



Town of Douglas

Financial Management Review

Municipal Data Management and Technical Assistance Bureau

June 2005



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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 Douglas.

We have based our findings and recommendations on site visits by a Technical Assistance team consisting of staff from the Division's Bureau of Accounts, Bureau of Local Assessment, and Municipal Data Management & Technical Assistance Bureau. During these visits and by telephone, the team interviewed and received information from the members of the board of selectmen and the finance committee, the executive administrator, town accountant, treasurer, collector, assistant assessor, as well as other staff members, as available, in each office. Various consultants to the town were also contacted.

DLS staff examined such documents as the tax recapitulation sheet, warrants, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness, the town by-laws as well as other assorted financial records.

In reviewing the town's financial management practices, we have focused on: (1) town government structure in the context of the duties and responsibilities of financial officers; (2) the town's budget, warrant 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 and others, when formulating overall strategies for improving the town's financial management, to consider the observations, analyses and recommendations contained in this report. These are recommendations only and can be implemented, at the town's option, provided there is sufficient cooperation among the various town boards, committees and officials.

Executive Summary

The Town of Douglas is located along the Massachusetts-Rhode Island state-line in a lightly populated, rural area of southern New England. Characterized by abundant natural resources, including the 4,600 acre Douglas State Forest, the local economy was once fueled by area mill industries and establishments like the Douglas Axe Company.

Today, Commerce Insurance, the state's largest automobile insurer with 1,000 workers, remains a major employer in the area. Standing alone, the presence of Commerce even in combination with the development of Interstate-390 nearby, the expansion of Route 146 and its new interchange with I-90, has not lured other commercial and industrial development. Instead, highway upgrades have made retail and employment centers in Worcester (18 miles), Providence (30 miles), Boston (55 miles) and along the I-495 corridor more accessible.

The result for Douglas has been noticeable residential growth. The town population rose 24 percent overall, or 3.1 percent per year on average, from 6,145 people in 1996 to an estimated 7,650 people in 2004. In the last five years, the number of parcels in residential classifications has increase by 395 (16.8 percent), while commercial and industrial parcels have declined by five. Between 1996 and 2005 the total assessed valued of single family residential properties increased 212 percent compared to a 147 percent among all other cities and towns. The tax dollars generated by single family residences in the town increased 109 percent, compared to 60 percent statewide.

As a result, in FY05, Douglas residential properties generate 95 percent of all tax revenue and 45.4 percent of total town revenue (taxes, state aid, local receipts and miscellaneous sources). By comparison, the town's total tax revenue as a percentage of total revenue (45.4 percent) was below the average for all 351 cities and towns (53.7 percent), but its reliance on state aid (35.3 percent of total local revenue) was higher than the average for all communities (23.8 percent). The increase in those resources appear to have gone directly into the town budget which rose 106 percent between FY96 and FY05, and increased at twice the average of all Massachusetts cities and towns (52 percent).

Clearly, the cost of government has escalated and the burden of financing municipal services has fallen more and more on those who live within the town boundaries.

However, it appears this circumstance was not lost on local officials. As a sign of restraint, the upward trend in the town's single family tax bill (67 percent) closely paralleled the state wide average (58 percent) between 1996 and 2005. In fact, in each of the last 10 fiscal years, the single family tax bill in Douglas has not deviated more than five percent above or below the state median. During that time, the town's tax bill has ranked as high as 155th, and as low as 199th, among 340 reporting communities.

This reflects a conservative approach to budgeting by town leaders and appears to mirror public opinion as well, as the town has not passed an override since 1994, a capital exclusion

since 1997, or a debt exclusion since 1999. Still, through budget practices, the town has historically managed to generate free cash that exceeds three percent of the annual budget. Also, over the last five years, the town stabilization balance has averaged a robust \$1.9 million or 10.9 percent of the annual budget.

These strong reserves are valued among credit rating agencies, and Douglas has maintained a consistent A2 bond rating from Moody's since 1997. Still, there are other best practices which are encouraged by credit rating agencies. Looking forward, the town should explore ways to improve its credit rating through the adoption of formal debt and reserve policies and implementation of other best practices.

In a similar fashion, it is our observation that town finance offices function well and that town finances are well-managed. Nonetheless, there are immediate and long term steps that the town can take to further improve municipal operations and better its position for the future.

It is initially striking that government in Douglas succeeds within a structure characterized by a mix of appointed and elected finance officers, of part-time elected boards and the department heads they appoint, together with managers appointed by the board of selectmen. Absent is line accountability which runs from staff, through department heads to a single administrative authority with responsibility for all of town government. As a result, the coordination of financial departments and achievement of town-wide goals relies on the willingness of department managers and staff to cooperate and communicate.

To date, the system works due, almost exclusively, to the presence of a skilled and effective executive administrator and current finance officers, whether elected or appointed, who are collectively committed to doing a good job. However, this may not always be the case as personnel change, as financial pressures shift, or agreement on process or goals dissipates.

Therefore, to build a management foundation for the future, we recommend that the town elevate the position of executive administrator to a fully empowered town administrator position. We recommend that appointing authority for all non-elected managers be assigned to the town administrator. To complete the consolidation, we recommend that at the appropriate time the treasurer and collector be converted to appointed positions and that appointment power also be transferred to the town administrator. Ideally, these changes to the structure of government are best accomplished through the adoption of a town charter. Currently, the town has no charter.

Under the heading of overall financial management, we suggest ways for the town to refine its town meeting warrant. Chief among them is consideration of a more sophisticated and detailed presentation to town residents of departmental goals, performance and expenditures. In this regard, we encourage contact with other well-run communities to examine any sample of alternative approaches.

As a matter of course, the town should adopt an annual or bi-annual review and approval process for town and school imposed fees. The purpose would be to ensure that fee levels are sufficiently covering costs associated with the service provided and are consistent with corresponding fees in surrounding communities. A review of expenditures from special revenue

accounts should confirm that fee receipts are being expended in accordance with any restrictions that apply.

We also make recommendations in the area of technology, and relative to the offices of the assessors, treasurer, collector and accountant. Most significant among them is the call for the accountant and treasurer to implement a cash reconciliation procedure as we have outlined. The collector is encouraged to move receivables more quickly into tax title and to add subsequent year tax obligations to tax title accounts on a more timely basis. Otherwise, our recommendations involving the finance offices offer suggestions to improve operations in various ways.

Conclusion - The general opinion among virtually all those interviewed as part of this report was that Douglas town government functions effectively and that finances are well managed by municipal boards, managers and staff. We agree. However, our report is a snapshot in time which serves only as a measure of how the town operates under its present day circumstances. In a era of dramatic economic trends and increasingly complex demands on municipal governments, we encourage the town to continually be introspective, forward-looking and pro-active in a search for ways to improve financial operations and better serve the public.

Toward that end, central management is key. The current executive administrator, on the strength of management style and experience, appears to have built good working relationships with town hall personnel and managed to advance government operations. This should not, however, be perceived as validation of the position as it presently exists. For Douglas, the strongest commitment it can make to the future of the town is create a town administrator position fully empowered with the management tools and organizational support to do the job.

Summary of Report Recommendations

Overall Financial Management (page 5)

- 1) *Create a town administrator position*
- 2) *Consolidate appointing authority in the town administrator*
- 3) *Convert treasurer and collector to appointed positions*
- 4) *Formally adopt debt and reserve policies*
- 5) *Modify the town meeting warrant*
- 6) *Adopt a town charter*
- 7) *Periodically review town and school fees*
- 8) *School Department: Hire a business manager, turnover receipts more frequently*

Computers and Technology (page 13)

- 9) *Establish a technology committee*
- 10) *Regularly survey town employees*
- 11) *Expand use of GIS*

Accountant (page 16)

- 12) *Modify reconciliations procedures*
- 13) *Centralize record keeping for sick leave and vacation time*
- 14) *Modify MUNIS to reflect the Schedule A format*

Treasurer (page 19)

- 15) *Commit to a monthly reconciliation procedure with the accountant*
- 16) *Generate a payroll warrant by individual*
- 17) *Do not record payroll withholdings as receipts*
- 18) *Fast track high dollar tax title accounts*

Collector (page 22)

- 19) *Move receivables into tax title/issue subsequents*
- 20) *Review contractual arrangement with deputy collector*

Assessors (page 24)

- 21) *Initiate quality control of inspections*
- 22) *Consider a counter desktop computer*
- 23) *Follow through with owners unknown*

Overall Financial Management

A review of the town's overall financial management practices focuses on the procedures in place to accomplish tasks that typically cross over various municipal departments, as well as those that tend to impact town government on a global basis. Accordingly, we examined the budget process and the payroll and vendor warrant processes. We looked at long-term planning, financial monitoring practices and financial policies, as well as the effect of the town's organizational structure on the operation of government. We examined the purchasing system and personnel administration. We considered the roles and relationships among individuals together with the level of communication and cooperation that exists among offices. Finally, 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 State Department of Revenue (DOR).

Douglas government operates under a five-member board of selectmen and an executive administrator who has little real authority to direct the activities of departments or to follow through on town wide initiatives. By job description, he works full-time for the board and oversees only those departments under the jurisdiction of the selectmen. Nonetheless, the executive administrator, accountant and the elected collector, each of whom has taken office within the last three years, work well with a longer tenured (elected) treasurer and assistant assessor.

Overall, finance department managers are experienced and capable. Staff are uniformly competent in carrying-out clearly delineated responsibilities. Established procedures in the day-to-day administration of municipal business have evolved over time and continue to improve due, in part, to a collective attitude that embraces technology. While communication can always improve, the town's financial business is carried out by personnel who are willing to work together and cooperate with one another.

In terms of procedures, town revenues are efficiently collected and accounted for. Town bills are paid on time through the payroll and vendor warrants process. Cash flow and debt are monitored. Purchasing guidelines exist and the executive administrator functions as the town chief procurement officer. Performance reviews take place, and the town has an active personnel board overseeing the personnel system. Although we comment on reconciliations of cash and receivables, checks and balances are intact to protect town assets.

At the same time, the budget process is deliberate and works toward consensus, but it continues to rely heavily on the part-time Finance Committee to weigh in on everyday funding questions. While a capital expenditure recommendation is offered annually, there appears to be a bifurcated process and limited long term plan. Nor are there formal policies guiding decisions on the incurrence of debt, or on the use of reserves and free cash.

Conclusion - It is clear that the Douglas town government functions well, but to preserve its health into the future, there are issues that deserve attention today. Our recommendations, therefore, encourage stronger management through the adoption of a town administrator position and establishing, over the long term, more uniform line authority in town hall. Other recommendations reflect ways that the town, even where managers and staff receive high grades, can elevate government performance and become more effective and responsive.

Recommendation 1: Create a Town Administrator Position

We recommend changes that firmly establish a town administrator or town manager as the central management authority in town hall. Even though the executive administrator's job description is wide ranging, comprehensive and actually reflects responsibilities closely associated with a town administrator, his role lacks the necessary underlying authority to act as one. The executive administrator has no formal appointing authority and his management oversight extends only to those departments that report to the board of selectmen. Consequently, missing in town government is the essential ability of one person to implement town-wide goals, to take initiatives to improve operations, and to establish equal accountability over all those responsible for the day-to-day administration of town business.

With these and other responsibilities, the town administrator should have a central role, on a substantive level, in the development of long range revenue and expenditure forecasts, budget guidelines and in the annual budget process. He or she should, through appointing power, exercise management authority over all departments, lead a financial management team and orchestrate analyses of financial data, and protect the integrity of fiscal controls. He can also serve a pivotal role to ensure that the selectmen and finance committee, functioning as the town's policy makers, receive the information they require from the accountant and other finance officers to make informed decisions. As a \$20 million enterprise, the time is now for the town of Douglas to put a day-to-day professional manager in charge of all of government.

Recommendation 2: Consolidate Appointing Authority in a Town Administrator

We recommend that the town consolidate appointing authority over non-elected department managers in a town administrator. A commitment to centralized management requires consolidation of appointing authority in a way that clearly establishes a line of accountability which, in this case, would converge in the town administrator. Under this structure, part-time boards and commissions can continue to provide expert guidance, make customary decisions, and formulate policy. However, the responsibility to oversee town government, and implement town-wide goals and initiatives, will be more squarely placed in the hands of a full-time professional hired for that purpose.

We recommend that the town convert the treasurer and the collector to appointed positions. A clear trend has emerged among Massachusetts communities in favor of appointed positions for a number of compelling reasons. Most relate to ensuring that office holders possess the experience and qualifications for the position and to expanding the pool of potential candidates for the job. Often mentioned is the prevailing theory of government practice that policy makers should be elected, but operational positions, where a certain skill set is required, such as the treasurer, collector, accountant, assistant assessor, etc., should be appointed. Some municipalities see value in placing all town hall positions on equal footing and subject to the same review structure.

Because Douglas is served by a treasurer and a collector who are competent, qualified and team oriented, there is no urgency for change. However, for Douglas, an appointed treasurer and collector goes hand-in-hand with a commitment to true central management. Like all other department managers, each would report to the town administrator, who under typical circumstances would be the appointing authority.

Under the provisions of MGL Ch. 41 §1B, the treasurer and collector can be made appointed positions by majority vote of town meeting and subsequent acceptance by the voters at a town election.

Recommendation 3: Formally Adopt Debt and Reserve Policies

We recommend that the selectmen and finance committee formalize a policy that establishes guidelines for funding and maintaining reserves. In recent history, the town has done well in maintaining its stabilization fund and generating free cash above recommended levels. To help ensure the continuation of sound practices, the town should formalize a reserve policies that, among other things,

- 1) Identify target levels and a funding source for the stabilization fund, free cash and other reserves in a total dollar amount or as a percentage of the total annual budget.
- 2) Direct the use of excess free cash, that is, the amount that exceeds the free cash target level, as a funding source for stabilization or as an outlay for one-time capital projects.
- 3) Restrict the use of unexpected, non-recurring revenues to non-recurring expenditures;
- 4) Restrict the use of stabilization funds to non-recurring expenditures and in an amount above a certain dollar threshold. Or, set limits on how much stabilization, or free cash can be used for operations, or other recurring expenses.

An effective debt policy should provide guidelines that, among other considerations:

- Specify purposes for which long and short-term borrowing will be permitted;
- Set goals for the average maturity (i.e., less than ten years) of long-term debt;

- Set limits on debt service payments as a percent of operating revenues (less debt exclusions, enterprise fund revenues, free cash, grants, transfers and non-recurring revenues);
- Dedicate special assessment or betterment revenues to support long term debt.

In considering factors that influence the town's credit rating and are within control of town management, policy makers should recognize that rating agencies (Moody's, Standard & Poor's, Fitch Investment Services) look positively on the following:

- Revenue forecasting and a community's ability to anticipate future events;
- Interim financial reporting and monitoring;
- Contingency planning policies (reserves);
- Policies on the use of non-recurring revenues;
- Debt management policies; and
- Long-term capital planning.

Recommendation 4: Modify Town Meeting Warrant

We recommend that the town look for ways to develop a more detailed budget document. The annual town meeting warrant is simple, in an unsophisticated way, and lacks detail to the extent that questions can be raised as to whether or not town meeting is sufficiently informed to make decisions. We encourage an effort to produce a more comprehensive budget document. Options may be available through the MUNIS budget module, but any modifications to form or substance should make more information available to residents and town meeting attendees. In particular, greater detail should be provided. Revenue estimates might be summarized. A five-year capital plan should be included. An increasing number of communities are including mission statements for each municipal departments, including performance measures and goals for the upcoming year. In this way, department needs are thoroughly analyzed each year, residents acquire a better understanding of municipal accomplishments, future priorities and how tax dollars are spent. Often this information is provided in an appendix or as a supplement, and is not subject to town meeting approval. Nor does the inclusion of back-up information necessarily change the format of the budget that town meeting actually votes.

We recommend that Articles 1 and 2 of the annual town meeting warrant be presented as a single article. Separate articles are unnecessary and can be combined to read as follows:

To see if the town will hear and act upon the report and recommendations of the Finance Committee to raise and appropriate, transfer from available funds, or borrow such sums of money as are necessary to fund the annual operating budget of the Town for Fiscal Year 200X, or take any action related thereto.

We recommend that Article 3 not be combined with other town meeting articles. As required, Article 3 of the Douglas town meeting warrant fixes the salaries of elected positions (MGL Ch. 41 Sec. 108). At town meeting the Article 3 is, by motion, combined with the budget article and the salaries for elected officials are then approved in a departmental line item in the annual appropriation. However, once included in the annual budget, the fixed salary amounts are not always identifiable because they are combined with other departmental salaries and wages. Because it is a statutory requirement, approval of Article 3 should stand alone and be separately voted by town meeting, or the amounts should be listed as separate line items in the departmental budgets.

We recommend that the annual town meeting warrant, in its capital improvement plan article, identify a funding source. Under Massachusetts law, all municipal appropriations must specify an amount to be expended and identify a funding source for the expenditure. The town's FY05 Capital Improvement Plan article as presented to the May 19, 2004 annual town meeting, and as approved according to the minutes, failed to identify funding sources for the list of projects. At the very least, the article as presented should state:

To see if the Town will vote to appropriate the necessary funds, by borrowing or otherwise, for the following projects, or take any action relative thereto.

The clerk's minutes should indicate by asterisk with a note, by an additional column or some other means how each approved project is funded (property taxes, rates, grants, etc.).

We recommend that articles authorizing the use of bond proceeds to pay for bonding costs be excluded from town meeting warrants. Since MGL Ch. 40 Sec. 20 already authorizes the use of bond proceeds to pay for bonds costs, approval to do the same by a town meeting warrant article is unnecessary. More often, if included, the words "or cost related thereto" is incorporated into each bond authorization warrant article.

Recommendation 5: Re-Examine the Capital Improvement Program

We recommend the town consider changes to the capital improvement program. Currently, the town approves capital improvement projects at a fall town meeting, and then approves funding at the spring town meeting after decisions are made on available revenues. Logistically, this means that immediately after the close of one fiscal year and early in the subsequent fiscal year, departments must begin preparing their capital improvement requests. To prepare for a fall town meeting, the capital improvement committee must work to gather quorums during summer meetings. Despite fall town meeting action, decisions are in effect

preliminary until the spring. Although free cash is not directly allocated to capital improvements, until it is certified, revenues for capital projects are uncertain.

This is an unusual and atypical process. We recommend instead that municipal departments prepare and submit their capital needs simultaneously with their annual appropriation requests. Each would be in accordance with budget guidelines distributed at the start of the process based on revenue projections. We further recommend that the town establish a formula for calculating its annual commitment to capital improvements and formalize it as a written policy. In most communities, some percentage of projected revenues is allocated to capital outlay, to debt service for capital projects or to both.

As a result, with revenue projections at the start of the budget process in the fall, the capital improvements committee will know how much funding will be available for projects. With this kind of certainty, a realistic long-term plan can be formulated and avoided is the continual bumping of projects from year to year because funding did not materialize.

To its credit, the capital improvements committee has defined what qualifies as a capital project. It also prioritizes projects through a ranking system. However, with funding uncertainty each year, coordinated and credible planning is virtually impossible. By merging the project approval and the approval of funding into the annual town meeting, a long-term capital improvement program can take shape.

For more information on, we refer the town to the DLS website and to a link under “Publications and Forms” entitled [Developing a Capital Improvements Program: Manual for Massachusetts Communities](http://www.dls.state.ma.us/publ/misc/cip.pdf) (www.dls.state.ma.us/publ/misc/cip.pdf)

Recommendation 6: Adopt a Town Charter

We recommend that the town begin work toward the adoption of a charter. Today, Douglas has reached a point where it should give adoption of a town charter serious consideration. As the town makes decisions on how it wishes to 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. Accordingly, 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 steps, the elements of employee performance evaluations, 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. The more comprehensive and thought-provoking formulation and approval process for a local charter acts to discourage frequent, premature or frivolous amendments.

The townspeople 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

MGL Ch. 43B 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 also 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.

Recommendation 7: Periodically Review Fees

We recommend that the town initiate a process to periodically review fees. There is case law (Emerson vs. City of Boston, et al - 391 Mass 415) that basically says a municipal fee cannot exceed the cost to provide the service to which the fee applies. Municipal managers, however, must ensure the corollary, i.e., that a fee charged for a specific service is sufficient to cover the cost of providing the service. The town should adopt a program for fee reviews on a scheduled basis.

If there is an appointed or elected board or committee that oversees a particular department, that board or committee should conduct the fee review and make recommendations to the board of selectmen. Increases would be approved by the board of selectmen, acting as the town's chief policy making body, or by town meeting on the recommendation of the selectmen. Fee 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.

Besides the typical, lower end fees charged by various town and school departments, the concept of a review should be applied to large operations as well. Enterprise fund revenues should be measured against enterprise costs each year. Even though operated under a fiscal autonomy umbrella, the fees associated with the school department kindergarten, pre-school, day care programs should also be reviewed. A review of revolving funds, in general, should also complete an analysis of the cost to provide the particular service and ensure that fees reflect those costs.

Recommendation 8: School Department: Hire a Business Manager, Turnover Receipts More Often and Review Legal Authority for Fees

We recommend that the school department fund the business manager position. It is our understanding that the school department FY06 budget includes a new business manager position. We support this appropriation request. Where \$10 million or over half of the total town budget funds education, it only makes sense that a professional business manager be engaged to oversee school department financial activity. Although the business manager has broader responsibilities, first among them is to account for expenditure of school related funds. He or she has the need to understand and manage the State net school spending requirements, grants, revolving funds and special education rules which represent only some of the financial

complexities confronting school districts. The Douglas school department should join the vast majority of school districts in Massachusetts that have turned to greater expertise in this position.

We recommend that the school department turnover receipts from the “special revenue” programs once per week. The school department programs that provide kindergarten, pre-school and day care services take in cash each week. This revenue should be turned-over to the treasurer at least weekly and credited to a school-related revolving fund. Although these revolving fund receipts can be expended without further appropriation by the school committee, the expenditure request must still pass through the verification process conducted in the accountant’s office. The accountant is statutorily required to verify that money exists in the account to be charged, that the purpose of the expenditure is consistent with the intent of the appropriation and that there is no indication of fraud. In the case of the schools, the total budget appropriation would be the account charged. In the case of expenditures from revolving fund receipts, the purpose would have to support the revolving fund program.

In this regard, it is our understanding that the school department has recently initiated steps to streamline the revenue collection process and increase the frequency of turnovers to the town treasurer. To protect all funds in its possession, it has purchased a safe.

Computers and Technology

The town-wide computer inventory lists about 50 free-standing, desktop units. Most are in town hall where they connect to one of four servers which are dedicated to general use, assessors' office and MUNIS. Town hall is fully networked and, in addition to a local drive, each desktop has access to a shared drive. All are installed with Microsoft word processing and Excel spreadsheet applications, and by the end of FY06, all will be converted from the Windows 98 to the Windows XP operating system. Offices also have email capacity and internet access on a cable network.

With the start of FY06 on July 1, the town accountant expects to have converted to the MUNIS system general ledger from Fund Balance software which has been in use since 1998. Other MUNIS modules will include accounts payable, cash receipts, purchasing (for the school department), budget and fixed assets.

The town also relies on software programs developed by Customized Data Services (CDS) under an outside contract. Working with many town departments for over 10 years, CDS has designed free-standing software applications related to billing and collections for real and personal property, motor vehicle and boat excise, water and sewer charges and tax titles. Although developed in DOS, CDS programs are described as user friendly and exceedingly well-tailored to meet specific needs.

In a peripheral use of technology, the assessors' office contracts with a partnership between Cartographics Associates, Inc. and PeopleGIS to create the Douglas Geographical Information System (GIS). Through a link on the town's website, town departments as well as residents can access property data. Internet users can also view town maps at MapsOnLine under a similar arrangement.

In the absence of in-house technology staff, the accountant provides network support, as well as hardware or software assistance in town hall. His experience derives from his prior, private sector job experience in software support. In recognition of expanding demand, the FY06 budget request for technology includes an additional \$5,000 to cover two hours a week that the school IT person would devote to town network support. Otherwise, CDS provides software support as part of its services, the town clerk has a support contract for the IMAS permitting software, and a support contract will begin when MUNIS takes effect July 1.

As a rule, town hall staff are encouraged to save their work to servers which are backed-up on a daily and weekly basis by the accountant. There are no town-wide procedures directing the back-up of local drives by departments. Backup tapes are stored off-site, but not in a fire-proof location. At present the town has no email and internet policies.

Conclusion - The town of Douglas finance managers and staff are advanced in both their attitude toward and their use of technology. They seem to look for and welcome opportunities to expand on the use of available computer resources. The accountant's background and advocacy

of the electronic exchange of information has helped the town reach this stage. In addition, a good part of this success can also be credited to CDS which has made meaningful contributions to government efficiency through the development of original software programs that accomplish specific tasks. Our recommendations offer suggestions to help the town provide support to staff and to plan for an inevitable increase in demand for computer services. When that time arrives, the town should not expect that the accountant can fill the need without jeopardizing completion of his own fiduciary responsibilities. Although not a recommendation here, the town would be wise to include funding, to some extent, of technology position in its long-term planning.

Recommendation 9: Establish a Technology Committee

We recommend the town form a technology committee. A technology committee can be a meaningful and objective contributor of information, analysis and insight on computer and software issues. Its members can work with town personnel and consultants to produce a periodic report, or assessment, of the town's technology status with recommendations on options to enhance computer capabilities. Such a report would serve as a useful tool to evaluate and document the performance of hardware and software in town departments and spawn a long term replacement and upgrade program. It would encourage the town to look forward and prioritize the need for upgrades, and recommend the adoption of new technologies. Funding could be a series of direct outlays over time, or through bonding. In either event, the funding should be a subject of discussion involving the executive administrator and the capital improvement committee.

A technology committee might comprise only three or four members who have appropriate knowledge or work experience. To the extent possible, the town should recruit members from the town population, but the committee could be a mix of residents and town officials. In any event, the accountant in his role as technology support person should be a committee member. Involvement of the school information technology person would also make sense. Unless delegated to the executive administrator, power to appoint the committee members rests with the board of selectmen.

Recommendation 10: Regularly Survey Town Employees

We recommend that a goal of the technology committee be to survey town employees. The town should take advantage of the predisposition of many town employees toward computer use by conducting a survey of attitudes and proficiencies. Periodic meetings with town departments solely on technology issues are also useful in determining what works and what

doesn't, where training is needed, and what tasks might be better accomplished electronically. An action plan can then be developed that specifically address technology matters.

Recommendation 11: Expand GIS Use

We recommend that the town expand the use of its Geographical Information System (GIS). Currently, the town's GIS system data base only includes resident property information originating from the assessors' office. However, at full utilization, a GIS system typically incorporates overlay information of value to the water and sewer operation, the highway department, the conservation commission and any other town office that works with real property, infrastructure or natural characteristics of the town. Therefore, unless internet viewing of the information is problematic, we recommend the town explore expanding its utilization of GIS. One course of action is to meet with counterparts in other communities to learn of potential benefits.

Accountant

Around 2000, the 20-year tenure of the town's accountant ended. It was followed by a period of turmoil during which three interim, part-time accountants passed through the office in eighteen months. Then three years ago, the position was made full-time, and the current accountant was appointed by the board of selectmen. Due, in part, to his prior experience with Access Municipal Systems, a software company, the accountant also took on technology support responsibilities in town hall. He is assisted with accounting functions by a two-day per week clerk who also works in the water/sewer department two days a week. She previously worked at Unibank and has been in the accountant's office for approximately two and a half years.

The accountant has a legal obligation to oversee all financial activity of a municipality. Through the maintenance of independent records and by following well-defined procedures, the office documents the flow of money into and out of municipal accounts and plays a role in the system of checks and balances established by statute to monitor and protect local assets.

The Douglas accountant's office effectively fulfills these responsibilities for the town. The accountant or the clerk prepares vender warrants, maintains a general ledger and subsidiary ledgers, where receipts, expenditures and all other town financial activity are recorded. As required departmental expenditure requests go through a verification process. A debt schedule is maintained. The office produces expenditure reports and tracks revenue, typically in conjunction with the accountant's role in the annual budget process. As required by law, the accountant has copies of town contracts and grants, but there is uncertainty whether all school related documents are in his possession.

Among required submissions to DOR, the accountant is responsible for producing the town's annual Schedule A by October 31 and its year-end Balance Sheet (for Free Cash certification). Finally, the accountant works with the assessors and town clerk in the preparation of the town's Tax Recap Sheet. Although submission of the town's annual Schedule A has tended to be late, these tasks otherwise appear to be occurring on a timely basis.

The accountant has a process in place for reconciling receivables with the collector monthly and cash with the treasurer, but the exchange of information does not appear to take place on a regular basis. The ability of the accountant to report annually on the town's liability for accrued sick leave and vacation time, is also hampered by the absence of information from department heads on the timesheets they submit.

As the technology support person in town hall, the accountant expends his time responding to various network, hardware and software issues. He oversees tape back-ups of servers which occur daily, followed by a full-weekly copy.

As noted, beginning July 1, 2005, MUNIS will replace Fund Balance financial management software for general ledger, as well as annual budgeting purposes in the office. The

accountant also takes full advantage of Excel spreadsheets particularly to exchange information on the system's shared drive.

Conclusion - After three years, the current accountant has elevated the performance level, advanced the use of technology and brought some stability to the office. As a result, the accountant's office functions well and fulfills fundamental responsibilities relative to the general ledger and the payroll and vender warrant process. Therefore, our recommendations are few, but focus on other legal duties which deserve attention.

Recommendation 12: Modify Reconciliation Procedures

We recommend that the accountant work with the treasurer and collector to modify the cash and receivable reconciliation process. This recommendation is intended to underscore the importance of cash and receivable reconciliations as critical financial controls and to prompt agreement on a monthly reconciliation process. DLS recommends the following procedure.

The process should begin, as it now does for the treasurer and collector, with their internal reconciliation of cash and receivables, respectively. On an agreed upon date after the close of each month, the accountant should forward his balance of cash in town funds to the treasurer, and his receivables total to the collector. In the case of the cash balances, whether a single aggregate number is provided, or a cash balance is presented for each major fund typically depends on the structure of the treasurer's records (i.e., are the general fund, capital projects fund, special revenue funds, etc. separate or combined into a single account), or merely on what they agree to.

If a variance appears between any accountant and treasurer cash balance, or accountant and collector outstanding receivable balance, the initial burden should fall to the treasurer and collector to verify entries through a re-examination of source documents. Other adjustments and timing issues should also be factored-in. If a variance remains unresolved, the accountant should provide the treasurer, or the collector, with his detail, or they can meet to review and compare source documents and entries. The process needs to continue into an examination of greater detail until any variance is reconciled.

To take advance of the electronic exchange of information, the accountant should modify the common drive version of the treasurer's cash book and the collector's receivable control to display his balances. On the designated date each month, the accountant should copy his cash balance amounts to the common drive so that the treasurer and collector can begin the reconciliation process. At the same time, the treasurer and collector should copy their record, for the particular month, to the common drive as well, so that accountant simultaneously learns whether a variance exists.

Recommendation 13: Centralize Records for Accrued Sick Leave/Vacation Time

We recommend that the town centralize record keeping for accrued employee sick leave and vacation time. Among his duties, the accountant must annually report, for the purposes of GAAP accounting, employee sick and vacation time vested and accrued. This accounting reflects the obligation of the town under contracts to compensate employees, upon retirement, for all or a portion of their sick and vacation time earned, but not taken. For many communities, this represents a future, and oftentimes unfunded liability, which can only be determined and planned for with proper procedures for the collection and maintenance of employee information.

It is our understanding that the personnel board is considering the merits of accrual and buy-back provisions for sick leave and vacation time. Even now, however, there is no uniform procedure in place that would centralize record keeping. Instead, reliance is placed on department managers to track employee sick leave and vacation time.

The maintenance of records at the departmental level represents good practice only if the practice is uniform, and if corresponding information is also retained in a centralized location, i.e., with the accountant. Otherwise, checks and balances do not exist. The absence of a systematic procedure for maintaining these records can give rise to circumstances where an employee's claim of accrued sick leave and vacation time cannot be corroborated or challenged with credibility.

Therefore, as a matter of establishing internal controls, we recommend that a system be installed where all employees include sick and vacation time taken on timesheets. With technology upgrades and under the Massachusetts Uniform Electronic Transactions Act, the transfer of timesheet and other payroll information can be accomplished electronically easing any additional burden on finance officers, departments heads and staff. In addition, payroll software applications are generally capable of automatically tracking employees' balance of sick, vacation and personal time.

Recommendation 14: Modify MUNIS to Reflect Schedule A Format

We recommend that the accountant adjust MUNIS to Schedule A formats. The Schedule A is a year-end statement of a municipality's actual revenues, expenditures, changes in fund balance and certain other financial information. It is a required report prepared by the town accountant which must be submitted annually to DOR by October 31. Communities that fail to meet the DLS Schedule A submission deadline run the risk of having their 3rd Quarter state aid distribution withheld.

We encourage the accountant to take advantage of the ability of MUNIS to generate financial data in formats and groupings that reflect those required in the Schedule A. In this way, the amount of work necessary to complete the Schedule A can be reduced, and the prospects for meeting the October 31 deadline can increase.

Treasurer

The treasurer was first elected to a three year term in 1993 following service in a local savings bank. She is up for re-election again in 2006. Staff includes a full-time assistant treasurer, who joined the office in 2002, and a one-day per week clerk who began in 2003. Each has specific responsibilities, and is cross-trained to help complete whatever task requires attention.

The treasurer is a community's cash manager and, as such, has custody of all municipal money regardless of how it is received, or whether it is intended for general town or school use, directed to revolving funds or associated with grant and trusts. Included is the responsibility to make certain that town receipts are deposited into appropriate bank accounts, to monitor balances ensuring that sufficient funds are available to cover town obligations as they become due, and to make payments from those accounts as directed by venter and payroll warrants. The treasurer invests town funds and manages debt to maximize investment income and meet cash flow needs. In Douglas, the treasurer also has payroll responsibilities and fulfill personnel/human resources functions.

To carry out these responsibilities, the Douglas treasurer maintains an electronic cashbook which lists all town bank accounts, tracks daily receipts, and accounts for disbursements through approved warrants. This information together with check registers, allows a staff member to complete the critical task of reconciling her cash book to bank statements each month. Equally important reconciliations of cash balances between the treasurer and the accountant, however, are occurring less frequently. As required, the treasurer keeps up-to-date debt schedules and monitors cash flow. Finally, among fundamental responsibilities, the treasurer maintains a record of tax title accounts, and foreclosed properties. As of April 21, 2005, the tax title list included 80 accounts and a balance of \$358,383 including interest and fees. Eighteen cases are pending foreclosure in Land Court.

Harper's, an outside service, generates paychecks and pays withholdings each period. This is at the end of a bi-weekly process which begins with submission of employee timesheets by department managers. From exception reports for salaried employees and actual time worked for hourly employees, the treasurer's staff completes worksheets then electronically delivers the data to Harper's. In return, the town receives employee checks, a check register and an accounting of withholdings for approval. Withholding amounts are maintained in liability accounts, paid when due by Harper's, and then recorded by the treasurer as cash receipts.

The treasurer's office also provides human resource services and fulfills personnel functions that are not within the province of the town personnel board. The office guides new town employees through the required paperwork, handles all retiree issues, and maintains personnel files.

As with the other finance offices, the treasurer's office makes effective use of CDS designed software together with Excel spreadsheets. A town hall computer network accommodates a shared drive, and electronic connections with the accountant, collector and assessors to facilitate the seamless flow and rapid exchange of information between offices.

Conclusion - Overall, the treasurer brings longevity and stability to the position and together with the assistant treasurer effectively fulfill the responsibilities of the office. Records are clear, complete and where ever possible maintained in an electronic format. While arriving at a process for reconciling cash with the accountant should be a priority, other recommendations we offer for the treasurer's office are relatively minor.

Recommendation 15: Agree to a Monthly Reconciliation Procedure with the Accountant

We recommend that the treasurer work with the accountant to reach agreement on a cash reconciliation process. This recommendation is intended to restate by reference our recommendation already in the accountant's section of this report regarding reconciliations. It is equally applicable to the treasurer. We again underscore the importance of cash reconciliations as a critical financial control and hope to prompt implementation by the treasurer and accountant of the monthly reconciliation procedure set out earlier.

Recommendation 16: Generate a Payroll Warrant by Individual

We recommend that the payroll warrant provide detail by employee. Under current practice, the selectmen are presented with a payroll warrant listing salary amounts by account number with totals for withholdings. While this format is appropriate for the purposes of the accountant, gross, and preferably net, salary amounts for each employee is required on payroll warrants for selectmen approval.

Whether incorporated into the warrant or attached as back-up documentation, payroll detail by employee must be made available to the board of selectmen if it is to fulfill its statutory responsibilities. Specifically, to approve the payroll warrant as required under MGL Ch. 41, §52, selectmen must be able to inspect and view each individual payment, which in this case would, at least, be an employee's name and gross salary. Net salary might also be included, but not individual withholding amounts. The same information must find its way to the treasurer so that checks may be drawn. It's understood and acceptable that outside payroll services are integrated into this process.

Recommendation 17: Do Not Record Payroll Withholdings as Receipts

We recommend that the treasurer discontinue posting payroll withholdings as receipts. In addition to salary amounts due individual employees, the payroll warrant should identify the aggregate amount due for employees' federal tax, state tax as well as for other withholding categories. With approval of the payroll warrant by the selectmen, the treasurer is thereby authorized to disburse withholding amounts, as well as release employee pay. In Douglas, the treasurer's software records a "no check" for withholdings which are maintained in a liability account until paid, by wire transfer, by Harper's payroll service.

Because the dollars that fund withholdings are initially brought-into town accounts as general receipts, and are subsequently disbursed by the payroll warrant, no further balancing entries in the treasurer's record are necessary. Specifically, withholdings need not be recorded as receipts (nor disbursed through a vender warrant).

Recommendation 18: Fast Track High Dollar Tax Title Accounts

We recommend that the treasurer target certain tax title accounts. Among 80 current tax title accounts, \$191,683 of \$358,384 in outstanding taxes, interest and fees are attributable to five properties and date back to 1980 (2), 1982, 1998 and 2000. From a different perspective, seven property owners, who own 33 parcels, owe the town \$151,978. We encourage the treasurer to devise a plan and estimate the cost to target certain tax title accounts than represent a high return for the town. If necessary, funding to pursue these accounts should be added to the treasurer's departmental budget, or raised on the Recap Sheet.

Collector

The Douglas collector was first elected to a three year term in 2001 following 19-years as an assistant in the office. She followed the 25-year tenure of her predecessor and was re-elected in the spring of 2004. Staff includes a part-time assistant collector who devotes only one day of her week to the department. However, with 17 years of experience, the assistant collector is fully capable of running the office in the absence of the collector.

The title of tax collector limits the authority of the collector to receive real and personal property taxes, excises, betterments and certain other charges added to and committed as taxes. In Douglas, this authority was expanded to specifically permit collection of water and sewer charges in 1981 with approval of a by-law.

On average each year, approximately 65 percent of all tax and excise payments, as well as water and sewer charges, are mailed directly to a lock box. Another 25-30 percent are collected over-the-counter, while a growing number of payments are made on-line through the Unibank website. The town has been on quarterly tax billing since 1994. Water and sewer bills are mailed every six months.

Computers in the collector, treasurer and assessors' offices connect over a network, and support software developed by Customized Data Services (CDS) for a wide range of functions. As a result, commitments are transferred to the collector electronically from the assessors, or from the water and sewer department. The collector receives abatement and exemption certificates electronically and transfers tax title accounts to the treasurer over the network. The collector uses CDS software to maintain real estate, personal property and motor vehicle records, and posts payments to those data management systems. She maintains an up-to-date receivable control in CDS which can be viewed on a shared drive by the accountant. Municipal lien certificates are generated through CDS, and are facilitated through an electronic connection to water and sewer records. Using a CDS program, credit reports are run to identify and confirm legitimate refunds due to residents.

With procedures and electronic systems in place, receipts are counted and deposited daily. Once posted to taxpayer accounts, the receipts are turned-over to the treasurer usually within a day or two. At year end, real and personal property delinquent are pursued and then tax title accounts are moved electronically to the treasurer. Under a contractual agreement with the Deputy Collector, Kelley & Ryan, personal property, motor vehicle and boat excise delinquents are pursued. Fulfilling a critical check and balance responsibility, the collector reconciles her receivables, maintains an up-to-date receivable control that she reconciles internally and then externally with the accountant each month.

Conclusion - Years of collection office experience and the maximum use of technology has provided the collector with the means to create a well-organized, efficient operation. Town receipts are deposited and posted quickly, a receivable control is maintained and reconciliations

occur regularly with the accountant. Looking forward, we recommend that moving receivables into tax title and adding new tax obligations to existing tax title accounts be given greater attention.

Recommendation 19: Move Receivables into Tax Title/Issue Subsequents

We recommend that the collector accelerate her schedule to move receivables into tax title. Normally, the collector's process for sending demands letters and initiating tax takings against delinquent property owners begins shortly after 4th Quarter payments are due in the spring. By the end of the year, takings are complete and tax title accounts are transferred to the treasurer for collection. Currently, the collector lags in processing FY04 receivables. Our recommendation is intended to underscore the importance of moving receivables into tax title and to encourage an accelerated process in the future.

We recommend that the collector notify the treasurer of subsequent taxes due on tax title accounts. When the collector transfers tax titles to the treasurer, the amount due on a particular property includes outstanding taxes, plus accrued interest and fees. For each ensuing year that a property remains in tax title, the collector must certify to the treasurer "subsequents," or the additional amount of unpaid taxes and assessments (MGL Ch. 60 Sec 61). As the end of FY05 approaches, the collector should place a priority on notifying the treasurer of the FY04 subsequents using State Form 347. The collector can then credit the amounts certified as paid, and clear the accounts for the particular tax year. In the future, subsequents should be certified to the treasurer by September 1 for the fiscal year just ending.

Recommendation 20: Review Contractual Arrangement with Deputy Collector

We recommend that that collector review the contractual relationship between the office and the deputy collector. In an Informational Guideline Release (IGR) No. 90-213, DLS published new rules governing the relationship between municipalities and deputy collectors. Section II has since been superseded by Section I of IGR 03-210. Both can be found at the DLS website (www.dls.state.ma.us) under the IGR Quick Link.

In particular, IGR 90-213 addresses financial controls in the collection and deposit of receipts, and in the payment of deputy collector fees. The collector's current arrangement with the deputy collector should comply with the provisions of the DLS IGRs.

Assessors

The assessors' office is responsible for valuing all the town's real and personal property, assigning tax payments to owners, and generating the commitment authorizing the 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 in response to mailings, from deeds and through the on-site inspection of sale properties and properties where a building permit has been issued. Additional information is gathered during an on-going property measure and list program. Upon resident application, assessors act on and track exemptions and abatements. They estimate new growth and conduct classification hearings. The assessors set the tax rate, recommend the annual overlay and provide 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 Douglas assessing department involved 3,884 parcels in FY05, of which 2,725 are residential, 130 are commercial/industrial, 852 are vacant. Among the remaining 177 parcels, 84 are classified as chapter land, and 198 are personal property accounts. All real and personal property accounts are billed on a **quarterly** basis. Over the course of one year, motor vehicle commitments total about 10,200 accounts. Also in **FY04**, the office received 34 residential abatement applications and issued 94 personal exemptions.

The assessing department is managed by a full-time assistant assessor with 17 years of experience in the office. Staff include a full-time administrative clerk, a three-day per week principle clerk, with ten and six years respectively of experience in the office, plus a part-time contract "lister" who conducts inspections of all property types with the exception of personal property. The department operates under a three-member, elected board of assessors which meets once a month. In general, the board receives recommendations on abatements and exemptions from the assistant assessor, approves the department budget she develops, and is required to sign-off on overlay amounts and new growth estimates.

Since 1999, the office has used appraisal software produced by Patriot Properties which was upgraded to the most recent version in FY05. Under a service contract, Patriot also completes data analysis and valuations for all residential, personal, commercial and industrial property. For personal property, Patriot also collects data through "forms of lists" and inspections.

Although there is no counter access to a computer, the office is otherwise sufficiently equipped with desktop units. In addition to Patriot, the office uses CDS software, and together with other departments and the public-at-large, has access to a GIS system through a private internet vendor.

Conclusion - Overall, with in-house staff and contract services, the assessing department has systems and procedures in place to handle all that is required to maintain up-to-date property records, set property values, and commit taxes and charges for collection.

Recommendation 21: Initiate Quality Control on Inspections

We recommend that the assistant assessor implement a quality control program for inspections. Currently, the assistant assessor prepares a list of properties and pulls field cards for the use of the part-time contract “lister” during the on-going cyclical inspection program. For a more effective program, advance calls are made to property owners to arrange visits. The lister also inspects building permit properties every three-to-four months, and sale properties throughout the year. Although BLA conducts data quality studies as part of the triennial certification of property values, and even with confidence in the work being done, a community should implement its own quality control measures particularly during interim years. We recommend the assistant assessor communicate with the town’s BLA community advisor to discuss how this can be accomplished.

Recommendation 22: Consider a Counter Desktop Computer

We recommend that the assessors place a desktop computer at the counter. In order to free-up staff time, a growing number of assessing offices make computer terminals available to the public. In this way, residents, appraisers and others can independently search property records and print field card type information without disrupting office staff. Sale information can also be included. Terminals are free-standing, read-only devices, and are placed on the counter or at another location on the public side of the counter.

Recommendation 23: Follow Through on Owners Unknown

We recommend that the assistant assessor follow through on her initiatives to certify owner unknown accounts. The assistant assessor reports that there are approximately 75 property tax accounts where information about the legal owner is absent or unclear. Until the assessors receive permission from DOR to bill each of these accounts to “owner unknown,” no means is available to collect back taxes owed the town. The assistant assessor indicates that she has begun to prepare an application to DOR. We encourage her to pursue this course as quickly as possible. In this way, tax bills can be sent, and when unpaid, the delinquent account can be moved through the tax title process and toward foreclosure.

Acknowledgements

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