



Town of Hardwick

Financial Management Review

Division of Local Services / Technical Assistance Section

March 2011

*Massachusetts Department of Revenue**Navjeet K. Bal, Commissioner**Division of Local Services**Robert G. Nunes, Deputy Commissioner & Director of Municipal Affairs*

March 22, 2011

Board of Selectmen
Town of Hardwick
Municipal Office Building
317 Main Street
Gilbertville, MA 01031

Dear Board Members:

It is with pleasure that I transmit to you the enclosed Financial Management Review completed by the Division of Local Services for the Town of Hardwick. It is our hope that the information presented in this report will assist the town in improving its financial management practices, addressing areas of concern and meeting its long-term planning needs.

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

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

Sincerely,

Robert G. Nunes
Deputy Commissioner &
Director of Municipal Affairs

Introduction

At the request of the Board of Selectmen, the Department of Revenue's Division of Local Services (DLS) has completed this financial management review of the Town of Hardwick. We have based our findings and recommendations on site visits by a Technical Assistance team consisting of staff from the Division's Technical Assistance Section. During these visits and by telephone, the team interviewed and received information from the selectmen, members of the finance committee, the town administrator, town accountant, town clerk, treasurer, collector and assessors.

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.

The Town of Hardwick, population 2,673, is a residential and rural community in western Worcester County located on the eastern side of the Quabbin Reservoir. The creation of the Quabbin Reservoir in the 1930's took a portion of the western part of the town. The school buildings in the town's four villages were converted to other purposes, including the current Town Hall, when the Quabbin Regional School District's new elementary school was built in 1989.

Hardwick is a former mill town with little commerce today. In fact, 48 percent of commuters leave home before 7 am, giving it the distinction of having the highest percentage of early morning commuters in the state.¹ Much of the land is still dedicated to agricultural use² and Hardwick is home to the nation's oldest agricultural fair, first held in 1762. The town is bordered by Ware on the south, the Quabbin Reservoir on the west, Petersham on the north, Barre on the northeast, and New Braintree on the east. It is about 30 miles north of Springfield and 34 miles west of Worcester.

Hardwick is a relatively poor town when measured by income levels and property wealth. The town's 2007 income per capita of \$15,439 was 57 percent below the state average and Hardwick's equalized valuation per capita of \$97,421³ in 2010 was 63 percent less than Massachusetts average. The Hardwick single property tax rate of \$12.40 per \$1,000 is lower than the four abutting towns, Barre (\$13.53), New Braintree (\$15.44), Petersham (\$14.17) and

¹ "A treasured preserve for early birds", The Boston Globe, January 15, 2011.

² Of Hardwick's 1,224 taxable parcels, 180 or 14.7 percent are assessed as Chapter 61 lands in agricultural/horticultural, forest and recreational uses; Chapter 61 land is valued at its current use rather than at its full and fair cash value.

³ FY2010 EQV/2009 population

Ware (\$14.87). Hardwick has never passed a property tax override in the 28 year history of Proposition 2½. With the combination of low property values and a lower tax rate, the town's average single-family tax bill of \$2,661 in FY2011 is the lowest of its immediate neighbors.⁴ Much of the property in Hardwick, 19.4 percent, is tax-exempt in large part because of the state holdings of Quabbin watershed lands; only 17 towns in Massachusetts have a larger share of tax-exempt property than Hardwick.

Hardwick has a FY2011 budget of \$5.0 million funded mostly by local property taxes (59.6 percent). The town expects to receive \$470,590 or 9.5 percent of the total in state aid and estimates another \$986,630 or 19.5 percent of its revenues from local receipts. To further support its operating budget, Hardwick operates with a better than average level of reserves; certified free cash available for use in FY2011 is \$207,144 or 4.2 percent of budgeted revenues; the town had \$737,588 or 16.0 percent in stabilization in FY2010. These combined reserves are far above the typically recommended reserve levels of 5 to 10 percent.

Local government spending in Hardwick is low whether compared regionally or to state and county averages. General Fund spending per capita in FY2009 was \$1,533. This was the lowest level of its immediate neighbors, nearly a third lower than the Worcester County average and 43.3 percent less than statewide local government spending per capita.⁵ The biggest differences were in spending on debt service, fire services and fixed costs.⁶ The town spent \$34 per capita on debt service in FY2009, 82.5 percent lower than the state average of \$195. With no full-time fire employees, the town spent only \$28 per capita on fire services or only one-fifth the statewide average of \$152 per capita. Hardwick's fixed costs of \$111 per capita were a third lower than the Massachusetts average. One reason for the low fixed costs is town spending on health insurance for employees. Only 13 employees receive a health insurance benefit. Hardwick provides 90 percent of the health insurance benefit for eligible employees, but adopted a policy requiring new hires as of 2007 to pay 25 percent of the cost. To be eligible, an employee must work at least 20 hours per week. The town does not provide health insurance benefits to retirees or elected officials as many communities do.

Overall Findings

We found no major deficiencies in the financial management practices of Hardwick. The town's financial officers are experienced and work cooperatively and effectively to accomplish requisite tasks. This is to be commended in a small town where most officials work part-time.

⁴ Hardwick's neighbors and their FY2011 average single-family tax bills are: Barre (\$2,782), New Braintree (\$3,380), Petersham (\$3,553) and Ware (\$2,897).

⁵ The FY2009 per capita spending of Hardwick's neighbors was: Barre (\$1,577), New Braintree (\$1,728), Petersham (\$2,426) and Ware (\$2,608); the Worcester County average was \$2,227 and the state average was \$2,704.

⁶ Fixed costs include Workers' Compensation, Unemployment, Health Insurance, other Employee Benefits, other insurance and Retirement.

At the same time, we did note one area that town leaders would be wise to address. While we do not generally offer any specific recommendations on matters of compensation, it was obvious to us that town employee morale is low in Hardwick. We heard a fair amount of complaints from staff during our visits to town hall. The source of the discontent stems from a personnel classification and compensation schedule that was introduced in 1999 but never adequately funded or fully implemented. In recent years, no employees but for the sewer department have received any adjustment in their compensation. The police force recently formed a union, primarily over this issue; highway department employees are said to be exploring a union for similar reasons. It is clear that town leaders need to address this issue in some manner.

Observations and Analysis

A review of the town's financial management practices begins with the organization of government as it defines the roles and relationships among the individuals involved and impacts on departmental operations. Next, we focus 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 level of communication and cooperation that exists among offices. We then examine the operations of each individual office and comment on the state of the town's technology status.

Government Structure and Overall Financial Management Issues

Hardwick's government and fiscal management fall under the control of a mix of elected and appointed officials, mostly part-time. The three selectmen collectively act as the head of the executive branch of government with overall responsibility for the general operations of the town. They meet biweekly to approve payroll and vendor warrants and conduct town affairs. They employ a full-time town administrator to handle day-to-day activities on their behalf. The current administrator, formerly the administrative assistant, has served the town since 1989 and appears to be well respected by the selectmen and town hall staff. The selectmen also appoint the 20-hour a week accountant. The town collector and treasurer are three-year separately elected part-time positions that are now held by the same individual. The town clerk is also elected to a three-year term. The three members of the board of assessors are elected to staggered three-year terms; one of the members staffs the office full-time. The six-member finance committee is appointed by the elected town moderator.

The budget process in Hardwick is typically initiated by the finance committee with policy guidelines and instructions for departments to submit budget requests by the first week of January. Last year, the finance committee held joint hearings with the selectman to interview department heads on their budget requests. The town accountant expects to be more involved in the budget process as a resource to the selectmen and the finance committee going forward. It is the finance committee's budget that is presented to town meeting without any official statement from the selectmen. There is no parallel process for the formulation of a capital plan, but that is likely to change next year as a Capital Improvement Plan article will be presented for approval at the 2011 annual town meeting.

On balance, the finance related offices of the accountant, collector and treasurer are effective in the collection and deposit of receipts, and in producing vendor and payroll warrants for review and approval by the selectmen. It was reported to us that the accountant was performing some treasury functions in lieu of the treasurer, and thus compromising the system of

municipal finance checks and balances. This is no longer the case. It may be that this comment applied to the relationship between the two previous office holders as the current incumbents are both relatively new to their positions. The assessors are timely in delivering the commitments of taxes to the collector and, in general, a regular exchange of information between offices typically takes place.

Staff are collectively responsible, as well, for the preparation of required submissions to DOR. The accountant, assessors and town clerk collaborate on the preparation of the town's Tax Recap Sheet, which is the basis of DOR approval of the annual tax rate. The Hardwick recap is consistently set well before the deadline to generate an actual tax bill on time. The accountant, assessors, collector and treasurer attend the annual schools of their respective professional associations each year to stay current with new developments.

The town has an annual audit completed by Hirbour and Haynes, P.C. The most recent audit found the town to be in general compliance with internal controls and no material weaknesses or reportable conditions. The town does not contract with its auditor to prepare a management letter which can identify areas of deficiency or where improvement is warranted which do not rise to the level of reportable conditions.

During the course of our review, we also noted that Hardwick has not developed or adopted a set of financial policies. Instead, the town relies on past practice and the professionalism of its financial officers to dictate the course of its financial policies from year to year. For example, the town generally moves free cash to stabilization and typically uses stabilization funds to fund capital improvements, but these are not clearly stated policy directives. One area where that situation is changing is the aforementioned proposal to adopt a Capital Improvement Plan bylaw. The proposed bylaw provides for the formation of a committee, development of forms for departmental requests, and the presentation of a five-year capital plan, including funding sources, to annual town meeting. The proposed process should allow the town to better identify its capital needs, to prioritize its capital spending amongst competing uses, and to recognize the items that are deferred.

One area where the lack of clear and consistent policies is having a negative impact on town operations is the area of personnel administration. The town paid a consultant to develop new classification and compensation schedules in 1999 but the plan, which included some pay adjustments, was never fully implemented or funded. The issue has been exacerbated in recent years when town employees were asked to forgo cost-of-living adjustments because of fiscal conditions. Matters escalated even further last year when sewer department employees were the only town employees to receive a wage adjustment; some proponents' support of the raise was based on the argument that the ratepayers paid for it, not town government. Many town employees were vocal in expressing their opinion that they were not treated fairly. Many in town government believe that the recent formation of a police union was in direct response to the situation. We were also told the highway department employees are now considering forming a union for a similar reason.

Individual Finance Offices

Accountant: The Hardwick Town Accountant was appointed by the selectmen in January, 2010 to the part-time 20-hour a week position. He previously served as the town accountant in Ashburnham and as city auditor in Worcester. As the town accountant, he inputs invoices from town departments into the UniFund municipal finance software to generate the biweekly vendor warrant. The selectmen and the accountant both sign the warrants together; the treasurer receives the signed warrants and generates the checks. The accountant also produces regular revenue and expenditure reports for town officials and departments; he reports that overspending by town departments is not an issue.

The ability of the accountant to maintain accurate town records depends critically on the quality of and frequency of the data he receives from town departments. In that regard, departments are good about submitting invoices for inclusion in the biweekly vendor warrant. Departments are also turning over receipts to the treasurer regularly and routinely delivering a copy directly to the accountant. The accountant requires this information in order to create an independent record of the town's cash. He has also instituted a new policy to receive grants and contracts moving forward, something that was not a matter of practice under the previous accountant.

The accountant is a key office in imposing the system of checks and balances required by state finance law. One of his most important tasks in this regard is to reconcile his records of the town's receivables and cash with the collector and treasurer, respectively. This is an area where he inherited a backlog from the previous town accountant. Today, reconciliations are up-to-date and there are no significant variances to report. The accountant also maintains a debt schedule which he regularly reconciles with the treasurer.

The Hardwick accountant is currently responsible for preparing the town's payroll. He receives time sheets in a variety of formats from departments every other Wednesday. He enters employees' time and attendance into UniFund to produce a payroll warrant for the selectmen to sign at their Monday night meeting. The signed warrant goes to the treasurer to prepare the checks. The accountant's software is not well suited for payroll processing and as a consequence the tracking of the accrual and use of sick and vacation time has been lax. The town's finance officers have long been aware of this deficiency and the potential liability this creates for the town. As a result, they have successfully convinced the town to contract out its payroll to Harpers Payroll service with an anticipated start date of May 1. The Harpers service will maintain sick and vacation time accruals and report employee balances on their pay stubs.

Assessors: The assessing department is led by a three-member board of elected assessors which meets every Wednesday. All members are certified by the Massachusetts Association of Assessing Officers (MAAO) and each has a minimum of six years experience on the board; the board chair is employed full-time to manage and run the office. The volume of work involves

1,184 residential real estate parcels, 40 commercial/industrial accounts and 180 parcels in agricultural, forestry or recreational use. There are an additional 49 personal property accounts. Over the course of one year, motor vehicle commitments total approximately 3,300 accounts. The office issued 66 personal exemptions and approved 28 abatement applications in FY2010.

An outside contractor, Mayflower Valuation, Ltd., is responsible for ongoing inspections as part of a cyclical re-inspection program, sales inspections, and building permit inspections which form the basis for the calculation of new growth. Board members conduct needed abatement inspections. All properties are inspected every nine years as part of a cyclical re-inspection program; building permit and sales inspections are performed throughout the year. Mayflower is also responsible for the valuation of personal property.

All clerical functions and data entry are performed in-house by the board chair. The assessors no longer send sales questionnaires to new property owners because of the extremely low return rate; on average, there are roughly 40 to 50 sales a year with only four or five arms length sales. The computers in the office are installed with Community Software Consortium Computer Aided Mass Appraisal (CAMA) software which stores property data and aids in property valuation analyses. Real estate and motor vehicle commitments are easily generated and transferred to the collector's software. Overall, the assessors are satisfied with the performance of the software and the quality of software support.

The office is open to taxpayers Monday through Friday, including some evening hours on Wednesdays. Property records with values and assessors' maps are available online through the office's web page. A contracted surveyor updates the maps annually; the assessors have investigated moving to digital maps but considered the cost to be prohibitive. They do scan the maps to .pdf files so they can make them available on their web page.

Collector and Treasurer: Hardwick's government structure provides for a part-time elected collector and a part-time elected treasurer. Since the election of a new treasurer in 2010, the two positions have been held by the same person and today the office functions more like a combined treasurer/collector than two separate offices; she has been the town collector since her election in 2007.

The collector receives real estate, motor vehicle excise and personal property payments as well as water and sewer charges due to the town. She maintains an up-to-date record of receivables that is reconciled with the accountant's general ledger monthly. In accordance with state law, the office responds to requests for municipal lien certificates promptly; the office processed about 100 to 150 certificates in FY2010. The collector is considering raising the fees from the statutory minimum in FY2012 in order to raise some additional revenue for the town. As for the pursuit of delinquent taxpayers, demands are sent right away and properties are placed into tax title within one year. The town recently voted to add the cost of tax title fees to the taxpayers' bills and will use the savings to fund the costs of the new payroll service.

The collector's office prints and stuffs almost 1,400 real estate tax bills and 80 personal property tax bills twice a year. Hardwick is a preliminary semi-annual community so tax bills are due October 1 and May 1. Collections are counted and posted to taxpayer accounts as received before being deposited to a treasurer's bank account. Roughly 30 percent of all real estate collections are received in the mail by the lockbox, 40 percent from bank escrow services and approximately 10 percent are from on-line payments through an agreement with Unipay. Foot traffic to the office is greater than usual and accounts for 20 percent of all payments. She also collects payments from 557 sewer and 30 water accounts.

A deputy collector, Jeffrey and Jeffrey, receives the motor vehicle excise information directly from the Registry of Motor Vehicles and presents the commitments to the assessors for review and approval. The collector stuffs and mails the 3,300 excise bills herself. The deputy collector deposits the money he receives to a town-controlled account and submits a bill to the collector for his services.

As treasurer, she tracks the cash position in the town's 45 bank accounts in three Excel spreadsheets. The treasurer records turnovers from the collector and other departments, and disbursements through the biweekly vendor and payroll warrants. She also maintains records on the town debt, including a debt schedule even though the town issues little debt. She deposits the town's cash and check receipts to a local bank three times per week. In between deposit days, the cash and checks are kept in a vault in town hall, as is the check stock for generating the checks.

As to benefits administration, this office is responsible for employee enrollment and correspondence and payments to the various vendors that provide benefits for the eligible employees. The town offers employees the HMO Blue plan of Blue Cross/Blue Shield purchased through the Massachusetts Interlocal Insurance Association (MIIA). The town is a conduit for dental insurance for employees who elected coverage prior to 2008, but employees pay 100 percent of the cost. Only persons who work 20 or more regularly scheduled hours per week are eligible for benefits. Retirees may purchase health insurance through the town's plan but pay 100 percent of the cost. Retirement benefits are managed through the Worcester County Retirement System.

The collector and treasurer spends an inordinate amount of time performing data entry because the software packages in use in her office do not have the ability to import data from other software programs. Her collections software cannot accept electronic reports generated by the lockbox or by the third-party escrow payers (for mortgage holders) so each payment must be hand keyed by the collector. Similarly, the software used for generating the town's checks does not accept electronic reports from the accountant's UniFund software. As a result, the accountant enters each bill into UniFund to generate the warrant and the treasurer has to hand key the same entry into her software to generate a check.

Technology Management

As a small town, Hardwick has limited resources to devote to any coordinated technology plan. The management of the town's technology needs is totally decentralized and can be best described as ad hoc. This is most evident in the multiplicity of software packages in use across the various offices.

Each of Hardwick's financial offices has a stand-alone personal computer and all important financial records are maintained electronically. There is no technology related budget line-item; each office is responsible for its own computers including data security, repair, replacement, software, support, troubleshooting and virus protection. All computers have e-mail capacity and internet access but there are no policies on the responsible use of town computers. Operating systems include a variety of Windows versions; Microsoft Office products, particularly Excel spreadsheets, are widely used. The town has no GIS capabilities. The individual finance offices use various specialized software packages to perform their duties: the accountant uses UniFund's BudgetSense, the assessors use the CAMA property module, the collector uses the CAMA collections module and the treasurer uses New England Municipal Resource Center (NEMRC) software. All software packages are fully supported by the individual vendors.

The finance officers are diligent about regularly replacing their equipment and keeping current with software updates. However, the use of that equipment is less than optimal. As mentioned above, the choice of software packages in use has forced offices, especially the accountant, collector and treasurer, to do an inordinate amount of duplicative and time-consuming data entry. In fairness to the individuals involved, we understand that they inherited the software when they assumed office.

With no network or shared server, individuals are each responsible for protecting their data from viruses and backing up their own computers. Everyone in town hall with a computer has been provided with two thumb drives to back up their files. Personnel rotate the thumb drives so that one is left in town hall and the other is taken home. The offices which are more data-intensive and with more frequent entries, the assessors, collector and treasurer, are backing up their files daily; every office is backing up their files at least weekly.

The town has created a website, www.townofHardwick.com, that is maintained by the town administrator. The Hardwick website is well organized but lacks much content compared to many other cities and towns. The site has many placeholders but is not fully populated with complete and up-to-date content. Most town departments have their own page with office hours, staff names and telephone numbers but many of them are missing e-mail links; there is no link to the accountant or the treasurer. The collector's page contains a link for online payment of real and personal property taxes. The assessors' maps and property record cards are online but other common documents and forms are not available. The Hardwick site lacks any budget information or financial statements, or town meeting warrants and minutes.

Conclusion

As we pointed out earlier, we found no major deficiencies in the financial management practices of Hardwick and, in fact, much to be admired. There appears to be a significant level of communication and collaboration among the appointed and elected part-time officials responsible for financial management decisions. For one example, the board of selectmen and the finance committee generally present a consensus budget to town meeting. In addition, the town's financial officers are experienced and exhibit a cooperative team approach. As a result, the necessary transmission of information to accomplish interdependent tasks occurs regularly and timely.

Still, we saw some areas where communication between officials and with townspeople could improve. We also noted the heavy reliance on past practice rather than official policies as reflected by the dated and sparse town bylaws. Another clear deficiency is the general inattention to the use of technology. The collector and treasurer, in particular, is spending an inordinate amount of effort inputting data which many of her peers import electronically. This is time that could be better spent on higher order financial planning activities.

The Report Recommendations section that follows contains suggested avenues of action designed to address these issues. These suggestions are based on our 27-year history of conducting these reviews and observing the practices of cities and towns. If adopted, the financial management function in Hardwick is likely to improve.

Report Recommendations

We encourage the selectmen 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 following items are recommendations only and can be implemented, at the town's option, provided there is sufficient cooperation among the various boards, committees and officials.

Improve Budgeting, Financial Coordination and Government Structure

1. Improve Coordination of Financial Functions
2. Change the Budget Process
3. Capital Improvement Plan Considerations
4. Update Town Bylaws
5. Revise Outside Audit Practices
6. Establish a Technology Committee
7. Consider an Appointed Treasurer and Collector

Implement New Policies and Procedures

8. Implement a Purchase Order System
9. Create a Cash Flow Budget
10. Appoint a Back-up Check Signing Authority
11. Consolidate Cash and Receivable Records
12. Record Deputy Collector Payment on Vendor Warrant
13. Organize Personnel Files/Set Policies
14. Customize Departmental Turnover Sheets

Increase Citizen Access and Participation

15. Enhance Information Availability on the Town's Website
16. Increase Volunteerism in Government

Make Better Use of Technology in Government

17. Investigate Municipal Finance Software Options
18. Transition to Digital Assessors' Maps

Improve Budgeting. Financial Coordination and Government Structure

Recommendation 1: Improve Coordination of Financial Functions

We recommend that Hardwick establish a financial management team and hold regular meetings. Financial team meetings are a useful forum for reviewing responsibilities and deadlines related to town meetings, the annual budget, the Schedule A, the Tax Recapitulation Sheet, and free cash certification. They are an occasion to analyze financial problems, to spur creative thinking and to develop and incubate new ideas. Meetings present opportunities to identify critical junctures for the town and to formulate strategies to avert potential fiscal problems.

In addition, meetings enhance lines of communication to ensure that all involved receive the same message or new information at the same time. They provide a forum to raise and resolve interdepartmental issues. The financial management team is not intended, however, to function as a policy making body, nor as one that would encroach on the duties or decision-making responsibilities of the board of selectmen, finance committee or a town administrator.

We would expect a financial management team to comprise the town administrator, an assessor, the accountant, the collector and treasurer. In Hardwick, the town administrator has met jointly with these same individuals, but only on an ad hoc basis as issues of joint interest arise. We suggest that the town might consider, instead, regular quarterly team meetings. The town administrator, as team leader, would report periodically to the select board and finance committee.

Recommendation 2: Change the Budget Process

We recommend that the town administrator be responsible for the initial formulation of the town's annual budget proposal. We saw much to be admired in the Hardwick budget process. In particular, the process is characterized by conservative revenue estimates, an early start and a lineal process which generally culminates in the presentation of a consensus budget proposal to the annual town meeting. However, we believe the budget process would be enhanced by more involvement on the part of the town administrator and early agreement on anticipated revenues.

To that end, we suggest that the town administrator be responsible for initiating the budget process by developing a revenue projection. She would solicit the input of the financial management team members identified in ***Recommendation 1***, as well as any department heads whose offices generate revenue. We further recommend that the town administrator present these revenue projections and projections of fixed costs (e.g., health care coverage, pension obligations, debt service, etc.) to a joint meeting of the selectmen and

finance committee. To facilitate long-term thinking, a multi-year forecast should be produced. A consensus accepting the projections should be recorded. If possible, an agreement should be reached on how future increases in revenue projections will be divided. Budget guidelines should emerge from this process and be circulated to department heads with a request for appropriation needs. Once departmental requests are received, a lineal budget process should follow. Typically, the town administrator would meet with department heads to review requests and would then develop a budget for presentation to the selectmen and finance committee.

This proposal is not meant to lessen the role of the selectmen and finance committee in the budget process. Once the town administrator's budget is delivered, we would expect them to proceed with their usual budget hearings and work with the town administrator to resolve any issues or incorporate any agreed upon changes.

Recommendation 3: Capital Improvement Plan Considerations

We recommend several items for the proposed Capital Improvement Committee to consider. Town officials are preparing an article which would create a Capital Improvement Committee and define a town-wide capital improvement planning process which they expect to pass at the 2011 Annual Town Meeting. We have reviewed the proposal and support its passage. Once constituted, we would suggest that the committee consider a couple of ideas. The town's police chief has proposed a plan for the replacement and rotation of police vehicles utilizing leases which deserves consideration. We would recommend that the committee expand on the chief's plan to consider a plan for all town vehicles. In addition, we believe that the committee ought to consider the use of special purpose stabilization funds as a means for funding town building and maintenance needs. For more information on special purpose stabilization funds, please see Special Purpose Stabilization Funds which is accessible from the DLS website.⁷

Recommendation 4: Update Town Bylaws

We recommend the town complete a substantive review and recodification of its bylaws. In their present form, the Hardwick bylaws are sparse and due for review. Although exceptions exist, the bylaws offer little or no information on the duties of town offices, the budget process, or appointing authority. In contrast, well-run communities will typically include provisions in bylaws to define the responsibilities and relationships of officials and the expectations placed on government. In addition, bylaws often formally codify the annual budget process, provide for

⁷ Go to www.mass.gov/dls, click on *Sound Financial Management Practices*. The page can be found under Subject Matter Articles.

regular revenue and expenditure forecasting, outline a comprehensive capital budgeting process and define the roles of town positions.

While the Hardwick bylaws have been amended from time to time to add new provisions, there has not been a systematic review of the existing bylaws in anyone's memory. Bylaws play an important role in informing and empowering municipal officials and employees as well as residents. Well thought-out language not only creates clarity of purpose, but strengthens confidence in government. The selectmen should appoint a bylaw review commission to update and expand the Hardwick bylaws.

We further recommend that the town codify in town bylaws the responsibilities of the financial management team and any revisions in the annual budget process that are the subjects of *Recommendations 1 and 2*. The adoption of a bylaw outlining the increased budget role of town administrator and the financial management team indicates a firm commitment to centralized management. Similarly, many towns include language setting out other financial practices such as cash management procedures, debt and stabilization policies.

Recommendation 5: Revise Outside Audit Practices

We recommend that the town contract for a management letter from its outside auditor.

A management letter is a written communication to government officials, separate from the community's audit, which generally identifies areas of deficiency, if any, and presents recommendations for improvements in accounting procedures, internal controls and other matters. If the management letter reveals improper or inadequate financial procedures, the problems should be corrected as soon as possible. A management letter should include a response from the municipality to each comment. It would clarify an issue or outline the corrective action to be taken. The municipal response is most appropriately developed by the town's financial management team recommended above.

We further recommend that the board of selectmen create an audit committee. An audit committee is a group of people who can help determine in advance the requirements and objectives of the town's outside audit. An audit committee of three or five might include selectmen, finance committee members, as well as residents. Given the substance of an audit report, finance officers should not serve as members of the audit committee in order to avoid potential conflicts of interest. As a resource, please review our [Annual Outside Audits](#) found under Sound Financial Management Practices in the Technical Assistance section of the DLS website: www.mass.gov/dls. More importantly, the committee could review the auditor's management letter and monitor progress in resolving audit issues.

We recommend that the town consider re-advertising for audit services. Hardwick has been with the same audit firm for at least the last ten years. Contracting with a new audit firm cannot only bring a fresh perspective, but reflects good practice. Independent audits are not only

critical to sound financial management, but demonstrate that the municipality's assets are safe and being handled responsibly. Again, our Annual Outside Audits page can provide some guidance.

Recommendation 6: Establish a Technology Committee

We recommend the formation of a technology committee that includes users from within town hall and expert volunteers from the community. A technology committee can be a meaningful and objective contributor of information, analysis and insight for town decision-makers as they grapple with computer and software issues. Its members can work to produce a periodic report, or assessment, of the town's technology status. Such a report would serve as a useful tool to evaluate the performance of hardware and software in town departments, to identify and prioritize the need for upgrades, and to recommend the adoption of new technologies. Such a committee could be particularly helpful in assisting the collector and treasurer to better use technology. As reported above, she is to manually posting lockbox and third-party electronic payments to her collections software and hand keying information to generate each and every town check. Most collectors and treasurers are able to upload electronic reports from the payers and the accountant to accomplish these functions.

In the future, the committee could plan and oversee computer training, hardware replacement schedules, system upgrades, etc. They could also look into issues such as data security and emergency planning to make sure information is properly backed-up and retrievable. They could discuss future software purchases and conversions to prepare for integration with existing systems, including those in the other financial offices. Currently, because technology decisions are decentralized, each office makes an independent decision about its software without consideration of how information can be shared across the applications in other offices. A technology committee might comprise only three or four members who have appropriate knowledge or work experience.

Recommendation 7: Consider an Appointed Treasurer and Collector

We recommend the town consider changing the collector and treasurer from elected to appointed positions in the long term. We recognize that an article proposing to appoint instead of elect the treasurer was rejected at the 2010 annual town meeting. This fact does not, however, lessen our conviction that these two positions require specific skill sets and are therefore better appointed rather than elected. This recommendation is not meant to reflect on the performance of the incumbent collector and treasurer, or in any way to suggest that she should be replaced. Rather it speaks to a 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.

Looking forward to when present personnel leave town service, a small community like Hardwick may find it difficult to find a townsperson who is both qualified to serve and willing to run for election. An appointed position would greatly expand the number of qualified candidates. By requiring potential candidates to go through a background check and an extensive interview process, the town improves its chances of attracting a person with the strongest credentials and/or most relevant professional experience. In addition, an appointed treasurer and collector would be placed on equal footing with other finance officers and department managers who have similar level responsibilities. As such, they would be accountable to and report to the town administrator, and be subject to annual performance reviews.

In any event, the town may want to consider combining these offices. Because of the parallels in the responsibilities of each of these offices, many communities find that having the duties combined in one office generates long-term cost savings in terms of personnel and cash management. Having receipts collected, counted, posted, deposited and managed in the same office makes organizational sense. In the case of Hardwick, the change would be little more than cosmetic as the two positions are already held by the same individual. More importantly, the town might attract a larger pool of candidates when the current officeholder leaves town service by being able to offer a full-time combined position.

Implement New Policies and Procedures

Recommendation 8: Implement a Purchase Order System

We support the town accountant's proposal to implement a requisition/purchase order (PO) system. A PO system provides notice to the accountant to encumber, or reserve, funds before a purchase is made. With all expenditures accounted for in advance, the accountant will be able to provide the town administrator and other decision-makers more reliable information on the fiscal condition of the town at any given time. In Hardwick, we would expect the town administrator or the accountant to serve as the chief procurement officer with the ability to approve or deny purchasing requests. Normally, we only recommend a PO system in communities where departments habitually overspend their appropriation. While this is not the case in Hardwick, we support the accountant's desire to impose the greater discipline of tighter financial controls.

If adopted, we also recommend that the town institute a PO threshold for all departments. A PO may not be needed for smaller dollar purchases. Most often, communities address this issue by establishing a dollar threshold (e.g., \$250, \$500, \$1,000, etc.) under which a PO is not

necessary. From a financial control and a workload perspective, the question to be asked is at what level is the stricter requirement for a PO justified.

An additional advantage of a PO system is that data on all town purchases is reviewed by one person. He or she may be able to identify items bought in common by several departments where savings may be generated by bulk purchasing arrangements.

Recommendation 9: Create a Cash Flow Budget

We recommend that the treasurer create a monthly cash flow budget projection. The key responsibility of the treasurer is cash management and one of the more effective cash management tools is a cash flow budget. A cash flow budget tracks income and expense trends and, in particular, reports the resulting available cash at any given point during the fiscal year. Generally, income is received in large batches during specific brief periods, especially in semi-annual towns like Hardwick, while expenses with certain exceptions are more consistent throughout the year. By charting estimated revenues and expenditures on a monthly basis, a resulting cash flow budget would reflect whether the town will have a surplus of cash that can be invested to earn interest, or whether it will have a cash deficit that would require temporary borrowing to cover town obligations.

By applying past patterns of monthly spending and collections (as evidenced by warrants and bank deposits) to current year appropriations, and overlaying projected debt service obligations, a reasonable forecast of the town's cash flow will emerge. Through the course of the year, the cash flow forecast can be adjusted for unexpected circumstances, and actual monthly costs or revenues should replace estimates.

During one of our interviews the treasurer had a meeting with the town administrator, a selectman and the finance committee chair to discuss the current cash flow situation. A cash flow budget might have helped guide this discussion.⁸

Recommendation 10: Appoint a Back-up Check Signing Authority

We recommend that the town make provisions for check-signing in the absence of the treasurer. Under the provisions of M.G.L. Chapter 41 §39A the treasurer may appoint, with the approval of the selectman, an assistant treasurer who may perform her duties in her absence. The most likely candidate in town hall is the town administrator. The treasurer's responsibility in most need of coverage is her check signing authority.

⁸ A sample cash flow budget can be found at the *Financial Calculators and Sample Forms* page at www.mass.gov/dls. The page also contains samples of a treasurer's cash book and a collector's receivable control, the subjects of *Recommendation 11*.

Recommendation 11: Consolidate Cash and Receivables Records

We recommend that the treasurer maintain a complete cash book in a single Excel spreadsheet. The cash book should contain all bank accounts, including any zero-balance accounts. Dated entries in the first column should include a pre-numbered reference system to clearly differentiate individual deposits or departmental turnovers, payroll and vendor warrants, and transfers between accounts should balance. The Hardwick treasurer records financial activity in this manner but maintains the balances in three separate spreadsheets so it takes some work for her to piece together the complete cash picture of the town.

We also recommend that the treasurer reduce the number of town bank accounts. In Hardwick, there are 45 separate bank accounts. While a revenue source or fund type may need to be accounted for separately, there is no requirement to keep separate bank accounts for each. Often, communities create sub-accounts in a general municipal trust account offered by banks. It can segregate the sub-accounts' monthly deposits, withdrawals, transfers, and interest earnings on a consolidated statement. In addition, when fund balances are combined, the treasurer may improve the earnings on investments. More importantly, reducing the number of accounts may reduce the time required to maintain and reconcile them. With fewer accounts, the treasurer can more easily consolidate her cashbook into the single spreadsheet we recommend in the previous paragraph.

We recommend that the collector develop a receivable control. A receivable control is a report that shows the total amount of uncollected tax and excise by fiscal year. The report shows the initial monthly balance and adjusts for additional commitments, refunds, abatements, tax title transfers and payments to report the outstanding balance.

The Hardwick collector and treasurer maintains detailed records on all of the components of a cash book and a receivable control and reconciles her outstanding balances of cash and receivables with the accountant monthly. She stated to us her intention to consolidate her records into single spreadsheets when she has time. We support her intention and encourage her to do it soon. In the long run, a consolidated cash book and receivable control will save her time and effort, and is the next logical step for her to take.

Recommendation 12: Record Deputy Collector Payment on Vendor Warrant

We recommend that the collector pay the deputy collector through the standard vendor warrant process. Like most collectors, Hardwick uses the services of a deputy collector to generate motor vehicle excise tax bills and to collect delinquent motor vehicle excise and personal property tax bills. The deputy collector deposits delinquent payments to a collector's bank account. The collector periodically pays the deputy collector fees outside the warrant process with a check written on that account. While this payment arrangement is allowed under

the law, financial controls are stronger when the deputy collector submits a detailed bill to the collector, which is paid through the standard vendor warrant process with the appropriate checks by the town accountant.

Recommendation 13: Organize Personnel Files/Set Policies

We recommend that the town comply with state and federal law as it relates to personnel files. There are three types of employee information that must be separately maintained in town hall. Under M.G.L. c. 149, § 52C, a personnel file would include all documents kept by an employer that have been used or may affect that employee's qualifications for employment, promotion, transfer, additional compensation or disciplinary action. Not included would be "personal information" protected under M.G.L. c. 214 § 1(b) and medical records protected by the American Disabilities Act and HIPPA. If stored in the same, secure location, i.e., file cabinet, personnel, personal, and medical information must be maintained in at least three separate file folders. While not required, it is recommended that a fourth separate folder be included to segregate the federal I-9 form.

It is also the responsibility of the town to authorize (restrict), through a written policy, who has access to employee files. It is our understanding that there are four sets of personnel files maintained in Hardwick. The accountant keeps payroll files for each employee, the treasurer holds benefit files for each employee, department heads keep local personnel transaction files on their staff, and the town administrator maintains the central files described in the previous paragraph. While this is appropriate, the policy on access to files should address all four file categories.

Recommendation 14: Customize Departmental Turnover Forms

We recommend that the treasurer, in cooperation with the accountant, customize the departmental turnover reports. For each department or board, a turnover sheet should be created that clearly lists all the revenues handled by that department or board, including a brief description, operating fund and the revenue account codes. Department staff would enter turnover amounts. The report should include a place for the appropriate department head or board member signature. These reports will enable the treasurer and accountant to process the information quickly without having to inquire with a department or board as to the source of the funds. If organized as an Excel spreadsheet, totals could be automatically calculated.

Increase Citizen Access and Participation

Recommendation 15: Enhance Information Availability on the Town's Website

We recommend that the town make more information and material available through its Internet website. An up-to-date, comprehensive website helps to bolster public awareness of issues and confidence in municipal government. Other communities are finding that user-friendly and informative websites are successful in reducing the amount of time that staff spend fielding questions in person or on the phone. A reciprocal time-savings is also experienced by residents and taxpayers. The town currently has a well designed and organized web site, www.townofhardwick.com, but it could include more content.

Information not currently on the town's website that would serve as an improvement includes:

- Annual Town Report
- Town Accountant, Town Clerk and Treasurer pages
- Town meeting minutes
- Proposed/approved budget data; audited financial statements
- E-mail links to all town officials
- Tax abatement application forms

The ability to do business online rather than in person or by mail benefits citizens and town officials alike. With a well-designed web site, many time-intensive tasks such as paying multiple bills can be handled by citizens themselves. Then municipal officials can focus on other work and citizens can have their needs met at their convenience, rather than adapting to town hall's limited schedule.

Recommendation 16: Increase Volunteerism in Government

We recommend the town leaders seek to raise the level of volunteerism in town government. Hardwick is a small community where many residents face long commutes. As a consequence, recruiting volunteers to serve on town committees and boards is often difficult. In some communities this has led to a situation where representation is dominated by a small number of individuals. Occasionally participation drops further because the few people who do volunteer tend to get burned out. Sometimes it requires a more conscientious effort by town leaders to recruit people. The selectmen may want to hold a public forum or conduct a survey of voters on this topic. In addition, they might entertain holding some of their meetings, or meetings of other boards and committees, on weekends to increase citizens' opportunities to participate. In some communities, town leaders have taken an active role in identifying qualified

people and asking them directly to volunteer. Others have had success with an on-line volunteer sign-up form on the town website.

Make Better Use of Technology in Government

Recommendation 17: Investigate Municipal Finance Software Options

We recommend that the accountant, assessor and collector and treasurer collectively evaluate the software options available to them. With the exception of the assessor, the finance officers inherited the software packages in use when they began town service; the accountant uses UniFund's BudgetSense, the assessors use the CAMA property module, the collector uses the CAMA collections module and the treasurer uses NEMRC. Because of the multiplicity of software packages across offices, and in some cases the age of the versions being used, the accountant, collector and treasurer are re-entering data that is keyed in another office. This is not only inefficient, but increases the opportunity for error. They should collectively explore software solutions, even if not from a single vendor, that allow for the electronic transmission of data across applications. In the collector's case, this includes the ability to import payment information from the lockbox and third party payers. In the meantime, they might consider using more Excel spreadsheets which have the ability to export and import data.

Recommendation 18: Transition to Digital Assessors' Maps

We recommend that the assessors office begin to prepare for the transition to digital maps. Tax maps depict the location, size, and shape of properties for the purpose of assessment and taxation and contribute to a well-organized, efficient assessing operation. In Hardwick, one of the assessors draws any mid-year changes to the maps as new plans are provided to the office. Then, once a year, they contract with a surveyor to draw up-to-date town maps. The updated maps are converted to .pdf format for posting on the town's website. While the town's maps are adequate for the office's purposes, most communities are moving in the direction of digital maps. The town is fortunate to have an assessor who is skilled in making changes to the paper maps which effectively keeps them up-to-date during the year, but that may not always be the case. As a first step towards building an inventory of digital maps, the town's planning board could insist on digital versions in cases where applicants are required to submit maps.

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