



Town of Hopedale

Financial Management Update

Division of Local Services/Technical Assistance Section

November 2013



November 27, 2013

Board of Selectmen
Town of Hopedale
P.O. Box 7
78 Hopedale Street
Hopedale, MA 01747-0007

Dear Members of the Board:

At the request of the Hopedale Board of Selectmen, the Division of Local Services has assessed the town's progress in implementing the recommendations contained in the financial management review completed by the Division in March of 2007. To complete this update of Hopedale's 2007 management review, we conducted a field visit and interviewed two members of the board of selectmen, the town coordinator and each of the town's financial officers. We also conducted telephone interviews with the finance committee chair and sought follow-up information from the coordinator and finance officials. We reviewed various documents as well, including the town's annual audit and management letter comments, reconciliation reports, the town coordinator's job description and town bylaws, the balance sheet and tax recapitulation sheets. The intent of this review is to measure progress against the 2007 recommendations and assess which of those recommendations should be considered priorities for the town moving forward.

While the town has made significant progress in several areas that were of concern in 2007, with respect to many of our most significant recommendations, little or no action has been taken. In the following paragraphs, we will discuss some of the town's recent successes and then focus on those recommendations that we continue to consider as priorities for the town moving forward. An overall scorecard of progress on each of the recommendations contained in the 2007 report follows this letter. This ranks each recommendation based on its level of importance, completion status, future action needed and the parties responsible for taking action.

We were pleased to see that the town has taken prudent steps to lower costs and minimize its health insurance risks by joining the state's Group Insurance Commission and moving away from the self-insurance model. While the self-insured model served its purpose at the time, in the long-run, the risks were too high for a relatively small town. Selectmen have also adopted a policy that part-time, elected board and committee members are no longer eligible for health insurance. We offer further guidance on setting aside funds to offset mounting liabilities for other post-employment benefits (OPEB), primarily stemming from future health insurance obligations. Meaningful and manageable contributions to an OPEB reserve are important to protect the town's bond rating and minimize the cost of future borrowing.

We were encouraged, as well, by the progress that has been made in reconciling cash balances and receivables between the town's new treasurer/collector and the accountant. Attending to these fundamental procedures was an issue in 2007 and the reconciliation of receivables was cited as a problem by the town's auditor in the 2012 management letter. With the addition of a receivable control ledger in the treasurer/collector's office, the town is progressing toward prompt, monthly reconciliations. We continue to advocate strongly for this.

In other areas, the town has implemented redundant back-up procedures for its financial and other data both through on-site server back-ups and cloud-based services. Ensuring that the town can quickly recover this data in the event of a problem is a critical piece of a successful disaster recovery program. The town has also made sure that all staff that handles town funds is bonded. The town has successfully implemented a bridge to bring school payables into the accounting system and has decentralized input of payable information for other significant departments. This eliminates duplicative data entry in the accountant's office. The Schedule A financial report for 2013 is complete and was submitted by the accountant prior to the November 30th due date.

Water and sewer collections are now made in the treasurer/collector's office, a change accomplished by moving a water and sewer employee to the office. Significant progress has been made on the tracking of accrued employee leave balances in the Harper's payroll system. Accrual tables have been built and beginning balances are being entered into the system. Motor vehicle excise receipts collected by the deputy collector are now turned over to the treasurer and the deputy's fees are paid out through the warrant process as we recommended. In the assessors' office, the principal assessor now believes that the town's GIS system is up to date and being maintained adequately. For inspections, the principal assessor now conducts these by herself, freeing up the assistant assessor to staff the office. Digital plans are likely to be required by the planning board.

There are several significant recommendations that the town has not implemented that we continue to support strongly. Primary among them is to delegate additional authority to the town coordinator to supervise the department heads that report to the selectmen (see full discussion below). This reflects our belief that making the department heads accountable to the coordinator, as the day-to-day management presence in town, is the best model to oversee and efficiently manage town operations. Regular performance evaluations in government should also be a priority. We advocate for a stronger role in the budget and capital planning processes for both the coordinator and the finance officers as a means to improve the process and provide additional support to the finance committee. To lend permanence to these suggested improvements, we recommend that the town define the coordinator's authority and his recommended role in the budget process in bylaw.

Though we are aware that town meeting recently rejected a \$6.2 million bond authorization for town hall improvements, we continue to support renovations to this building to provide for a more professional and accessible office space.

Authority of the Town Coordinator

The town hired a new town coordinator about five months ago. Though the job description, updated in August of 2012, ascribes significant authority to the position, in practice, actual responsibilities have not evolved to this level. For example, the job description states that the coordinator is responsible for "directing all activities and operations" of departments under the board of selectmen and providing "general supervision and coordination" of the activities of the treasurer/collector, accountant, police chief and fire chief. Given this language, it is not unreasonable to assume that these department heads are appointed by, report to and are evaluated by the coordinator. Though these departments appear to work cooperatively with the coordinator, they do not report directly to the coordinator. As such, they are not held accountable for their performance through regular performance evaluations conducted by the coordinator.

We recommend that Hopedale grant the town coordinator formal authority to supervise and evaluate department heads under the selectmen's control. If there is initial reluctance to extend this authority to the public safety departments, then we think the town should start with the finance officers that report to the selectmen. Establishing supervisory authority for the coordinator is a first step to enhancing accountability. Regular performance evaluations of the coordinator and other employees will serve to reinforce accountability across town government. The selectmen should conduct these evaluations with the coordinator. From there, the coordinator and department heads can agree on annual goals and objectives, with evaluations of the department head's performance in meeting those goals occurring at mid-year and at year-end. Eventually, we expect that this system of goal setting, supervision and regular evaluations would be extended to all departments, subject to collective bargaining.

We continue to support the recommendation that the town coordinator play a primary role in developing the annual operating budget. To begin the budget process, we believe that the coordinator and financial officers should collaborate on a multi-year revenue and expenditure forecast. These projections will then be presented to a joint meeting of the selectmen, finance committee and school committee. Through the development of the forecast, the town will make better use of the expertise of its full-time finance officers. These officers have the best vantage and understanding of the nuances around town revenues and fixed costs like health insurances, pension costs and debt service. Presenting this information to all town policy makers at the same time will provide the necessary financial context so that they can make decisions around the parameters for departmental budget submissions. These parameters should then be communicated to department heads with their instructions on submitting their budget requests.

After the department heads draft their budgets, we think they should be submitted to the coordinator who will then compile a budget. After the coordinator prepares a draft balanced budget, he should submit it to the selectmen for their review and approval. Then, the budget should be forwarded to the finance committee for their thorough review and the preparation of the finance committee's recommendations to town meeting. This recommendation is not intended to impinge on the finance

committee's important role as financial advisor to town meeting, rather it is focused on better utilizing the town's finance officers to develop revenue projections and to leverage the day-to-day presence of the coordinator to make informed budget decisions. With this additional support, the finance committee will be free of the administrative aspects of budget development and better able to focus on big picture issues such as the overall level of spending, the allocation of revenues among competing spending needs, the maintenance of adequate reserves, and an appropriate mix of capital and operating spending. Adding support, and shifting the emphasis to higher level policy areas, may be beneficial in attracting additional volunteers to the finance committee. Currently, only four of the nine seats are currently filled.

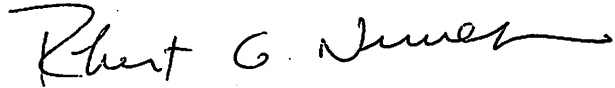
It remains our opinion as well that the town would benefit from setting out both the town coordinator's authority and the recommended budget process in a town bylaw. One of the issues identified in the 2007 review was that the town coordinator's powers had not been codified in the town's bylaws. In fact, the position is not even mentioned in the bylaws. This seems to be at odds with the job description which establishes the position as the "top administrative and managerial post in town government." While the job description may represent where the selectmen, at the time, wanted the position to be, it does not have the force and lasting effect of a bylaw. It seems likely that there is some uncertainty among town officials and employees as to the extent of the coordinator's authority.

At present, we think that developing a bylaw around the coordinator's responsibilities is a more pressing need than creating a full municipal charter document, and can be accomplished more easily and expeditiously. In particular, we recommend that the bylaw specify the coordinator's authority to appoint, supervise and evaluate department heads and provide the coordinator with a more prominent role in the budget process. We further suggest that the coordinator's position title should be changed to town administrator as the coordinator title does not connote the level of authority contemplated in the job description and holds less appeal to potential future applicants for the position. If the town wants to proceed with a government study or charter process that addresses all of town government in a comprehensive manner at a later date, it may be an opportune time to consider creating a consolidated department of public works.

Since our last review, the town has weathered a severe national economic downturn by adhering to conservative budgeting practices and building healthy levels of reserves in the form of stabilization fund (\$1.48 million as of 6/30/2013), free cash (\$334,157 as of 7/1/2013) and unused taxing capacity (about \$669,000). While this has put the town in good position following the recession, more needs to be done to strengthen the role of the coordinator and improve the level of accountability in town government. In our view, the type of coordination and efficiency that should emerge from these changes will be important to minimizing costs and achieving future goals such as increasing the commercial/industrial tax base. We urge town leaders to consider the recommendations as reflected in this report as a means to effect these changes.

We hope that this financial management update is useful to the town as it develops its financial plans and considers a future course. If we can be of any further assistance on these matters, please do not hesitate to contact Rick Kingsley at 617-626-2376 or kingsleyf@dor.state.ma.us.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert G. Nunes", with a long horizontal flourish extending to the right.

Robert G. Nunes,
Deputy Commissioner &
Director of Municipal Affairs

Cc: Senator Richard T. Moore
Representative John V. Fernandes

Scorecard on Status of 2007 Financial Management Recommendations

Overall Financial Management

1) Strengthen the Administrative Position

Importance of Recommendation: High

Implementation Status: Incomplete

Future Action: The town should consider delegating supervisory responsibility to the town coordinator. The finance officers in town hall would be a logical place to begin. From there, town officials can evaluate if other department heads under the selectmen should report to the coordinator. A primary role in the budget process should also be assigned to the coordinator. The town coordinator, together with the finance officers, is best-positioned to provide financial data and draft the initial budget document for the selectmen and finance committee. The town should also consider changing the position title to town administrator to elevate the status of the position and make it more attractive to future applicants.

Responsible Parties: BOS, town meeting

2) Update Town Bylaws and Form a Charter Review Commission

Importance of Recommendation: High

Implementation Status: Incomplete

Future Action: Since the town coordinator's position is not mentioned in the town bylaws, we recommend that the town focus on enacting a bylaw to empower the coordinator's position as a first step. As stated above, this authority should include supervising department heads and a strong role in the budget process. The town can pursue a government study commission or charter commission should it decide that more structural changes are warranted such as moving forward with a consolidated department of public works.

Responsible Parties: BOS, town meeting

3) Formalize the Annual Budget Process

Importance of Recommendation: Medium

Implementation Status: Incomplete

Future Action: Though a nine member body according to town bylaw, the finance committee is heavily dependent on its four sitting members. To assist the committee, we believe that the town should make better use of the expertise of its finance officers and town coordinator by charging them with developing revenue and expenditure projections and drafting a preliminary operating budget. This would free up the finance committee to concentrate on higher level analysis and the important policy choices inherent in budgetary decisions recommended to town meeting.

Responsible Parties: BOS, Finance Committee, coordinator and finance officers

4) Develop Long-Term Revenue and Expenditure Projections

Importance of Recommendation: Medium

Implementation Status: Incomplete

Future Action: As the town officials closest to the town's fiscal pulse, the town coordinator and finance officers are well-positioned to prepare revenue and expenditure projections that will provide important context to the town's policymakers and help them make informed decisions around budgetary allocations, capital spending and long-term contracts. The forecast should be prepared at the start of the budget process and presented at a joint meeting of the selectmen, finance committee and school committee so all major participants in the process hear the same information at the same time.

Responsible Parties: Coordinator and finance officers

5) Strengthen the Capital Improvement Process

Importance of Recommendation: Medium

Implementation Status: Incomplete

Future Action: The town's Capital Improvement Committee remains dormant. Currently, capital requests are submitted to the finance committee to make decisions around which items to recommend in the budget, subject to available funding. We recommend that the town either appoint additional members to the capital improvement committee or eliminate the committee and charge the finance committee with overseeing capital planning. Given that the town has had difficulty attracting candidates to both committees, the best option may be to consolidate the two committees, especially in light of our earlier recommendations that provide additional support to the finance committee during budget season. The town coordinator, working with department heads, should develop an inventory of assets. The town should use the forecast to determine a target amount to annually invest in capital improvements. An annual capital budget detailing capital items planned for the coming year, along with items planned over the next five years, should be regularly maintained and presented to town meeting each year.

Responsible Parties: BOS, coordinator, finance committee and department heads

6) Implement Employee Performance Reviews

Importance of Recommendation: High

Implementation Status: Incomplete

Future Action: The selectmen should establish goals and objectives for the coordinator and evaluate his performance relative to these goals each year. The coordinator should do the same for department heads that report to him and, in turn, department heads should set similar expectations with their staff and evaluate performance each year (this will need to be bargained with employee unions). Simple forms that list mutually agreed on goals for the year, criteria for measuring success against those goals and areas for written comments should be developed so that the process is conducted uniformly across town.

Responsible Parties: BOS, coordinator and department heads

7) Improve Office Space in Town Hall

Importance of Recommendation: High

Implementation Status: Incomplete

Future Action: While a recent town meeting in June of 2013 rejected a \$6.2 million bond authorization for town hall renovations, this remains a pressing need. The building is not accessible to all and is not well suited as professional office space.

Responsible Parties: BOS, Town Meeting

8) Monitor Health Care Spending

Importance of Recommendation: High

Implementation Status: Complete

Action Taken: The town has moved its employees into the state's Group Insurance Commission risk pool and has realized significant savings in its health insurance costs. Though being self-insured for a few years worked well for the town, the move to the huge risk pool offered by the GIC lowers the risk of catastrophic health claims for the town.

9) Reconsider Health Care Benefits for Part-Time Boards

Importance of Recommendation: Medium

Implementation Status: Complete

Action Taken: As per MGL c.32B, Section 2(d), the BOS has adopted a policy to exclude part-time board and committee members that work less than 20 hours per week from participating in the town's health insurance coverage.

10) Calculate OPEB Liability

Importance of Recommendation: High

Implementation Status: Partially Complete

Future Action: The town's latest actuarial study, as of 7/1/2012, places the total OPEB liability at \$16.2 million. While the town has completed the actuarial analysis of the liability, there is currently no plan to begin to fund this growing future liability. We believe that it would be prudent to begin reserving funds for this accrued liability, even if the amounts are modest. Responsible action to address the OPEB liability through meaningful contributions to an OPEB reserve is important to bond rating agencies and will help sustain a good bond rating to minimize interest costs for future borrowing.

Responsible Parties: Coordinator, BOS, finance committee and town meeting

11) Bond All Town Hall Employees Who Handle Money

Importance of Recommendation: High
Implementation Status: Nearly Complete

Future Action: All staff in the treasurer/collector's office is bonded and the recently hired administrative assistant to the town coordinator, who has historically assisted with collections at times, will be bonded shortly.

Responsible Parties: Coordinator and treasurer/collector

12) Hire a Clerk for Inspectional Services

Importance of Recommendation: Low
Implementation Status: Partially Complete

Future Action: The newly hired administrative assistant will be bonded and assist in the collection of the permit fees related to inspections. We continue to believe that the administrative assistant should maintain a control log of these permit receipts by type that should be periodically reconciled with the permits issued.

Responsible Parties: Administrative assistant and coordinator

Treasurer/Collector

13) Reconcile Cash and Receivables

Importance of Recommendation: High
Implementation Status: Nearly Complete

Action Taken: With the new treasurer/collector, significant progress has been made in the reconciliation of cash and receivables. Cash is reconciled through August and the September receipts have been turned over to the accountant. The assistant collector now maintains a receivable control to track receivable balances and receivables are reconciled through June. We are encouraged by the recent progress in addressing the timeliness of reconciliations, but continue to advocate for prompt monthly reconciliations of both cash and receivables as the goal.

Responsible Parties: Treasurer/collector and accountant

14) Shift Water and Sewer Collections

Importance of Recommendation: Medium

Implementation Status: Complete

Action Taken: Water and sewer receipts are collected in the treasurer/collector's office now, although the employee doing most collections is still an employee of the water and sewer department.

15) Process Refunds More Timely

Importance of Recommendation: Low

Implementation Status: Partially complete

Future Action: While refunds on overpaid real estate and motor vehicle excise are made promptly by the office there are still some balances in personal property accounts that remain on the books.

Responsible Parties: Treasurer/collector

16) Post Motor Vehicle Excise Receipts Directly to the Town's Bank Account

Importance of Recommendation: Medium

Implementation Status: Complete

Action Taken: The town's deputy collector now turns over all collections to the treasurer/collector for deposit in town bank accounts and then the deputy's fees are paid through the warrant process.

17) Submit Summary Time Sheets

Importance of Recommendation: Low

Implementation Status: Complete

Action Taken: Department heads now summarize the information contained on individual employee timesheets on a summary cover sheet when submitting payroll information for their department.

18) Record Sick and Vacation Time with the Payroll Service

Importance of Recommendation: Medium

Implementation Status: Nearly Complete

Action Taken: The office has proceeded with its payroll contractor, Harpers, to build the leave accrual tables and is in the process of bringing forward the existing balances for employees. From there, the system should automatically track leave earned and used.

Responsible Parties: Treasurer/collector

Accountant

19) Change the Vendor Warrant Schedule

Importance of Recommendation: Low

Implementation Status: Incomplete

Future Action: None, with many departments now entering their payables on-line, paying vendors weekly is less demanding on the accountant and reflects her preference to continue this process on a weekly basis.

20) Change the Format of the Payroll Warrant

Importance of Recommendation: Medium

Implementation Status: Incomplete

Future Action: Payroll warrants do not include actual amounts to be paid each employee but reflect the aggregate amount charged to each line item. This effectively limits the BOS role in reviewing individual payments and conducting a meaningful review of the payroll warrant. Reviewing the gross salary by employee should be part of the warrant approval process.

Responsible Parties: Accountant

21) Transfer School Financial Data Electronically

Importance of Recommendation: Medium

Implementation Status: Complete

Action Taken: The town now has a bridge between the school's accounting system and the town's Vadar accounting system that allows school payables to be brought electronically into the Vadar accounting system so that they do not have to be re-keyed.

22) Utilize the Senior Work-Off Program for Stuffing Bills

Importance of Recommendation: Low

Implementation Status: Not Applicable

Action Taken: The accountant no longer sends out checks as this responsibility was moved to the treasurer.

23) Post Invoices Remotely

Importance of Recommendation: Medium
Implementation Status: Nearly complete

Action Taken: The town has made good progress in this area with several major departments inputting their payable data remotely. Getting all departments on the system may be difficult as not all have access to the Vadar system on-site.

24) Create an Internal Expenditure Transfer Form

Importance of Recommendation: Low
Implementation Status: Complete

Action Taken: Very few of these transfers occur in practice, and when they do, the accountant requires a memo from the initiating department.

25) Submit Schedule A on Time

Importance of Recommendation: Medium
Implementation Status: Complete

Action Taken: The accountant submitted the 2013 Schedule A financial report on November 25, 2013, ahead of the due date of November 30, 2013.

26) Capture All Indirect Costs

Importance of Recommendation: Medium
Implementation Status: Complete

Action Taken: What are typically indirect costs in other communities are budgeted directly in the enterprise fund. Employee benefits, insurance and debt service are all included in the direct enterprise fund budget.

27) Grants and Contracts to Town Accountant

Importance of Recommendation: Medium
Implementation Status: Partially Complete

Future Action: There are still some grant agreements and contracts that the accountant does not have on file. These should be pursued so that they are available to the accountant when reviewing bills for payment.

Responsible Parties: Accountant, school department and department heads.

Assessors

28) Require Digital Submission of Plans

Importance of Recommendation: Low
Implementation Status: Partially Complete

Future Action: The assessors are receiving some digital plans and it appears that the planning board will soon be requiring that all plans be submitted digitally.

Responsible Parties: Assessors and planning board

29) Budget Adequately for GIS

Importance of Recommendation: Low
Implementation Status: Complete

Action Taken: The Central Massachusetts Regional Planning Commission updates the town's GIS maps and the principal assessor feels that the GIS system functions well for the assessing office.

30) Send One Person on Inspections

Importance of Recommendation: Medium
Implementation Status: Complete

Action Taken: The principal assessor conducts field inspections herself which frees up the administrative assistant to staff the office in her absence.

Water and Sewer Enterprise Funds

31) Adopt a Rate Setting Process

Importance of Recommendation: Medium
Implementation Status: Partially Complete

Action Taken: As of 7/1/2013, water and sewer enterprise fund retained earnings balances were \$389,115 and \$64,859, respectively. As recently as last year, the sewer enterprise had a negative retained earnings. Additional work is necessary to evaluate and plan for the upcoming capital needs of these enterprise funds and then determine appropriate rates to cover operating and expected capital outlays.

Responsible Parties: Water and Sewer Commission and manager, coordinator

32) Consider Consolidating into a Centralized Department of Public Works

Importance of Recommendation: Medium
Implementation Status: Incomplete

Future Action: We continue to believe that there is merit to consolidating water, sewer, forestry, highway and parks departments into a unified department of public works. Given the existing elected boards, achieving this consolidation will require that the town pursue special legislation or adopt a charter that provides for this structure.

Responsible Parties: BOS, coordinator and town meeting

Computers and Technology

33) Improve Systems Administration

Importance of Recommendation: Medium

Implementation Status: Partially Complete

Action Taken: The coordinator and the town's computer consultant have prepared an inventory of computer equipment and are developing a replacement schedule for this equipment. Additional work to establish employee internet and email use policies and gauge staff training needs is being pursued by the coordinator. The technology consultant is available to the town on an as needed basis.

Responsible Parties: Coordinator and computer consultant

34) Assign Backup Responsibility

Importance of Recommendation: High

Implementation Status: Complete

Action Taken: The need to conduct system-wide back-ups was highlighted in our earlier report and the town's auditor, in the 2012 management letter comments, cited a need for disaster recovery procedures around the back-up and recovery of critical financial systems. The town now completes dual back-ups of its systems daily, both through an off-site cloud-based system and through an on-site back-up to another server.