



Town of Holbrook

Financial Management Review

January 2002

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 Holbrook.

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 (BOA), Bureau of Local Assessment (BLA), and Municipal Data Management & Technical Assistance Bureau (MDM/TAB). During these visits, the team interviewed members of the board of selectmen and finance committee, the town administrator, accountant, assessor, collector/treasurer, and other municipal office staff.

DLS staff examined such documents as the tax rate recapitulation sheet, town reports, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness and other assorted financial documents.

The purpose of this review is to assist town officials and boards as they evaluate the town's financial management. In reviewing the existing financial management, we have focused on: (1) the town government structure in the context of the duties and responsibilities of financial officers; (2) the degree of coordination and communication among relevant boards and officials, (3) the performance of financial operations in such a way as to maximize resources and minimize costs.

The board of selectmen should consider the recommendations contained in this report in formulating overall strategies for improving the town's financial management. Many recommendations in this report can be implemented without a major change in the current structure of town government given sufficient cooperation among town boards and officials.

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OVERVIEW

Holbrook is a small community located south of Boston with a land area of 7.3 square miles. When the town was incorporated in 1872, manufacturing was flourishing in the region, including textiles, jewelry and chemical industries. Both shoe and chemical manufacturing industries were located in Holbrook and played a strong role in the town's development and history. Soon after the end of the nineteenth century, many manufacturing industries left the region for cheaper labor markets. Holbrook's shoe industry was gone by the 1930s. Of the remaining businesses in town, one of note was Baird & McGuire, a chemical, pesticide and solvent manufacturer. This company survived until 1982 when the Holbrook site was closed by the Environmental Protection Agency (EPA) due to allegedly poor waste disposal practices. The site subsequently became a Superfund site. Contamination at this site resulted in the shutdown of three town water wells and an ongoing monitoring project by the EPA to make sure the affected water tables are recycled and cleansed back to a healthy condition.

Some commercial and light industrial businesses continue to operate in town. However, town officials contend that without the quick access to a major state highway (e.g., Route 24, Route 128 and Interstate 95) that they have not been able to attract much commercial or industrial business or development to town. As a result, Holbrook has become a predominantly residential town.

COMMUNITY GROWTH

Unlike a majority of communities south of Boston, the town of Holbrook has not experienced much growth or development. Since 1970, the town's federal census population¹ has slowly declined from 11,775 to 10,785 in 2000. Until recently, new home construction was minimal, no more than 10 residential building permits per year. According to the building commissioner's office, residential building permits issued² annually have been up since 1997. Local officials attribute this increase in development to the reactivation of the Old Colony commuter rail line in 1997 with a stop on the Randolph town-line that has made the town of Holbrook an attractive community within commuting distance of Boston.

SEWER CAPITAL FINANCING ISSUES

Since the 1980s, the town has been expanding the public sewer system to provide service to the entire community. This system replaces septic systems and older sewer lines unable to adequately service properties in town. This is a multi-phase project that is currently in the final phase of construction.

To fund the initial phases of the sewer projects, the town authorized over \$15 million in debt between 1981-1987 and voted to exclude this debt from the provisions of Proposition 2½. The projects were undertaken and completed and the treasurer periodically borrowed funds to pay for the project. However, the town's auditors discovered capital project deficits beginning in FY90. According to town officials, the deficits were the result of miscommunication, lack of cash reconciling procedures between the treasurer's and part-time accountant's offices and not issuing sufficient long-term bonds to fund the whole project cost. In addition, it was discovered short-term bond and grant anticipation notes had been renewed longer than necessary. The accumulated deficit and the short-term notes were eventually eliminated through the issuance of a ten-year bond in 1994.

¹ The federal census reported Holbrook's population to be 11,140 in 1980 and 11,041 in 1990.

² The number of residential building permits issued by year were 31 (1997), 42 (1998), 28 (1999), 16 (2000) and 26 (through November 2001).

FINANCIAL CONCERNS LEAD TO CHANGES IN GOVERNMENT STRUCTURE

The capital project deficits and lack of checks and balances between financial offices concerned public officials and residents alike. In an effort to prevent future problems, the town took action.

In 1993, the representative town meeting voted to establish a financial advisory committee, the Fiscal Oversight/Capital Planning Committee. The committee was established to monitor the town's financial office activities, to prepare long-term expenditure projections, and consider the impact of proposed expenditures on the town's debt service and tax levy. In an effort to ensure townwide communication, the committee membership included financial officials (e.g., accountant, assessors' chairman, and collector/treasurer), policymakers (e.g., finance committee chairman, selectmen chairman, and school committee chairman), major department heads (e.g., school superintendent, fire chief, police chief and public works' superintendent) and two registered voters.

The town also re-evaluated the accountant's position in FY96. Historically, the accountant had been a part-time position. However, given the financial problems experienced and the realization that town government finances had become more complicated and time consuming, the town changed the position to a full-time position.

Also in FY96, the town upgraded the executive secretary's position to a town administrator's position and adopted a bylaw enumerating the management responsibilities. This new position serves as the chief administrative officer of the town, supervises all departments under the control of the selectmen and serves as liaison to other town departments. The administrator monitors the town's operating revenue and expenditure reports and keeps the selectmen fully informed at all times. However, despite the position's administrative responsibilities, the administrator was not appointed to the town's Fiscal Oversight/Capital Planning Committee and he was not assigned financial management coordination responsibilities (e.g., management of the budget process and coordination of financial operations).

PLANNING FOR THE FUTURE

Town officials attribute the stability of the community's financial condition to the changes in town government and administrative structure. They are pleased with the availability of timely and accurate financial information and with improved communication and coordination among town departments. Despite these improvements, officials are still concerned about the town's financial future.

Specifically, Holbrook's operating budget is growing, the town is faced with some large capital proposals and there are limited resources available to fund both operating and capital needs. The town's FY02 budget is about \$24.5 million. When compared to the FY93 budget of about \$16.6 million, this is roughly a \$7.9 million or 48 percent increase over the last nine years. The majority of this increase is attributable to the increased school spending requirements of the Education Reform Act of 1993. Potentially adding to this growing budget are the town's proposed capital projects that include \$28 million for school projects, a \$5 million public safety building project, an unknown amount to renovate the town hall, and multi-million dollar water and sewer projects. To date, the town has been fortunate to obtain debt exclusion overrides to fund the sewer construction program. However, given the recent downturn in the state's economy and the possible increased service demands resulting from residential construction, town officials are concerned about whether citizens are willing or able to continue to support the capital improvements needed in the town. As a predominantly residential community, Holbrook officials are sensitive to the residential taxpayer shouldering this burden.

Adding to these concerns is the recent loss of the town's assessing chairman, Hugh Smith. Mr. Smith played an integral role in coordinating the town's financial information, tax rate setting and the budget process. He spearheaded the establishment of the Fiscal Oversight/Capital Planning Committee and provided ongoing advice to town meeting on major financial decisions. With his passing, Holbrook is left with a large void that the town will have to address.

CONCLUSION

In view of these factors, the community is concerned about prudently managing its resources and planning for future expenditures. To assist them, town officials requested the Division of Local Services' assistance in evaluating the town's financial operations.

In many communities with a selectmen/town administrator form of government, the professional administrator is responsible for general financial management and budget coordination duties. In Holbrook, the administrator has limited involvement in the general financial management of the town and does not manage the budget process but provides assistance to the part-time finance committee. In our experience, we found administrators who play a strong role in coordinating general financial management and the budget process have proven effective in other communities. Therefore, we recommend that the town amend the town administrator bylaw to include financial management and budget coordination responsibilities. Furthermore, to assist the administrator in these responsibilities, we recommend that the town establish a financial team by bylaw. We also recommend the town establish a formal capital planning process.

In the report that follows, we offer detailed observations and recommendations on the town's financial offices. Generally, we found that these offices function well given the limited staffing and resources. Therefore, many of our recommendations focus on how information flows among the departments and include suggestions for fine-tuning operations. We also offer recommendations on the budget appropriation format, adopting enterprise funds, and the town's information technology systems.

SUMMARY OF REPORT RECOMMENDATIONS

1. Overall Financial Management and Budgeting: Formalize a Strong Financial Role for the Town Administrator
2. Overall Financial Management and Budgeting: Establish a Financial Team & Formal Capital Planning Process
3. Overall Financial Management and Budgeting: Modify the Budget Appropriation Format
4. Overall Financial Management and Budgeting: Adopt Enterprise Funds for Water and Sewer Operations
5. Technology: Expand Electronic Transfer of Information
6. Technology: Establish Uniform Backup Procedures
7. Collector/Treasurer: Report Insufficient Funds & Voided Checks Timely
8. Collector/Treasurer: Pursue Other Receivable Balances
9. Collector/Treasurer: Standardize Departmental Receipts Reports
10. Collector/Treasurer: Report Foreclosure Accounts
11. Accountant: Prepare for GASB Statement 34 Implementation

OVERALL FINANCIAL MANAGEMENT & BUDGETING

FINDING 1: FORMALIZE A STRONG FINANCIAL ROLE FOR THE TOWN ADMINISTRATOR

The town employs a full-time, professional town administrator and has adopted a bylaw for the position. The town administrator is responsible for the daily operations under the control of the selectmen and is responsible for a variety of administrative functions as assigned by the selectmen. The administrator serves as liaison to other departments not under the jurisdiction of the selectmen, coordinates departmental activities and keeps the selectmen fully informed of all matters of financial and administrative concern. The administrator prepares the selectmen's budget, reviews all budget requests under the selectmen's control³ and prepares research and analysis upon request. He also monitors the revenue and expenditure reports of the town and informs the selectmen of any concerns. While not formally a part of his job responsibilities, the administrator assists the finance committee during the budget process and prepares a revenue and expenditure forecast that estimates the town's future financial capacity⁴ or shortfall⁵ over a multi-year period.

During the budget process, the town administrator assists the finance committee, a nine-member, part-time board responsible for making recommendations to town meeting on all municipal matters. The administrator prepares a budget package⁶ to be distributed to all departments. Once the budget packages are completed, they are returned to the administrator and finance committee. The finance committee then transfers the information, if provided in spreadsheet format, or manually enters the information into a large spreadsheet that is distributed to the committee and financial officials. The finance committee reviews budget proposals, interviews department heads, and reviews cost impacts of proposed warrant articles. As deliberations occur and new information becomes available, the spreadsheet is updated and redistributed to the committee and financial officers. The finance committee also reviews preliminary revenue estimates that are prepared by the assessing chairman and accountant just prior to conducting its departmental hearings and finalizes its revenue estimates prior to conducting its final deliberations. This budget process requires both significant time and energy of the part-time board.

In many communities that have a selectmen/town administrator form of government, the administrator generally supervises the work of the finance officers and department heads, oversees financial management and manages the budget process. In this role, the administrator is able to manage the multi-million dollar town operation with all its financial and legal complexities. The administrator serves as a focal point by getting all the information, analyzing it and disseminating it to all parties. Given the financial issues the town has faced, a growing budget, and potential impacts of the recent economic downturn, we have designed the recommendations that follow to strengthen the important role that an administrator should play in the town's financial management.

RECOMMENDATION 1: FORMALIZE A STRONG FINANCIAL ROLE FOR THE TOWN ADMINISTRATOR

We recommend that the town amend the administrator's bylaw to include general financial management responsibilities. Because of the growing complexity of local government, it has become increasingly difficult for part-time policymakers to manage a \$24 million dollar community. With the

³ Such as the police, fire, public works, accountant, inspectors, and veterans' agent

⁴ This is when projected revenues exceed expenditures, enabling the town to expand existing programs, initiate new ones, provide for salary and wage increases, or finance capital expenditures.

⁵ This is when revenues are not sufficient to cover projected expenditures, requiring the town to take action (e.g., increasing revenues, increasing its fee/permit schedules or making departmental cuts) to balance its budget.

⁶ The budget package includes a cover letter with budget guidelines, a budget process calendar, a detailed salary request worksheet, and a detailed departmental request form.

downturn in the state's economy and the void left by the recent passing of a longstanding financial official, the town needs to have someone able to coordinate its financial management. The administrator should coordinate financial and independent department activities, prepare analyses or scenarios for resolving issues, and keep all officials fully informed. As the full-time, professional staff member with overall administrative responsibilities, the town administrator is the logical choice to coordinate these financial management activities.

We recommend that the town also amend the administrator's bylaw to include management of the budget process. The administrator should be given the responsibility and authority for managing the "mechanics" of the annual budget process while working as the selectmen's liaison to other town policymaking bodies. The administrator should solicit technical and financial information from the financial offices and monitor the budget as it progresses through the year. He should work with the financial offices to collectively develop revenue estimates prior to the budget process. He should also compile budget requests and develop/maintain the budget spreadsheet for the finance committee, providing the finance committee more time to review proposed budgets. This recommendation is not intended to impinge on the finance committee's important role as advisor to town meeting. Rather, the intent is to provide administrative and analytical support to the finance committee and selectmen as they plan the town's financial future.

FINDING 2: ESTABLISH A FINANCIAL TEAM & FORMAL CAPITAL PLANNING PROCESS

As previously mentioned, the town established a Fiscal Oversight/Capital Planning Committee made up of town officials, department heads and citizens. The committee was established with a dual role as a financial advisory and capital planning committee. We found that despite the creation of the town administrator's position and delineation of its responsibilities, the position was never included in the committee membership. We also found that the committee is referred to as a permanent advisory committee but its organization and purpose were never codified in the town's bylaws. In the beginning, the committee met regularly, reviewed financial information and made annual reports, however, once the town's financial problems stabilized, the committee became inactive.

The financial oversight responsibilities of this committee are similar to the concept of a "financial team." In most communities, the financial team is generally made up of the administrator, accountant, assessor, collector, treasurer and school business manager. Generally, the financial team is chaired by the administrator and meets on a regular basis throughout the year. The purpose of the financial team is to assist the administrator in coordinating financial management by improving the flow of information among departments, coordinating the fiscal operations of town departments, and compiling comprehensive financial information to assist the town's policymakers in their decision-making process. Specifically, the team would provide input into the town's cash flow analysis, including the timing of major purchases and the issuance of new debt. The team could also analyze the impacts of future events on the financial condition of the town (e.g., collective bargaining agreements, education reform and new policies). Furthermore, the financial team should provide input on the preparation of the tax recapitulation sheet, a document that establishes many of the town's financial policies. Collectively, this information should provide a comprehensive picture of the town's financial health at any point in time.

With regard to its capital-planning role, the Fiscal Oversight/Capital Planning Committee's original responsibility was to oversee capital projects, making sure financial information was reviewed and deficits were avoided. The town never established a formal capital planning process that requires all capital proposals to be submitted to and prioritized by the committee; instead, numerous capital requests are independently included on the town warrant and committee members make comments

about proposals on the town meeting floor. Also, the committee does not prepare an annual capital budget and plan for town meeting. A formal capital plan would present a comprehensive listing of departmental requests, reflect prioritized items that should be funded, identify items deferred due to resource constraints, and plan for significant infrastructure improvements on a multi-year basis. This report would help town officials to present the capital needs of the town and the associated costs to residents in an organized and informative way. In an effort to organize this process, the selectmen have proposed a new capital planning committee through the adoption of MGL Chapter 41 §106B and the establishment of a formal capital planning process. However, because of the existence of the Fiscal Oversight/Capital Planning Committee, this effort has not been successful.

RECOMMENDATION 2: ESTABLISH A FINANCIAL TEAM & FORMAL CAPITAL PLANNING PROCESS

We recommend that the town establish a financial team through the adoption of a bylaw. The financial team should be chaired by the town administrator and meet on a regular basis throughout the year. Its membership should include the accountant, collector/treasurer, deputy assessor and school business manager. A bylaw would formalize the participation of the above officials in the financial team process and more clearly establish the role of the financial officers in support of the town administrator as the town's financial manager.

This committee should review financial information and provide guidance to assist policymakers in their decision-making process. Collectively, this committee should review financial documents (e.g., revenue and expenditure reports, balance sheet, audits, tax recapitulation sheet and town share costs for the schools) for completeness and accuracy.

We also recommend that the town establish a formal capital planning process. This process should include: 1) a definition of what constitutes a capital request; 2) criteria by which requests are prioritized; and 3) presentation of a comprehensive capital budget warrant article and annual report of the town's capital needs to town meeting. This will assist the town in coordinating the process, inform citizens of the community's capital needs, propose methods of payment⁷ for each project, and make everyone aware of essential capital needs that may be deferred due to financial constraints. Whether this process is managed by a reactivated Financial Oversight/Capital Planning Committee or a separate capital planning committee is a local decision. However, once this is decided, the capital planning committee and planning process should also be formalized through the adoption of a town bylaw. For more information on establishing a formal capital planning process, please refer to the Department of Revenue's workbook: "Developing a Capital Improvement Program" on our website www.dls.state.ma.us/publics.htm.

FINDING 3: MODIFY THE BUDGET APPROPRIATION FORMAT

The finance committee prepares a report for town meeting that includes a detailed line-item presentation of the budget (historical, year to date and proposed spending) and recommendations on all articles. The level of budget detail is designed to be informative, however when approved at this level of detail, it places limits on department heads in managing their budgets. For example, spending needs may periodically shift due to job vacancies or increased costs for services. When a budget authorization is approved with excruciating detail, the department head may be unable to make expenditures until a town meeting is called and a transfer is approved. Generally, communities plan for two town meetings a year. However, in recent years due to the number of line-item transfers required, Holbrook has had to schedule four town meetings each year with each town meeting lingering over multiple nights.

⁷ Current revenue, debt or debt excluded from the limits of Proposition 2½.

For these reasons, communities are changing their budget format to be more efficient. Many have reduced the appropriation article to three funding authorization categories—personnel, expenses and capital—for each departmental budget while still providing the detail for informational purposes only. Reducing the level of funding authorization detail can reduce the number of town meetings annually and increase the management flexibility of department heads to deliver services and live within their budget authorization.

RECOMMENDATION 3: MODIFY THE BUDGET APPROPRIATION FORMAT

We recommend that the town adopt an abbreviated budget authorization format while still providing supplemental detailed documentation for informational purposes only. By adopting a format with only the major spending categories (e.g., personnel, expenses, and capital) for each departmental budget, department heads would have greater flexibility to use money in places where it is needed without further town meeting approval.

FINDING 4: ADOPT ENTERPRISE FUNDS FOR WATER AND SEWER OPERATIONS

Holbrook's water and sewer operations are accounted for as a special revenue fund (Chapter 217 of the Acts of 1885) and in the general fund, respectively. The annual appropriations for these services cover direct and some indirect operating costs. These operations are funded primarily through user fees, except for the sewer debt service costs that are funded by debt exclusions and a \$480,000, one-time water capital expense that is being funded with a capital exclusion in FY02. Any surplus (or deficit) that is attributable to the water operation closes to the water fund; however, any surplus (or deficit) that is attributable to the sewer operation closes to the general fund, thus increasing (or decreasing) the town's certified free cash. According to town officials, it is the expectation that each operation be self-supporting through its user fees, with the exception of the debt and capital item noted above. The DPW is currently having a rate study done by an engineering firm to determine whether its current fee structure is sufficient to cover direct and indirect operating costs.

While local governments may account for these utility operations using various methods⁸, the enterprise fund method best enables a community to fully identify all direct, indirect⁹ and capital costs of providing the service in a consolidated fund. An enterprise fund may be self-supporting or it may be subsidized (e.g., debt and capital exclusions) by the general fund. The advantage of an enterprise fund is that the community will know the true cost of providing a service. This can also assist the community when determining its user fees. In addition, any interest earned on the operating revenues and surpluses generated at yearend would be retained in the funds. Once a surplus is certified as available (similar to free cash), it may be used to fund operating, capital or debt service costs associated with the water or sewer operations.

RECOMMENDATION 4: ADOPT ENTERPRISE FUNDS FOR WATER AND SEWER OPERATIONS

We recommend that the town adopt enterprise funds for its water and sewer operations by accepting MGL Ch. 44 §53F½. Enterprise funds will enable the community to fully demonstrate the true cost of these operations and provide information necessary to establish user fees.

⁸ These include the general fund, a special revenue fund or an enterprise fund (MGL Ch. 44§53F½).

⁹ Indirect costs generally include interdepartmental support, health and insurance costs.

TECHNOLOGY

The financial offices use a variety of computer systems. The collector/treasurer's office uses the Customized Data Service (CDS) system to bill and collect taxes and excise, to issue demand bills, to prepare municipal lien certificates and to prepare payroll¹⁰. This office also uses the Quicken software application for the cashbook. The accountant's office uses the accounting and financial applications of Lawrence Braverman Associates (LBA). These systems reside on one network server located in the assessors' office and the CDS application is accessible by the water department and the assessors' office for billing/abatement issues. The assessing office uses the Patriot Property computer assisted mass appraisal (CAMA) system to value and manage real estate property accounts and it resides on a second network server located in the office. Both networks have word processing and spreadsheet software applications and have virus protection software that is regularly updated.

In 2000, the town organized a computer system and software evaluation committee made up of town employees. This committee was organized to find a new accounting software application, to review financial management systems in general and to determine the system(s) which would best serve the financial offices and the town. The town retained the collector/treasurer's and assessor's systems and selected a separate accounting software application with the pledge that the town would work with the software vendors to establish links for the electronic transfer of information among financial offices.

Because of the limited staffing and resources of the town, it engages the services of a contractor to help manage its computer networks. The contractor provides routine maintenance, networking and emergency services and the deputy assessor performs the daily maintenance, including back-ups for each network.

FINDING 1: EXPAND ELECTRONIC TRANSFER OF INFORMATION

Currently, some information generated on one system can be electronically transferred to another with the assistance of an outside vendor. The assessing data is sent to the CDS vendor to be converted and then loaded on the collector's system. Similarly, payroll processed by the treasurer's office is also sent to the CDS vendor to be converted and then uploaded on to the accountant's LBA system. All vendor bills are sent to the accountant to be manually processed and all departmental receipts are sent to the treasurer and accountant via printed reports and data-entered manually.

The town is also exploring the possibility of having the school department input its payroll and electronically transfer it to the treasurer's office. After reviewing the electronic information and checking the supporting documentation, the treasurer's office would be able to process payroll deductions and post the information to the payroll application, foregoing the time-consuming process of manually entering the school department's payroll.

One of the basic advantages of computers is the ability to input information once and let the computer apply this data to the various other files or programs where it is required. Keying information more than once is inefficient and also increases the potential for posting errors. Without software programs that facilitate the electronic transfer of data, the town loses much of the potential for efficiency inherent in computer systems.

¹⁰ Staff input payroll into the CDS system, it is transferred to the vendor by modem, and the vendor prints and delivers the checks to town hall.

RECOMMENDATION 1: EXPAND ELECTRONIC TRANSFER OF INFORMATION

We recommend that the town continue exploring ways to streamline and integrate the posting of financial information. Given the limited staffing in the financial offices, exploring ways to operate more efficiently can free up valuable staff time. The town should contact the town's software vendor(s) about other possibilities such as the electronic transfer of departmental receipts from the treasurer's system to the accountant's system and the school's vendor bills to the accountant's system.

FINDING 2: ESTABLISH UNIFORM BACKUP PROCEDURES

Generally, financial applications and data reside on the networks which are backed up daily. Some users also store information on the hard drive of their personal computer (PC) and there are no uniform backup and storage procedures in place for any of the financial offices. Information that continues to be stored on only the hard drive of a PC could be lost if the PC crashes or becomes infected by a virus.

RECOMMENDATION 2: ESTABLISH UNIFORM BACKUP PROCEDURES

We recommend that the town establish a backup policy for all users. All data vital to the operations of town departments should be backed-up to the network. If a staff member chooses not to backup work stored on a PC to the network, the town should develop instructions on how often a backup should be performed and where the information should be stored.

COLLECTOR/TREASURER'S OFFICE

The town has a combined tax collector and town treasurer's office. The collector/treasurer is elected and has served in this position since 1996. The office also has an assistant collector/treasurer and three clerks. On the collector's side, the office reviews data converted by a vendor before the bills are printed, posts payments into the computer system, and prepares municipal lien certificates. The office is responsible for collecting approximately 5,100 property tax bills quarterly, 14,000 motor vehicle excise bills annually and 3,700, combined water and sewer utility bills semiannually. On the treasurer's side, the office is responsible for the payroll and cash management, including the investment, disbursement and borrowing of cash. The office is open five days a week, but the office is closed to counter traffic on Friday afternoons so the staff may concentrate on their work.

The office uses two software application systems, word processing and financial spreadsheet software to process its work. The treasurer uses Quicken for his cashbook. In Quicken, the treasurer records daily transactions, including deposits and departmental turnovers, disbursements and transfers among the town's bank accounts. Using the Quicken application, the treasurer reconciles his bank accounts to the bank statements and produces the treasurer's receipts report for the accountant monthly.

The office uses CDS for processing payroll and for billing, collecting and reporting all tax, excise, betterment, utility, tax title and municipal lien certificates. The CDS vendor converts the property tax data (from the assessors) and the water and sewer billing data (from the public works department) and motor vehicle excise data (from the Registry of Motor Vehicles). The collector's staff loads the converted data onto the office CDS system and reviews the information for accuracy. For the excise, the assessors also review the Registry's information for errors, wrong addresses, and exempt vehicles. Once approved, CDS prints tax, excise and water/sewer bills for the town. Generally, the vendor also stuffs and mails the bills for the town, however, if the number of bills is less than 500 pieces, the office staff prepares the mailing in-house.

Currently, the staff manually posts the payments to the computer, though the collector/treasurer hopes the CDS system will be enhanced so the town can use a scanning device in the future. Upon request, CDS does provide an electronic file to a mortgage company to process a large, multiple parcel payment that the collector's office may review, reconcile to the detail information and post directly to the CDS system.

The collector uses the services of a deputy collector for past due motor vehicle excise bills. The deputy marks the motor vehicle delinquent's registration for non-renewal status at the Registry of Motor Vehicles, pursues delinquent taxpayers and turns over collections with a detailed report weekly.

The collector/treasurer provides a monthly report of his cash and receivables for reconciliation purposes. The accountant compares the information with the general ledger. In the event of non-reconciliation, the accountant provides the collector/treasurer with any variances to be researched and/or the two parties meet to review and resolve any variances.

FINDING 1: REPORT INSUFFICIENT FUNDS & VOIDED CHECKS TIMELY

Periodically, the collector/treasurer's office receives notice of insufficient funds (NSF) from a bank. In the treasurer's cashbook, the amount is reduced from the treasurer's cash and placed in a separate account to be pursued by the treasurer. The treasurer sends a letter to the offending party, informing the party that the payment did not clear and that an additional banking fee of \$25 has been added to the payment in question. The treasurer reports the NSF to the affected department, but it is not

always reported to the accountant. According to the treasurer, he generally delays reporting it to the accountant and reversing the collector's receivable in order to give the offending party time to make good on the payment, thus paperwork in his office. Some NSF's are made good by the offending party within weeks while others linger months. It is best practice that upon notice of insufficient funds, the treasurer should reduce his cash, reverse any departmental receipt/receivable and report the information to the affected department and the accountant; not doing so could result in unanticipated problems. For example, not reinstating a tax/excise receivable results in an avoidable, non-reconciling item with the accountant and it could also result in a possible municipal lien certificate error due to a missing amount due the town.

Similarly, the treasurer periodically voids town checks processed on a warrant. Generally, these are reported to the accountant timely. However, when the treasurer and accountant attempt to reconcile cash, they often discover variances that are the result of voided checks that had not been reported to the accountant and voided checks that had been reported to the accountant but not added back into the treasurer's cash.

RECOMMENDATION 1: REPORT INSUFFICIENT FUNDS & VOIDED CHECKS TIMELY

We recommend that the treasurer report insufficient funds notices from departmental receipt/receivable payments to the accountant within two weeks of a bank notice. When the treasurer receives a NSF notice, he should use all remedies to collect payment and he should contact the affected department. Failing to receive replacement payment, the treasurer should reverse the payment and/or receivable and notify the accountant of the reversals. This will ensure the accountant reduces departmental receipts or tax revenue and also reinstates any associated receivable in the general ledger.

We also recommend that the treasurer report any voided check to the accountant and verify that the amount is brought back into the treasurer's cash. The treasurer should establish procedures to ensure that voided checks are reported completely, accurately and timely, thereby eliminating any differences in recognizing cash as a result of voided checks.

FINDING 2: PURSUE OTHER RECEIVABLE BALANCES

According to the June 30, 2001 balance sheet, the town has receivable balances which date back a few years. These include personal property taxes (FY93), motor vehicle excise (FY91), sewer charges (user fees, betterments and liens dating back to FY93), and water charges (user fees, service charges and liens dating back to FY98). In an effort to collect payments and/or reduce some of these receivables, the collector uses statutory remedies and outside services when necessary. He uses services of a deputy collector to pursue motor vehicle excise and he has previously worked with the assessors to abate older motor vehicle excise determined to be uncollectable. The collector has not, however, used the services of a deputy collector to pursue outstanding personal property taxes. The town also liens its overdue water and sewer charges on the property tax bill to ensure eventual collection, but does not charge late interest on outstanding water and sewer charges because the town has not adopted the general enabling legislation (MGL Chapter 40 §21E). According to the collector's office, the town annually liens about \$200,000 worth of water and sewer charges that the town carried on its books interest-free for more than a year.

RECOMMENDATION 2: PURSUE OTHER RECEIVABLE BALANCES

We recommend that the collector/treasurer use the services of the deputy collector to pursue outstanding personal property accounts. The deputy collector may be able to obtain money owed the town or provide evidence (e.g., death, absence, poverty, insolvency, or other inability of the person assessed to pay) that the accounts are uncollectible. Being reasonably sure that the accounts are uncollectible, the collector should work with the assessors and Commissioner of Revenue to have them abated and cleared off the town's books.

We recommend the collector contact the assessors about abating older motor vehicle excise determined to be uncollectable. Abating the older amounts will help clean up and reduce the town's receivables on its balance sheet. Having previously committed all outstanding amounts to the deputy collector, any amount that may eventually be collected and turned over to the town may be easily recommitted by the assessors on a special warrant so the collector may accept the payment.

We recommend that the town consider establishing a bylaw to charge interest on the overdue water and sewer accounts to encourage timely payments. This would require town meeting to establish due dates and set an overdue interest rate not to exceed 14 percent annually.

FINDING 3: STANDARDIZE DEPARTMENTAL RECEIPTS REPORTS

Departments turnover all receipts with a detailed report upon receipt or at least weekly. Departmental turnover reports vary in format and provide vague descriptions of the types of receipts reported. The treasurer reviews each turnover, verifies the revenue source and deposits the funds in the bank.

RECOMMENDATION 3: STANDARDIZE DEPARTMENTAL RECEIPTS REPORTS

We recommend that the treasurer, in cooperation with the accountant, standardize the departmental turnover reports. For each department, a turnover sheet should be created in an Excel spreadsheet which clearly lists all the revenues handled by that department or board, including a brief description, operating fund and the revenue account codes. 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.

FINDING 4: REPORT FORECLOSURE ACCOUNTS

After a real estate tax bill becomes past due, the collector issues a demand bill before the close of June and, if it remains unpaid, takes the parcel into tax title before the end of the calendar year. Except for a few taxpayers that the collector has payment agreements with, the collector has made tax takings for outstanding amounts through FY2001. In FY02, the treasurer has secured the services of an attorney to process Land Court petitions and land of low value parcels to encourage payments or take possession of the delinquent parcels. As of 6/30/01, the town's balance sheet reports about \$1.4 million in tax title. In error, this amount includes both tax title and foreclosure accounts because prior treasurer(s) had not notified the accountant's office of the foreclosures.

RECOMMENDATION 4: REPORT FORECLOSURE ACCOUNTS

We recommend that the collector/treasurer report Land Court and land of low value foreclosures to the accountant. The accountant needs to be notified so these tax title receivables can be transferred to tax possession receivables and reported properly on the town's balance sheet.

ACCOUNTANT'S OFFICE

An accountant, assistant accountant and part-time clerk staff the accountant's office. The office is responsible for maintaining the town's general ledger and performing accounting functions, including preparing warrants, producing trial balances, expenditure and revenue reports, and reconciling cash and receivables with the collector/treasurer.

When the accountant took office in December 1997, she inherited a chaotic situation because her predecessor had not completed some office activities and had not filed some DLS required reports. The town's auditor was engaged to prepare the FY96 and FY97 yearend reports (Schedule A) for the town and the accountant closed the FY97 books, prepared and filed the FY97 balance sheet so the town's free cash could be certified, and brought the general ledger up to date. Since taking office, the accountant has also gone through two computer conversions¹¹ in the accountant's office without interrupting the office operations.

The accountant prepares monthly expenditure reports for department heads, the town administrator and finance committee. These reports show the expenditures to date versus the budget appropriations. This information is extensive and useful as a management tool. The accountant also prepares monthly revenue analyses for the finance committee. The town's balance sheet, Schedule A and tax recapitulation sheet are filed timely with DOR.

FINDING: PREPARE FOR GASB STATEMENT 34 IMPLEMENTATION

The Governmental Accounting Standards Board (GASB) Statement 34 is a new accounting and reporting standard that requires all governments to maintain a capital asset and infrastructure inventory which is reported on the entity's financial statements. The implementation of GASB Statement 34 will be a potentially difficult and complex task for Massachusetts' cities and towns. There will be start-up and ongoing costs associated with planning, inventorying, valuing and maintaining the town's fixed assets and infrastructure. There will also be new financial and auditing reporting requirements.

While Holbrook will not be required to fully comply until FY03, the accountant will have to begin to gather information and will be working with the town's auditors relative to its implementation. To date, the town has a software application to document and track its capital assets and the town anticipates increasing budgeted funds for additional auditing services, however, it is unclear how inventorying, valuing and data entry of information will be done and at what expense.

RECOMMENDATION: PREPARE FOR GASB STATEMENT 34 IMPLEMENTATION

We recommend the accountant begin gathering information concerning GASB Statement 34.

Although the town will not have to reach full compliance with GASB Statement 34 until the start of FY03, the accountant should begin now to gather information relative to its implementation, requirements and potential costs from an accounting perspective. The start-up costs¹² of GASB Statement 34 may require the town to establish an appropriation to fund these activities. As resources, written materials and seminar opportunities are available from DLS, GASB and the Government Finance Officers Association (GFOA).

¹¹ The office converted to a new computer system in FY01 only to discover the system did not suit the town's needs and was subsequently replaced by a second system in FY02.

¹² These may include, but are not limited to, collection of information, valuation of property and data input.

ASSESSING OFFICE

A deputy assessor, office manager, principal clerk and part-time principal clerk staff the assessing office. The staff works under the general supervision of an elected board of assessors. This office is open five days a week, but the office is closed to counter traffic on Friday afternoons so the staff may concentrate on its work. The assessing office is responsible for maintaining assessment data on approximately 4,800 real property parcels, 315 personal property accounts, 14,000 motor vehicle excise accounts, 720 betterment accounts and 80 mobile home accounts. In addition, the office processes approximately 300 abatements and exemptions, 2 tax deferrals, 300 deed changes and 300 building permits annually.

The deputy assessor has worked for the assessors for 6 years. Prior to this, the chairman of the board was a full-time working assessor, responsible for the day-to-day office operations. Now, the deputy assessor performs fieldwork, measuring and listing new and improved properties and re-inspecting all property sales. With the periodic assistance of a contractor, the deputy assessor inspects additional properties, fulfilling the office's cyclical reinspection program, ensuring every property is inspected at least once every seven years. This inspection program enables the office to maintain the most current property database and capture growth due to construction or improvements performed without a permit.

The office acquired a computer assisted mass appraisal system (CAMA) in 1998. The deputy assessor maintains the town's real property assessment records on the CAMA systems, including compiling analytical reports and property tax commitments. The deputy assessor generates all DOR required filings for the board's approval, including the new growth reports, sales reports and related documents, and files them with DOR timely. The deputy assessor performs in-house revaluations and interim year adjustments to property values using the CAMA system. The assessing office has also maintained its personal property accounts and valuation system on another software application since 1996, updating it annually for changes in accounts and capturing growth timely.

The office manager and clerks maintain all records, process deed transfers, handle exemption and abatement applications, data-enter property and legal information on the CAMA system and handle the motor vehicle excise accounts. In addition, the clerks maintain sewer betterment lien records, handle public inquiries and perform other clerical work as necessary.

The deputy assessor prepares abatement and exemption requests for the board's approval. When they are granted, the taxpayer is notified and the information is entered into the CDS system, applying it to the taxpayer's account. A monthly report of abatements and exemptions granted is sent to the collector's and accountant's offices.

Annually, the assessors propose about \$380,000 in overlay funds to provide for exemptions and abatements and the board provides a preliminary new growth estimate prior to annual town meeting. Because the town adopted the accelerated new growth provisions (MGL Chapter 59 §2A(a)), the assessors revise their new growth figure based on building activity through June 30 prior to the fall special town meeting. When the final new growth figure is certified by DOR, any increase or decrease from the revised new growth estimate is absorbed in the overlay account. In the event the assessors have excess overlay funds, the board certifies the excess to the selectmen to be used to fund current and subsequent year budget items.

It is our overall conclusion that the town assessing office functions well. Consequently, we have made no recommendations.

ACKNOWLEDGEMENTS

The Department of Revenue, Division of Local Services, prepared this report.

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David Holden, Selectmen
Paul Callinan, Selectmen
Susan Wright, Selectmen
Phillip Warren, Town Administrator
Paul Digirolamo, Finance Committee
Jeff Lowe, Finance Committee
Shelley Stewart, Finance Committee
Donna Mangan, Accountant
Cindy Brennan, Assistant Accountant
Hugh Smith, Assessor
Hannelore Simonds, Deputy Assessor
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Ann Bronkhorst, Assistant Collector/Treasurer
Diane Haley, Collector/Treasurer's Principal Clerk
Dr. Maynard Suffredini, Superintendent of Schools
Gerard Raines, School Business Manager
Shirley Austin, Town Clerk
Thomas Cummings, Superintendent of Public Works
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