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Town of Hatfield **Financial Operations Review**

June 2017

Town of Hatfield
Board of Selectmen
59 Main Street
Hatfield, MA 01038

Honorable Board of Selectmen,

At your request, we conduct a basic analysis of the operational structure of the financial departments including the Board of Assessors, Treasurer, Collector, and Town Accountant. This review was made up of both onsite visits, telephone conversations, and email correspondence necessary for us to make a determination on the operational efficiency the staff and the workflows. Additionally, at your recommendation, we reached out to Scanlon & Associates whom the Town previously engaged for similar review and remediation services. It is our hope that this review will prove to be beneficial to the Town, and that the implementation of some of the best practices outlined will result in long term stability of the financial operations.

In our opinion, the common theme that has been key for long term success is that ability for members of the financial departments to communicate and work cohesively together in the execution of key financial transactions and processes. Our review then focused on three main areas: (1) The experience and generally overall knowledgeability of key staff members within the financial departments; (2) The knowledge of and utilization of workflows and expectations of transactions between members of the financial departments; (3) The level of communication and understanding between members of the financial departments.

We understand that smaller communities with limited time and resources, as well as part time staffing may have difficulty executing some of the practices that will be outlined. We can not stress enough the importance of management involvement and knowledge of how financial processes work within each department, and how they affect the Town. Any policies and procedural updates put in place by management should involve in depth conversations with the departments involved to understand the challenges of time, money, and staffing resources that may be a deciding factor in the overall long term success of the change. No new policy or procedure will remedy an operational issue if there are not both resources to uphold the policy, nor management understanding to support the policy.

Recommendation #1 – Improvement of Communications

In the initial interviews, onsite with the Assessor, Treasurer, Collector, and Accountant, it was clear to us that there was a lack of communication and understanding about roles and responsibilities. While each department had an understanding of the processes within their own departments, they were not knowledgeable about processes and workflows in each other's departments. By all the financial department heads own admission, there is no real communication or coordination of processes between them, nor a clear expectation of who is responsible for what, and what the deadline for any particular process is.

- Institute a financial management team meeting no less than once a month, and perhaps bi-weekly during year end, tax rate, and budget portions of the fiscal year.
- Update and enhance the current policies and procedures handbook. Focus should be given to outlining who is responsible for each of the major financial processes, and what the deadline for each deliverable is. This should include, but not be limited to turn over policies, cash and receivable reconciliation, and month and year end procedures.
- Financial departments need to communicate regularly. Reconciliations, timeliness issues, and delays should be communicated to management and other financial departments so that work is not being held up waiting without updated estimated delivery times. This may be accomplished by a simple Monday morning email between financial staff and management to allow for understanding of individual challenges within each department. For example, the week tax bills are due to the Collector will most likely impact that staff's ability to assist with regular monthly receivable reconciliations.

Recommendation #2 – Review the structure of the Treasurer and Collector functions

Currently the Town has both an appointed Collector and an appointed Treasurer. The job functions today are being conducted by the same person for varying amounts of time per week. Additionally, there is a Treasurer's clerk who is responsible primarily for payroll and HR, with limited additional capacity to assist with core Treasurer's functions. There is no additional support staff for the Collector's function.

Hatfield's smaller size as a community, while having a local school system, creates a unique situation for payroll and human resources. It has been our observation in Hatfield, as well as other communities, that the additional of a local school system creates a disproportionate amount of work for the payroll area relative to the overall size of the community. While on the face of it other similar communities have a similar staffing scheme for the Treasurers function, whether they also have a local school system is a key fact to the efficiency of the work output for a given community. While the size of the local school system dictates the amount of staffing resources needed to support it, even the smallest schools in combination with the town side of the payroll create a need for a minimum of .75 FTE to focus specifically on payroll and benefits. This needs to be considered when looking at the overall staffing level, and what proportion of resources are going specifically to payroll versus other core operating functions.

- Consider proposing Town Meeting action to combined the Collector and Treasurer into a single, appointed position.
- Provision the current Treasurer's clerk into specifically a payroll, benefits, and human resources roll for both the Town and School. This will allow the proper time necessary for regular maintenance of the payroll system, retirement reporting to both the County Retirement System and the more complex reporting requirements of the Massachusetts Teachers Retirement System. The role of this individual would also be to reconcile monthly the benefits invoices, and audit employee contributions to employer offered benefits to ensure there is limited risk of exposure or loss to the Town.
- Consider adding a new employee to the office who would be responsible for customer service and receiving payments at the counter. This clerical position would receive and post payments to the system, as well as cover the phones and counter for walk in payments. This position would free up the Treasurer/Collector to focus on higher level

management work such as Tax Title, Reconciliations of Cash and Receivables, bank account maintenance, and creating/updating the cash flow budget. If the Town decided to implement the addition of a clerical person, we would recommend initially hiring at .50 FTE to evaluate the level the appropriate staffing level as changes are phased in. It is difficult to determine what the appropriate additional staffing level should be at this time due to the volume and backlog of work in the office. Adding staffing resources, especially those that will incur current and future benefits and retirement liabilities, should be phased in conservatively in conjunction with other efficiencies.

Recommendation #3 – Staff professional development

There have been several positions that have experienced turn over in the past two years. Newer employees do not have the municipal experience or years of institutional knowledge of their seasoned predecessors. This combination can be challenging for staff to come together and work as a cohesive unit and solve financial challenges that come up in both day to day operations as well as with long term planning and execution.

- Encourage professional development and ensure that funding exists for all members of the financial department to participate in their trade organizations (MCTA, MAAA, MAA, etc.). This includes attending annual training, monthly meetings, and other events held by the organization intended for development.
- Engage outside resources to train and mentor employees on job specific duties and challenging deadlines such as closing the year end or creating long term financial projections.
- Meeting face to face with the Town's external auditor post engagement to learn where things did not go smoothly, and what expectations or processes need to be updated in the following year to resolve any issues.
- Encourage attendance at the "DLS New Officials Finance Forum" for both management and financial employees at least once, and annual attendance at the "What's New In Municipal Law" meeting each fall in order to better understand the changes in laws that may have an impact on financial processing and reporting.

Recommendation #4 – Electronic distribution of information

We would recommend the use of the website for distribution of regular financial information for departmental consumption. This is normally on the Accountant's page or a portion of the website specifically allocated for all financial information. Reports should include departmental budget to actual, Warrant summary reports by department, revenue reports, and balance reports for trust, agency, and special revenue. Making updated information available to all Departments, Boards, and Committee's ensures that financial decisions are being made with updated reliable information which reduces the Town's exposure to risk or loss.

Recommendation #5 – Timeliness of financial processing and Reconciliation

The timely completion of daily work, and then the associated reconciliation of that work product is the most critical element of the financial processes. Not only does it provide for checks and balances, and ensure financial reporting accuracy, but it prevents fraud and other situations that unnecessarily place the Town at risk for financial exposure or loss. Though this is the most pressing of the recommendations, we have listed it last for a specific reason – the financial

operations of the Town cannot be stabilized without a balanced approach to remediation. Creating a situation in which timeliness of financial processing can occur, and then providing the staff with the training and tools to complete the processing and reconciliation is just as important to doing the reconciliation itself. It is important that management is aware and involved in creating an environment that is conducive to positive employee outcomes, and avoiding implementing policies and procedures that will result in failure because they lack basic training and support mechanism.

Daily Cash Collections - Treasurer and Collector;

- All funds received by the Treasurer and Collector in a particular day should be processed and posted to the accounts by the close of the following business day. All money received should be deposited into the bank within 24 hours of receipt in order to limit exposure or loss potential to the Town. Copies of deposit slips should be kept with the Treasurer's cashbook to verified what receipts make up bank deposits.
- All departments submitting cash receipts to the Treasurer must also provide a copy to the Town Accountant. When the Treasurer receives a turnover from a department, the turnover should be counted and verified while the department is at the counter. The Treasurer should sign the turnover form, and make two copies for the department. The department should retain one copy for their records, and the other for direct transmission to the Town Accountant. The Town Accountant should be booking departmental receipts from the signed source document rather than waiting for the Treasurer.

Reconciliation of Receivables and Cash;

- The Collector should be providing to the Accountant no later than the 10th business day a "Schedule of Outstanding Receivables" that contains amounts Committed, Abated, Refunded, Transferred, and Paid, along with an ending balance for the period, for all committed receivables in all levy years with and outstanding balance. This should be transmitted to the Town Accountant monthly for comparison to the General Ledger. Once that reconciliation is complete, a signed copy should be returned to the Collector for their records including any notes on timing issues or other outstanding items.
- The Treasurer should be providing to the Accountant no later than the 15th of the month a "Schedule of Treasurer's Cash" which includes the individual balance of all bank accounts, a listing of all Warrants processed, total cash collected accompanied by a Treasurer's cashbook that outlines all turnovers and bank deposits as well as any notes on reconciling items or deposits in transit. The Town Accountant should review this information against the General Ledger and within ten business days return a signed copy to the Treasurer for their records.

Accountant Warrant Processing;

- The Town Accountant should work with departments to institute a more frequent AP Warrant schedule. Currently there is a mid-week cutoff on the acceptance of invoices, for Warrant creation in the following week, and then final signatures and check release after Selectmen signature. This creates in which is it difficult for departments to reconcile reports because there is not a definitive reporting period in which they can expect to see their invoices on a particular report. We would suggest a weekly cycle so that if departments submit invoices by a date, they can expect to see the payment posted

on a report that same week. We would also recommend providing a weekly summary of invoices paid to each department in lieu of distributing full financial reports after each warrant cycle.

Other Management Items for Consideration

- The Financial Offices should provide a monthly written report to the Town Administrator recapping the operations and notable upcoming events and deadlines in their respective offices. This report should be included monthly in the Board of Selectmen and Finance Committee packets along with monthly financial reports from the Town Accountant. This process will ensure that management remains engaged and informed of financial operations, and remain well positioned for intervention if necessary.
- The Board of Selectmen and Finance Committee should appoint a liaison member to represent the larger group at the financial management team meetings at least quarterly. This liaison member should report back to the larger group as part of a posted agenda item for wider discussion of financial operations of the Town.
- The Town Administrator, the Board of Selectmen, and the Finance Committee need to take a greater role in understanding and monitoring the operations of the financial departments. To the extent that we have recommended professional development for individual staff members, it may also be appropriate for some of the same professional development to be offered to others on Boards and Committees where appropriate. Effective monitoring of operations requires a core knowledge of the how's and why's of well-constructed policies and procedures.

It is our hope that the recommendations outlined throughout this report are useful as a tool for management to begin planning and instituting changes. We also encourage the engagement of the Department of Revenue and the Town's external audit firm during the implementation phase.

Respectfully Submitted,

Baystate Municipal Accounting Group