements.

Our sample formats integrate all this information by combining in the same document columns for transaction dates, warrant, batch and turnover reference numbers, receipt amounts, disbursement amounts, deposit dates, deposit amounts, and columns for every town bank account. When updated daily, these cashbooks will display the flow of cash based on debits and credits into and

out of each account. Further, at the top of the sample sheets are formula-enabled cells to sum the debit and credit transactions of each account and to present the town's overall current cash position.

## **9. Reduce Tax Receivables and Pursue Tax Titles**

Upon taking her position in August 2013, the treasurer/collector was faced with a multiyear backlog of properties with delinquent taxes that had not been put into tax title. By the end of her first year, she finished a project to complete tax takings for properties with delinquent taxes assessed from FY2008 to FY2010. By doing so, she was able to preserve the town's tax liens on them. Under M.G.L. c. 60, §37, a town's lien expires 3½ years from the end of the fiscal year for which taxes were assessed or upon a recorded sale or transfer of the property, whichever occurs later.

There are still delinquent taxes dating before 2008 on properties having the same owners that have not been put into tax title. Additionally, the treasurer/collector needs to do tax takings for FY2011 to FY2014. As of the end of FY2014, the receivable balance for real estate and personal property taxes totaled \$3.7 million. This figure is 4.8 percent of the town's net tax levy (total levy minus overlay), a concerning level although at least it has been trending slightly downward in the last three years. Slow economic times naturally impact collection rates, however, Dedham's performance is still significantly worse than similar towns in the area, whose uncollected rates average 1.28 percent. The town should have a goal to get the net uncollected rate under 2 percent.

As already stated, this was an inherited situation for the current treasurer/collector. By the end of this fiscal year, she intends to complete tax takings for the years since FY2010, and we commend her in this goal. We include this recommendation to highlight the magnitude of the task and the importance of instituting procedures to stay on top of this going forward.

In addition to pursuing timely tax takings on an annual basis, the treasurer/collector must annually add on to tax title properties the delinquent taxes assessed in subsequent years. But enforcement does not end with tax title, and to pursue money due the town, an annual program of reducing tax title accounts should also be implemented. Properties with the largest balances should be prioritized to initiate the foreclosure process in Land Court. And the remaining accounts should be organized into processing groups based on land of low value, parcels under single ownership, accounts with bad addresses or deceased property owners, existing partial payment agreements, and all other accounts. These groups should then receive tailored enforcement attention to pursue each by the most effective means available.

Reducing tax title accounts and collecting outstanding taxes requires the combined commitment of the treasurer/collector, board of selectmen, and town meeting. A well-thought-out and adequately-

funded action plan can help maximize collections and convince current and potential delinquent taxpayers of the town's seriousness in the collection of taxes.

## 10. Improve Collection Processing Controls

More than half of the treasurer/collector's tax and fee receipts are received through bank transfers received from escrow companies and from the town's lockbox and online payment vendors. For these, collector staff receive daily electronic files that they upload to the collections software, CDS, to credit the individual payers identified in the files. However, the office still processes a significant volume of manual payments at town hall. To strengthen internal controls for these, we suggest the following.

Maintain separate cash registers. The office currently has two cash registers, which were purchased only a few years ago to be used individually by each of the two senior clerks who were processing payments then. A third clerk was hired in 2014, but the town did not purchase another register. Having a separate register for each collector clerk prevents commingling of receipts and thus makes it easier to identify errors and prevent fraud. Although one clerk received a lockable cash box to use at her desk as an alternative, the registers are stronger controls, because each time a receipt is added to the drawer the amount can be input to have a running tape for the total on the day.

Segregate payment posting and depositing duties. At the end of the workday, each collector clerk cashes out by totaling the remittances and verifying if the amount balances with his or her own CDS batch report. Then they create their own deposits slips, and on an alternating basis, one of five designated treasurer/collector employees collects all the individual deposits slips, checks, and cash and brings them to the bank for deposit.

A basic control would segregate the payment posting function from the bank deposit function. The office does not have an assistant collector position, but we would normally expect a higher-level employee (either the treasurer/collector, assistant finance director, or assistant treasurer in Dedham's case) to review the cash out balancing, create the bank deposit, and if not deliver it to the bank themselves, review the deposit receipt from the bank to ensure it matches the deposit that was created. If this is impractical, at the very least, each clerk should hand off their cash out to each other for deposit creation. One mitigating control for the risk here is that the treasurer/collector has instructed the clerks to always issue numbered receipts for any cash payments received.

## **11. Revise Deputy Collector Procedures**

We recommend that the treasurer/collector establish a town bank account for deposit of all amounts collected by the deputy collector, PKS Associates, Inc. Under current practice, PKS deposits collections into a company bank account. Then once a week, a company representative delivers a check written on that account to the treasurer/collector's office along with a summary of payers and fee invoice.

According to state law, all notices that PKS sends seeking payments from delinquents in its capacity as Dedham's deputy collector must state that the town, not PKS, is the check payee. Further, a deputy collector may not deposit municipal funds in a personal bank account nor maintain a personal bank account in a community's name (M.G.L. c. 60, §92). We therefore advise the treasurer/collector to revise procedures to have the deputy collector deposit all of its collections into a town-controlled bank account opened specifically for that purpose and continue to turn over to her office the same activity reports weekly.

We also advise the treasurer/collector to discontinue accepting at town hall payments for delinquent accounts that have already been warranted to PKS. Currently, any such payment that collector staff receive must be retained at town hall until the next time a PKS representative arrives to submit a turnover. This causes a delay in realizing the revenue in a town bank account and unnecessarily creates an opportunity for payments to be misplaced.

## **12. Address Tailings Backlog and Prevent Future Backlogs**

We recommend that the treasurer/collector establish a process to resolve her department's backlog of tailings. A tailing refers to a returned check or one that otherwise remains uncashed, which when neglected, represents a debit liability on the town's books. A tailing can arise from any check disbursed by the treasury to pay an employee or vendor, to refund a municipal tax or charge, or to pay any other municipal obligation.

From conversations, it appears that there has been no systematic effort to track and resolve the tailing volume for more than a decade, and therefore the exact amount at issue is unknown. When reconciling bank statements, the assistant treasurer has over time compiled a list of outstanding checks in Excel. She reissues checks when notified by payees and verified on her list, but otherwise no attempts are made to contact check recipients or advertise the checks.

We advise the treasurer/collector to review the assistant treasurer's tailings database and then implement procedures complying with M.G.L. c. 200A, §5, 7 and 9 to reduce the tailings balance. This might not be a high priority task, but the potential liability to the town is likely to be significant



by this point and will only grow the longer resolution is postponed. Going forward, we recommend the treasurer/collector take the following steps to minimize future unclaimed checks:

- Create a monthly report of outstanding checks by reconciling bank statements to the Excel cashbook.
- Notify department heads monthly of any vendor, employee, or other checks that are uncashed after 30 days.
- Request department heads to contact payees to determine why checks have not been cashed.
- Create a monthly report of outstanding checks older than one year. Void each of them and notify the accountant. While the town's obligation continues, any future reissuance will require a new invoice and warrant.

## Appendix

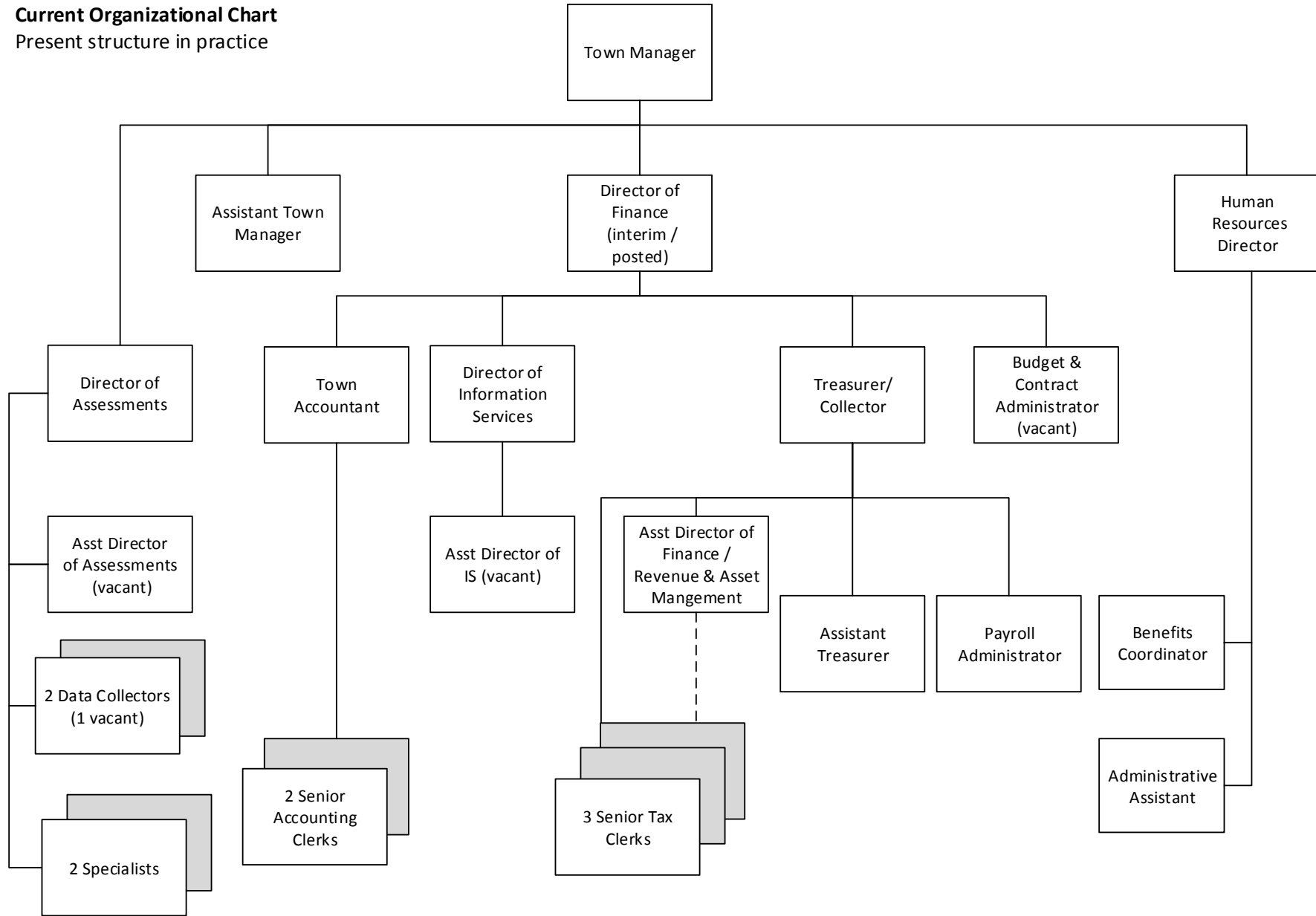
*Comparison of Uncollected Taxes*

<b>Municipality</b>	<b>FY14 RE &amp; PP Tax Levy</b>	<b>FY14 Overlay</b>	<b>Tax Levy minus Overlay</b>	<b>Uncollected Taxes Through FY14*</b>	<b>Net Percent Uncollected</b>
Acton	72,281,378	745,041	71,536,337	665,969	0.93%
Canton	62,465,128	1,767,642	60,697,486	496,946	0.82%
Danvers	64,756,756	761,632	63,995,124	1,381,302	2.16%
Dedham	79,873,681	2,275,432	77,598,249	3,721,832	4.80%
Mansfield	51,339,001	507,414	50,831,587	473,747	0.93%
Milton	67,156,777	484,772	66,672,005	993,673	1.49%
North Andover	63,441,828	564,134	62,877,693	1,049,316	1.67%
Norwood	62,431,666	688,814	61,742,852	1,081,998	1.75%
Reading	56,444,070	611,630	55,832,440	248,702	0.45%
Wakefield	58,082,423	642,586	57,439,837	945,454	1.65%
Walpole	59,597,053	402,592	59,194,461	575,964	0.97%

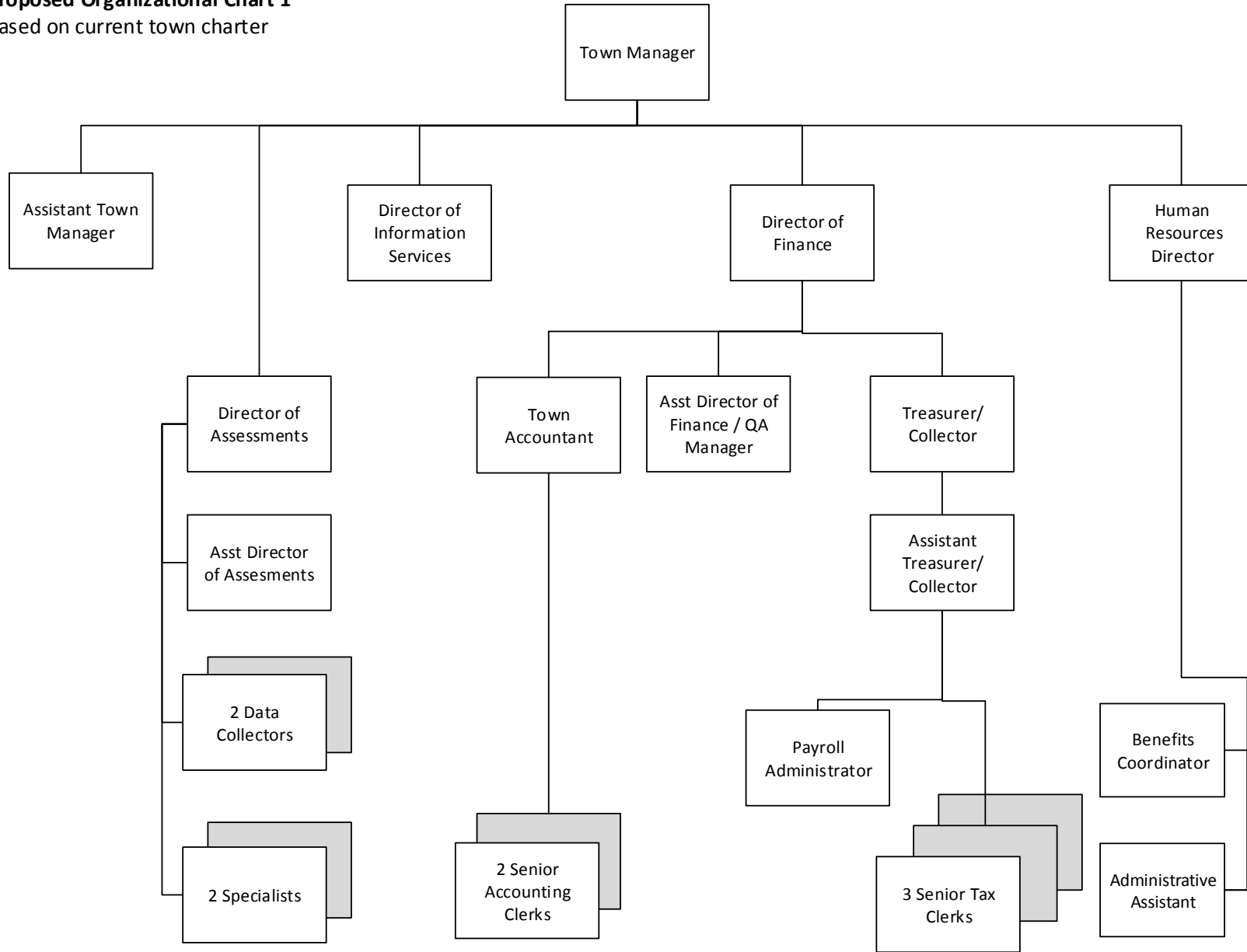
\*Excluding tax titles and possessions.

The average percentage of uncollected taxes for the peer group (excluding Dedham) is 1.28 percent.

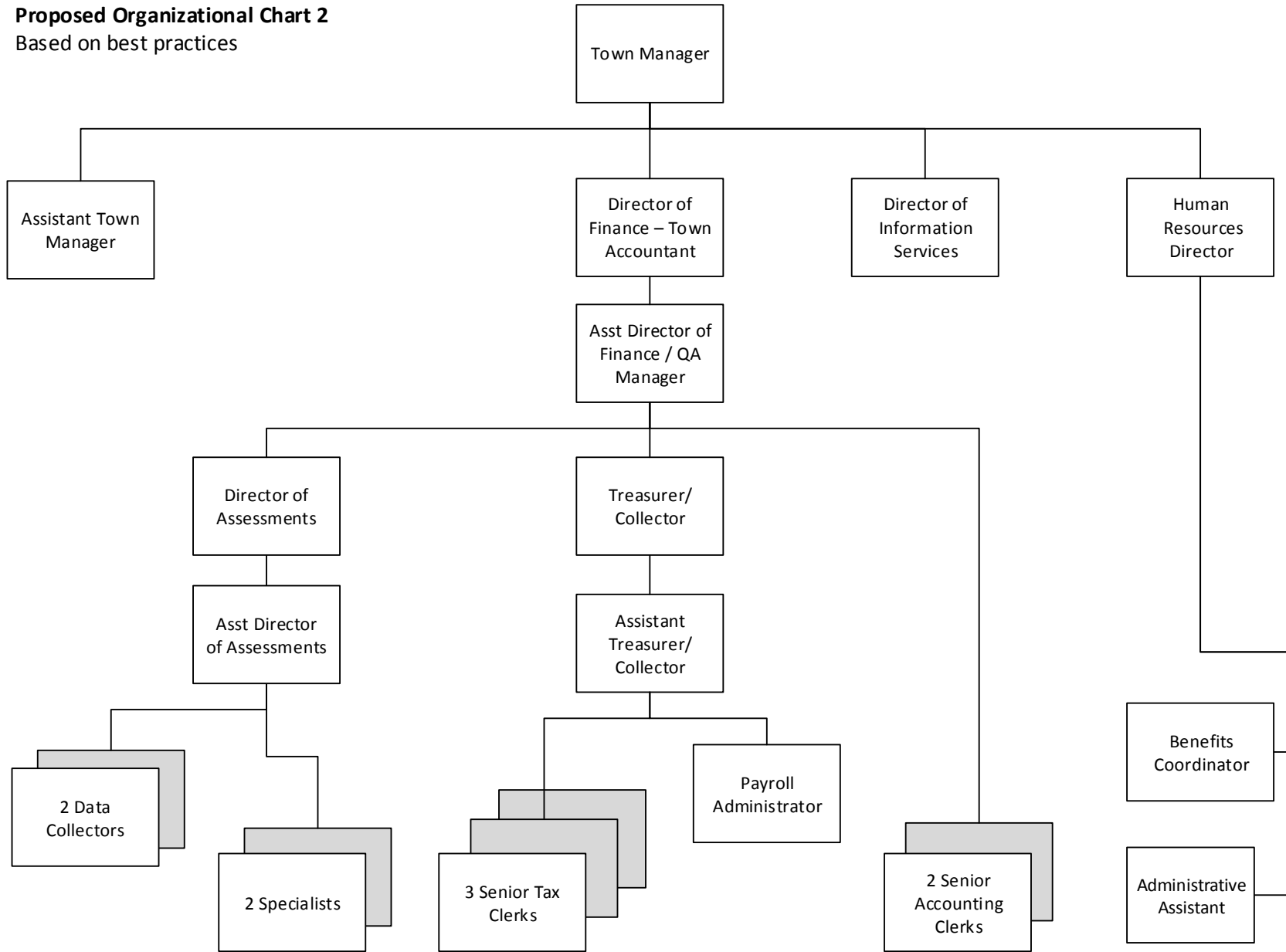
**Current Organizational Chart**  
Present structure in practice



**Proposed Organizational Chart 1**  
Based on current town charter



**Proposed Organizational Chart 2**  
Based on best practices



## ACKNOWLEDGMENTS

This report was prepared by the Department of Revenue, Division of Local Services:

Joseph McDermott, Interim Deputy Commissioner & Director of Municipal Affairs  
Frederick E. Kingsley, Bureau Chief, Municipal Data Management & Technical Assistance  
Zack Blake, Director, Technical Assistance Section  
Tara Lynch, Project Manager, Technical Assistance Section

In preparing this review, DLS interviewed or received information from these individuals:

James MacDonald, Chair, Board of Selectmen  
James Kern, Town Manager  
Nancy Baker, Assistant Town Manager  
John Heffernan, Chair, Finance and Warrant Committee  
Russell Stamm, Finance and Warrant Committee  
Carol Coppola, Interim Director of Finance  
Veronica Barnes, Director of Technology  
Susan Shaw, Town Accountant  
Marie Dukas, Senior Accounting Specialist  
Michelle MacDonald, Senior Accounting Specialist  
Jane Cunniff Lepardo, Treasurer/Collector  
William Ralph, Assistant Director of Finance  
Donna Bowse, Assistant Treasurer  
Susan Munchbach, Payroll Administrator  
Sandra Matar, Senior Tax Clerk  
Christopher Valdon, Senior Tax Clerk  
Richard Henderson, Director of Assessing  
Jacqueline Koons, Assessing Specialist  
Adrienne Albani, Assessing Specialist  
Miriam Johnson, Human Resources Director  
Deborah Deegan, Benefits Coordinator