



Town of Hull

Financial Management Review

Division of Local Services / Technical Assistance Section

June 2009

Introduction

At the request of the board of selectmen, the Department of Revenue's Division of Local Services (DLS) has completed this financial management review for the Town of Hull.

We based our findings and recommendations on site visits by a technical assistance team consisting of staff from the DLS Municipal Data Management & Technical Assistance Bureau. During these visits and by telephone, the team interviewed and received information from members of the board of selectmen, finance committee, board of assessors, as well as the town manager, town accountant, treasurer/collector, assistant assessor, municipal light plant operations manager and their staff.

The team from DLS examined such documents as the Tax Recapitulation Sheet, Schedule A, annual town budgets, trial balance reports, debt schedules, vendor and payroll warrants and sample department turnover reports. Other documents reviewed included the town charter and bylaws, job descriptions, the independent audit reports completed for FY2006 and FY2007, and the financial planning committee report to the board of selectmen.

In reviewing the town's financial management policies, practices and procedures, we focused on:

1. Town government structure in the context of the duties and responsibilities of financial officers;
2. The degree of coordination and communication that exists between and among boards, officials and staff involved in the financial management function;
3. The town's budget, capital planning and warrant processes; and,
4. The general efficiency and effectiveness of financial operations as measured by the town's success in maximizing resources and minimizing costs.

We encourage the board of selectmen, town manager and others, when formulating overall strategies for improving Hull's financial management, to consider the observations, analysis and recommendations contained within this report. These are recommendations only, which can be implemented, provided there is sufficient cooperation and political will among the various town boards, committees and officials.

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Overview

The Town of Hull's Board of Selectmen and Advisory Board made a request for this financial management review. The scope of our review involved an assessment of the town's finance related operations, as well as a broader evaluation of the various financial policies, practices and procedures in place to accomplish requisite tasks. Although this overview comments on the town's current financial condition, our report is intended to provide a series of recommendations which are collectively designed to help strengthen Hull's financial management practices.

Located 20 miles south of Boston, Hull is uniquely situated on a long barrier beach extending into Massachusetts Bay. Overlooking Boston Harbor, the town's history has been shaped by its unusual geography. Beginning as an early trading post between Plymouth Colony and the Wampanoag Indians, Hull transformed into a booming tourist destination by the end of the ninetieth century. Catering to throngs of visitors over the next five decades who were attracted to the beaches, grand hotels and easy access from Boston, the town thrived, experiencing a rapid expansion. This period came to an end however, and by the mid-eighties one of the last remaining elements, the historic Paragon Park amusement complex, closed its doors. Only the carousel and clock tower remain as icons of this bygone era.

Today, Hull is a coastal suburban community of approximately 11,000 residents. It is the fourth smallest community in the state by land area (3.03sq mi) and its population density (3,652 per sq mi) ranks 28th in the state. As a relative indicator of the Hull's wealth, estimated per capita income among residents in 2006 was \$28,927, while the 2008 Equalized Valuation (EQV) per capita was \$206,501. In FY2009, the average single family home value was \$411,749, with an average tax bill of \$4,319 (Appendix: Table 1).

The town is governed by open town meeting and a five member board of selectmen who set goals and objectives, institute policy and make recommendations to town meeting on annual operating and capital spending. The selectmen appoint a town manager who serves as the chief executive officer responsible for day-to-day management, overseeing all municipal operations and government functions. The town manager has authority to appoint department heads, officers and employees of the town.

According to DLS records, the town's FY2009 budget was \$35.9 million. Among sources of revenue, \$21.7 million was derived from the tax levy while state aid accounted for \$6.8 million. Local receipts (\$6.1 million) and other miscellaneous revenue (\$1.3 million) made up the remainder. As reported to the Department of Elementary and Secondary Education, education represents the town's largest expenditure, budgeted at \$15.7 million, or about 50 percent of total spending for FY2009.

However, like many cities and towns across the Commonwealth, Hull has experienced a recent deterioration in its fiscal condition. Amid a deep national recession and facing a new fiscal reality, the challenges that leadership must confront are daunting. This stark outlook for the future is characterized by an environment of limited and declining revenues, and expenses that continue to escalate exponentially.

The town manager in his FY2009 budget message forecasted this bleak financial outlook, proposing that the best course of action was to make necessary adjustments in FY2009 and to begin a public discussion on the "viability of service levels" for FY2010. His message concluded by stating that

if the current trend in state aid reductions continued, the town would be “forced to diminish or eliminate services or seek alternate actions.”

By September of FY2009 an ad hoc special Financial Planning Committee reported to the board of selectmen on the state of Hull’s financial condition. Based on a level service scenario, the committee estimated a \$2.8 million deficit for FY2010 and recommended that “immediate action is required.”

In January, amidst the town’s annual budget process, the Governor released an emergency recovery plan to stabilize the state’s budget, a new municipal partnership act, and his FY2010 budget proposal (House 1). However, between January and May, state revenues declined at such a rapid pace that the state aid picture changed dramatically. The recently released Senate proposal reflects the worst case scenario for cities and towns to date. Currently the impact to Hull would be over a \$1 million reduction, including cuts to Chapter 70, Unrestricted General Government Aid, and Police Career Incentive (Quinn Bill).

This projected “precipitous decline” in state aid is compounding what is becoming a reliance on property taxes to pay for services. As the single largest source of revenue, property taxes now account for over 60.5 percent of total available funds for Hull, an increase from 54 percent in FY2000 (Appendix: Table 2). Further representative of the town’s current financial condition, is the decline in free cash and stabilization. Since FY2003, reserves have dropped from about \$6.3 million to \$2.3 million or from 19.8 percent to 6.3 percent of total revenue (Appendix: Table 3).

As numerous factors are impacting Hull’s relative financial flexibility, it became increasingly clear that definitive action was needed in order to resolve the long-term imbalance between the cost to maintain services and available revenues. Clearly articulated in the town manager’s FY2010 budget message, Hull has reached a tipping point. With a recent history characterized by various cost reductions, the town is at the “end of [its] ability to maintain services with current resources.”

To this end, and following an earlier recommendation by the financial planning committee, a 4-to-1 decision by the board of selectmen approved a \$1.6 million debt exclusion question for annual town election. Separate from a general operating override, the debt exclusion would raise the funds necessary to cover debt service costs associated with the renovations completed to the Memorial and Jacobs schools from the property tax levy, but outside the limits under Proposition 2½. The tax increase would remain in effect until the project’s debt is repaid.

The debt exclusion was intended to remove bond payment obligations originally authorized in 2008 from the general operating budget, which would have provided an additional \$1.6 million to stabilize department budgets. Unfortunately, it failed to pass (1,574 to 1,373). It was Hull’s first override/exclusion in seven years, and the 11th since Proposition 2½ was first enacted in 1980. The community has approved three overrides since 1980.

As a contingency in case the debt exclusion failed, the town manager presented two budgets at town meeting. While Budget B assumed the \$1.6 million debt exclusion and has less of an impact on existing services, Budget A presented a strategy for reductions and was balanced. As proposed, municipal cost cutting measures will be significant. According to supplied budget documents, Budget A cuts included reductions to school, police, fire, and highway departments, among others. These reductions totaled \$1,593,126 compared to FY2009 departmental spending.

Compounding matters is the fact that these reductions followed earlier efforts to reduce costs. Since 2007 the town manager aggressively pursued efficiencies by making the organization more effective, limiting additional spending, and in some instances cutting municipal functions. Although examples included the layoff of the town human resources manager, he was recently successful in renegotiating the employee health insurance contribution which is projected to save \$600,000 annually. Unfortunately, more may be needed.

Residents should however acknowledge that in relation to most communities, Hull is ahead of the curve. The town manager and his core staff anticipated the current budget challenges and made necessary adjustments to present a balanced budget that was adopted by town meeting. Although the attempt at the debt exclusion was unsuccessful, the town manager and his staff continue to seek additional opportunities to stabilize operations.

Conclusion – This financial management review represents such an additional step by town leadership to evaluate Hull’s municipal operations. Although our report does not offer immediate cost savings, our observations, conclusions and recommendations introduce opportunities to operate more effectively, build near term efficiencies and improve internal financial management.

Based on our observations, town finance offices appear to fulfill legal responsibilities and operate in accordance with recommended municipal financial management practices. The town conforms to recommended budgeting practices as well, and maintains strong revenue and expenditure forecasting methods. Hull benefits from a skilled professional town manager and knowledgeable town accountant. Staff in the various financial offices of the accountant, treasurer/collector and assessor have clear roles and responsibilities. Cooperation, although it could be strengthened, also exists. The technology department in Hull functions particularly well.

Beyond the increased attention being paid to long-term fiscal concerns there are opportunities to improve operations and strengthen financial management policies. Specifically, we outline a series of overall recommendations that suggest how to enhance town-wide financial operations. These recommendations include holding regular financial management team meetings, adopting formal policies, and establishing a comprehensive capital planning program. In addition, we provide recommendations for individual departments that address particular practices and procedures, and comment on the condition of technology.

Notwithstanding these recommendations, greater challenges lie ahead for Hull. Because the debt exclusion vote was unsuccessful, town officials will have to continue their focus on near and long-term strategies to operate within the confines of Proposition 2 ½ and balanced budget requirements. The town will need to define what level of services it desires, look at all available options to both raise revenue and reduce expenses, and continually seek innovative ways to enhance municipal efficiency and effectiveness.

Overall Financial Management

A review of Hull's overall financial management practices centers on the fiscal procedures in place that typically involve finance related departments, but impact town government as a whole. Accordingly, we examined the budget process, financial forecasting, capital planning, and the payroll and vendor warrant process. We looked at financial policies, long-term planning and financial monitoring practices, as well as the effect of the town's organizational structure on the operation of government. We further reviewed the town's current operations in the context of best practices observed in other communities and recommended by the Department of Revenue (DOR). We also considered the roles and working relationships among individuals together with the level of communication and cooperation that exists between decision-makers, managers and staff. Finally, we reviewed local compliance with state laws and regulations relating to finance issues, adherence to acceptable form, and to timetables for the submission of periodic reports to DOR.

The board of selectmen in Hull is composed of five members who are elected to three-year terms. Selectmen are primarily responsible for instituting policies and establishing fiscal guidelines, but also set goals and objectives for the town and serve as the chief licensing body. Two members of the board are newly elected within the past year, while the remaining members combine for over 25 years of service to the town. The board generally meets every other Tuesday, with agendas and minutes available on the town's website.

Appointed by the board of selectmen, the town manager supervises day-to-day operations and the activities of all town departments. In Hull, the town manager has wide-ranging authority as defined by town charter. As the chief administrative and financial officer for the town, he is responsible for preparing and administering the annual budget and capital planning program, directing and monitoring general financial management activities, as well as coordinating operational and strategic planning efforts. The town manager has the authority to appoint all department heads, officers and employees of the town, except those explicitly outlined by town charter or regulation.

Under the clear direction of the town manager, the budget begins in November with the development of revenue projections. Department appropriation guidelines/budget sheets are distributed by mid-October, and by December the town manager formulates his budget recommendation through discussion with department heads. The budget is then submitted to the board of selectmen and advisory board by January. The board of selectmen and advisory board then hold a series of public hearings to further review the budget before presentation to town meeting on the first Monday in May.

Conclusion – Despite the difficult financial conditions that Hull faces, the day-to-day administration of essential functions is run by a skilled town manager and staff. Employees' roles and responsibilities are well defined and staff is held accountable. The budget process in Hull conforms to recommended practice and the town produces prudent financial forecasts– although we comment on the need to strengthen capital planning. Proper vendor and payroll warrant procedures exist. From our perspective the town appears to have adequate financial checks and balances in place, although opportunities exist to strengthen various policies, procedures and practices. Our recommendations that follow identify these specific opportunities and outline benefits derived by incorporating best practices.

Recommendation 1: Hold Regular Financial Management Team Meetings

The town manager should hold regular financial management team meetings. As outlined in the overview, Hull is facing a number of financial challenges and difficult decisions due to the current fiscal crisis. As a result, Hull's operating budget is becoming increasingly strained. Although the town manager successfully balanced the budget for FY2010 through various reductions, institutional efficiencies and collective bargaining concessions more may need to be done as a hedge against a future budget deficit.

To this end, we recommend that the town manager hold regular financial management team meetings which would comprise core municipal officials including the town accountant, IT director, assistant assessor, treasurer/collector, together with a representative from the school's business office as necessary. For Hull, financial management team meetings will allow the town manager to direct financial planning efforts and strategic decision-making. In addition, the meetings can serve as a vehicle for the town manager to:

- Discuss contingency planning efforts and potential cost cutting measures including additional union concessions, shifting staff to ARRA grants, and reviewing rates and fees, among others;
- Ensure that departments are communicating and that management issues are being discussed, addressed and resolved; and,
- Monitor departments on the completion of deliverables, including various analyses, reconciliations, and other year-end reports.

Recommendation 2: Adopt Formal Financial Management Policies

The financial management team should outline a series of comprehensive financial management policies for selectmen to adopt. Strong financial management policies, in addition to bolstering a municipality's credit rating, can ensure that activities and practices are in place to promote fiscal stability and stewardship of town finances. Beyond enhancing the probability of a sustainable and consistent level of governance for the town in the future, formal policies will reinforce internal controls and provide guidance to departments on effective and responsible management. Financial policies generally assist in management decisions related to budget, debt and capital planning, as well as forecasting and reporting practices.

As Hull could benefit from the adoption of formal financial management policies related to reserves, other post-employment benefits (OBEB), turnovers and cash management, we provide the following recommendations to guide in their development:

I. Other Post-Employment Benefits: A policy should be formulated to respond to Hull's Other Post-Employment Benefits (OPEB) liability. The OPEB liability is derived from costs assigned to benefits other than pensions already earned by public employees to be distributed upon retirement. Post-employment benefits other than pensions generally take the form of health, dental, vision, prescription, and life insurances, or other benefits provided to eligible retirees, including in some cases their beneficiaries. While there is currently no requirement that municipalities fund their OPEB liability, the

Governmental Accounting Standards Board (GASB) in Statement 45 now requires that the dollar value associated with the unfunded liability be disclosed through an actuarial evaluation which Hull completed early this year. Because this dollar value represents a significant future liability, we recommend that the town devise a policy on how it will address the issue moving forward. It may be as simple as confirming that costs will continue to be covered on a “pay-as-you-go” basis, or that the town will work toward establishing a fund similar to that of their pension reserve fund.

II. Turnovers: A policy should be established that standardizes the turnover of monies from all departments. As is the case in Hull, communities typically use turnover sheets designed in Excel that include the department’s name and related revenue account information. However, such forms have not been universally adopted by departments. Therefore, we advise the treasurer/collector to adopt a standard policy that requires departments to turn over money weekly along with signed copies of the turnover form for the department, treasurer and accountant. The turnover form should include the name of the department, corresponding revenue account information, along with appropriate locations at the top or bottom for dates, affirmations and signatures for the department head or appropriate designee.

III. Investments: A policy should be developed that outlines the investment of public funds. It is our understanding that the town manager, town accountant and treasurer/collector have been engaged in discussion about interest earned on investments. Although we acknowledge that an ongoing meaningful dialogue is productive, it would be sensible for town officials to formulate a policy on the investment of public funds. Often recommended by bond rating agencies and encouraged by independent auditors, a formal investment policy directs the prudent investment of public funds.

An investment policy generally applies to all financial assets, transactions and related activity of all town funds including, short-term operating funds (i.e. general funds, special revenue funds, enterprise funds and capital funds) as well as funds to be invested long-term (i.e. bond proceeds, trust funds and stabilization funds). Typically, the policy will address the methods, procedures and practices that ensure effective and judicious management of town investments. Objectives often include the preservation of capital, liquidity needs of the town, investment diversification, adherence to state and local statutes and regulations, as well as the desire to generate market rate returns. While the Massachusetts Collectors and Treasurers Association manual, available at www.masscta.com, can serve as a useful starting point, we encourage officials to contact their peers in other communities that have adopted similar policies.

IV. Red Flag Rules: A policy should be outlined which addresses the new federal regulations on identity theft, known as “Red Flag Rules”. Under the regulations issued by the Federal Trade Commission municipal utilities, including water, electricity, and sewage, must develop a written Identity Theft Prevention Program that provides for the identification, detection, and response to patterns, practices, or specific activities that could indicate identity theft (“red flags”). Accordingly, officials should design a program that includes policies and procedures to:

1. Identify relevant “red flags” or warning signs of identity theft;
2. Detect red flags;
3. Respond appropriately to red flags;

4. Ensure periodic updating of the Program to reflect changing risks to customers and creditors.

The State Rural Water Association has developed a program model that utilities can look to for assistance in tailoring Red Flag Programs. The document “[Identity Theft Prevention Program Compliance Model](#),” affords a useful guide to implementing the federal mandate. For additional information, please see the Federal Trade Commission (www.ftc.gov), FTC business Alert, [New ‘Red Flag’ Requirements for Financial Institutions and Creditors Will Help Fight Identity Theft](#).

V. Reserves: A formal reserve policy should be developed that directs the use of free cash and stabilization funds. While we normally recommend that communities adopt a policy that encourages the preservation of reserves of between three and five percent of the budget and limits their use to one-time expenditures, we acknowledge that current fiscal circumstances make it difficult to retain, let alone build, a sizable balance. Hull could therefore benefit from developing a policy that positions the town for when times are better, as there is often a tendency among municipalities to spend rather than save as additional funds become available. In order to support a healthy reserve balance for the future, officials should identify an incremental approach that moves additional funds into reserves, while simultaneously limiting their use to one-time expenditures. To its credit, Hull has been historically conservative with its use of free cash and stabilization funds.

Recommendation 3: Establish a Comprehensive Capital Planning Program

The town manager should establish a comprehensive capital improvement program. Although intuitive, communities historically spend too little on maintaining existing buildings and infrastructure which tends to accumulate into a backlog of capital spending needs as a result of deferred maintenance. A comprehensive capital planning program in its design, serves as an effective resource allocation tool by enabling officials to direct resources to identified needs. Established in bylaw, it facilitates a strategic planning process built upon an explicit long-term vision for the town, which is linked to a multi-year capital plan that embodies clear standards and capital spending priorities.

To begin, the board of selectmen should establish a capital planning committee. Spearheaded by the town manager, the committee would be composed of either town officials, residents or a mix. What is important is that members have the knowledge and understanding, or a desired skill set, to contribute in a meaningful way. Once organized, the committee would develop a detailed inventory of all the town’s capital assets and identify maintenance and replacement priorities. The resulting report would propose an initial expenditure plan that would be updated annually by the committee.

Next, the committee should agree upon a set of policies that clarify capital spending moving forward by identifying uniform and objective criteria that qualify capital expenditures— criteria typically include minimum useful life (e.g., five years) and dollar amount thresholds (e.g., \$25,000), as well as safety needs, legal requirements, among others. To be objective, the committee should compare the urgency and list proposed projects accordingly. As a matter of process, we would expect the town manager to prioritize departmental requests and submit rankings to the capital planning committee for

consideration. The committee would then evaluate proposals, applying criteria as outlined above, and arrive at its final recommendation for town meeting.

For additional assistance, we direct officials to our “Developing a Capital Improvement Program” manual which is available at www.mass.gov/dls under the financial management assistance, publications and other useful links.

Recommendation 4: Issue RFP for Annual Audit

Town officials should consider engaging a new outside audit firm. Hull is among the vast majority of municipalities that are required to complete an independent audit of its annual financial statements under the federal Single Audit Act. Independent audits are not only critical to sound financial management, but demonstrate that the municipality’s assets are safe and being handled responsibly. As a rule, the town should issue a request for auditing services every three to six years.

Hull has been with the same outside audit firm for over 20 years. Contracting with a new audit firm will not only bring a fresh perspective, but reflects good practice. Town officials may also want to consider the merits of appointing an audit committee. The audit committee, independent of staff, would be charged with engaging and assisting the auditor, reviewing audit reports and monitoring the town’s progress in formulating and completing an action plan.

As a resource, please review our Annual Audit Best Practice, found in the Technical Assistance section of the DLS website: www.mass.gov/dls.

Recommendation 5: Consider All Options to Reduce Health Care Costs

The town manager should continually evaluate Hull’s options to ease further health care cost increases. Recently the town manager successfully negotiated a change to the town’s union health insurance benefit structure. Under the new agreement the percent contribution for health insurance will shift from 90 percent employer paid to 75 percent employer paid. Moving forward, we encourage the town manager to hold annual discussions to consider all opportunities, alternatives and other options to alleviate the overall costs of providing health insurance. As part of the annual review by the town manager, we recommend he consider the following:

- *Compare competing joint and regional programs:* Officials should review their current health insurance program against other joint purchasing groups or regional health insurance consortiums. Using reasonable benefit assumptions, a comparison of competing program costs should be developed to identify potential savings for the town.
- *Consider the Group Insurance Commission (GIC):* GIC rate increases have been significantly lower and less volatile than the rate increases experienced in most municipalities. Besides offering an array of comparable top rated health plans, GIC benefits include participation in a large risk pool. Since FY2001 overall GIC costs have increased about 84 percent, while Hull experienced a 191 percent increase.
- *Formally Adopt M.G.L. c. 32B, §18:* Although the town currently participates in the Plymouth County Group Health Insurance which requires eligible retirees to opt into Medicare, we

recommend M.G.L. c. 32B, §18 be adopted. The acceptance of this local option statute requires eligible retirees to enroll in Medicare at age 65 without any loss of benefits. By adopting this local option statute, the town, regardless of how they provide health insurance benefits, would be required to insure retirees only for any gap in Medicare coverage. Officials should also be aware that a financial penalty is imposed on the town for each full year an employee was eligible, but not enrolled in Medicare B.

Recommendation 6: Outline Formal Indirect Cost Formula

The town manager should outline a formal multi-year indirect cost agreement with the Municipal Light Plant. Currently, the town manager and municipal light operations manager annually agree on a dollar value that serves to compensate the town for services provided to the light plant. Moving forward, the town manager and light operations manager should agree upon a formula for presentation to the board of selectmen that would serve as the basis for determining an annual indirect cost payment to the town. The formula should be reasonable and have long-term applicability in a way that produces a fair and consistent annual payment. Relevant factors might include, among others, direct and indirect service costs for health insurance, pension, other insurances, debt and administrative overhead. For further insight, we encourage the town manager and others to communicate with municipalities which have developed or negotiated formal indirect cost agreements with their respective municipal light plants.

Recommendation 7: Pursue Additional Opportunities to Merge Operations

In an effort to streamline operations, Hull should continue to pursue the merger of municipal and school business functions. As was done with information technology, we feel that Hull could benefit from a combined municipal and school finance department as well as by reconstituting the town human resource function into a joint operation with the school. Under a consolidated approach, the town could enhance and reinforce back office/internal services, improve coordination, and limit operating costs.

In addition, this may be an opportune time to pursue merger as the school department relative to the town's total population is relatively small (FY2009 enrollment 1,321), and has experienced a 20 percent decline in foundation enrollment between 1999 and 2009.

Communities typically use a memorandum of understanding that expressly describes the negotiated arrangement between the town and school bodies. Of the communities that have successfully consolidated services, there appears to be four primary characteristics that most contributed to a successful conversion—strong leadership, mutual trust, competence among staff and position vacancies. It is also apparent that a strategy to consolidate operations is more productive when a plan is developed that establishes a timetable for milestone events and goals to be achieved.

Recommendation 8: Publish Town Charter and Bylaws Online

Officials should publish Hull's charter and bylaws on the town's website. Not only is web access more convenient, it promotes a sense of transparency and public awareness about the town's structure and operations.

Recommendation 9: Consider Residential Exemption

Hull should consider adopting a residential tax exemption. The residential exemption re-allocates the tax burden entirely within the residential property classification. It does not increase overall tax revenue for the town. To qualify, a property must be the principal residence of an owner-occupant and can be other than a single family home. To date, 14 cities and towns have adopted the residential exemption which is attractive to communities with a high proportion of second-family homes, rental units and absentee landlords. Implementation of a residential exemption requires approval by the board of selectmen as part of the annual classification hearing.

Using an estimate provided by the interim assistant assessor of the percentage of residential properties that are owner occupied, we estimated an assessed value of \$512,985 as the break-even point (Appendix: Table 4). Savings on tax bills would increasingly accrue to properties with lower assessed values, while a higher tax liability would be assigned to properties with a greater assessed value. The range of benefits varies with the town’s choice of an exemption percentage and current occupancy levels among different residential property types. As a reference point, the average assessed value of a single-family home in Hull was \$428,474 in FY2008, which would result in an average tax bill savings of \$153.81.

To help verify whether an applicant qualifies for the exemption, the town may be able to check with the Department of Revenue concerning the taxpayers’ primary residence.

Recommendation 10: Consolidate Revolving Fund Warrant Articles

The town manager should consolidate revolving fund warrant articles. Upon a review of Hull’s past town meeting warrants, revolving fund accounts established under M.G.L. c. 44, §53E½, are presented as separate articles. To streamline the warrant and still meet regulatory requirements, we suggest that all revolving fund articles be consolidated into one article under a single motion. By way of example, we suggest the following:

Article 10. That the town vote to authorize revolving funds for FY2010, pursuant to Section 53E ½ of Chapter 44 of the Massachusetts General Laws, as amended, for the following purposes:

<u>Revolving Fund</u>	<u>Authorized to Spend</u>	<u>Revenue Source</u>	<u>Use of Fund</u>	<u>Spending Limit</u>
<i>Inspectional Services</i>	<i>Building Commissioner</i>	<i>Permit & Inspection Receipts</i>	<i>Salaries & Expenses</i>	<i>\$81,000</i>
<i>Vaccination Clinics</i>	<i>Board of Health</i>	<i>Fees & Billings</i>	<i>Vaccination Clinics</i>	<i>\$15,000</i>
<i>Board of Appeals</i>	<i>Board of Appeals</i>	<i>Fees & Appeals</i>	<i>Expenses</i>	<i>\$10,000</i>

Technology

The management of information technology (IT) is a central component of modern day municipal government. As technology continues to advance, so too does the investment in both time and financial resources necessary to manage and maintain computer systems. Today, IT managers must ensure that various hardware components such as town server(s) are running properly and that critical data is backed-up on a routine schedule. IT departments must maintain high security standards that safeguard sensitive data and prohibit intruders. They maintain and monitor system performance so it is continually available to users. The department also investigates, purchases, and installs new software and/or upgrades to existing applications. Additional responsibilities include providing helpdesk support for general technology-related issues or problems, acting as a liaison between vendors and town officials, supporting the town's website, and coordinating the development of town-wide technology related policies and procedures.

The IT department in Hull is consolidated with responsibilities split between the town and the school department. Staff consists of a full-time director, assistant director and a technology specialist. The school department is supported by the assistant director and technology special, both of whom are cross-trained, while the town is supported by the director. Additional support is provided to the town one day per month by outside consultant John Wise, as well as by two students via a high school community outreach program.

For the town, which accounts for approximately 40 percent of the workload, the department maintains six servers, along with desktops and other hardware peripherals. All town owned buildings are networked. All personnel have both email and internet access, and proper computer use policies are in place. System back-ups are performed on a regular schedule, with a maximum loss of data of three days. Back-up tapes for town hall are stored on-site in a fire resistant safe.

The IT director has vastly improved the town's IT system since she started with Hull nine years ago. Prior to her arrival, the town was not networked, lacked a website and employees were without email capability. Today she has engineered a department where all IT related decisions and vendor relations are run through her department. She has a complete inventory of all computer related equipment and has implemented a regular computer replacement schedule. The department also maintains a website and developed a technology manual for the school district. More recently the department rolled out a voice over internet protocol (VoIP) system which will consolidate independent phones lines. Between the town and school district, it is forecasted to save approximately \$36,000 per year.

Conclusion – Although Hull's technology department is managed by a skilled and knowledgeable director who provides a high level of support, our concerns relate to the department's ability to retain such standards given available resources. While the school department appears to be adequately supported, town operations may be suffering from the lack of a full-time presence. To the IT director's credit, she has made an effort to mitigate the situation by installing SchoolDude, a work order portal, and utilizing student support. However, despite these efforts more resources may need to be

invested. We share in the IT director's concern that because of the lack of staff, her long-term ability to maintain, expand and improve the system is limited at this point.

Our primary recommendation is therefore designed to encourage a thorough assessment of the department's current workload and to develop additional mechanisms of support for the town. In addition, while training has been provided for various software applications in the past, it is clear that staff could benefit from additional instruction. Lastly, we promote the offsite storage of computer backup tapes.

Recommendation 11: Encourage IT Support

The IT director should follow through on her plan to implement SchoolDude and other related support mechanisms on the town side. It became clear during our interviews that the IT director has been delegated a significant amount of responsibility on the town side and with the schools. As outlined in the overview, the director provides complete support for both the town and school on all IT related matters. However, while she appears to have adequate support from two full-time technicians, students and the work order portal SchoolDude for the school side, she has no similar resources to devote to the town.

For that reason, the IT director should be encouraged to implement various support mechanisms for the town. Although multiple solutions exist, the town would be well served if it reinstated the tech teacher stipends, expanded the community outreach program and provided resources to incorporate the SchoolDude system town-wide. For a minimal cost, tech teachers could support school operations while additional students from the community outreach program would continue to be utilized in their current capacity, thus enabling the full-time technicians to provide some support to the town. In general, costs will be recovered because of greater efficiencies, targeted training and better management of hardware and software.

Recommendation 12: Develop Department Procedural Manuals

Facilitated by both the IT director and town accountant, the town manager should direct departments to publish procedural manuals for all routine financial processes. The town accountant has expressed interest in documenting certain department-specific processes as a means to bolster internal controls. We agree, procedural manuals are a valuable tool which can provide instruction and serve as a resource for staff and others. Credit rating agencies also look favorably on communities that have documented procedures. Although manuals generally take the form of notebooks that contain step-by-step instructions on how to accomplish routine and critical office tasks, we would encourage their development in Portable Document Format (PDF). For illustration purposes, computer-related procedures can be depicted by screen snapshots displaying each step required.

Understanding that manuals serve as a ready reference for staff, they are also a valuable training tool for new employees. In addition, as a result of developing procedure manuals, the town manager and department managers may be able to work with staff to devise easier, more efficient and responsive ways of accomplishing requisite office responsibilities and tasks. While individual departments are best

equipped to outline procedures that pertain solely to their internal activities, the town accountant is in the best position to coordinate the development of procedures for those financial processes that involve multiple departments. All procedures should be reviewed and approved by the town manager in consultation with the financial team.

Recommendation 13: Encourage Continued Staff Training

The town manager should encourage additional IT related training and continuing education for all town staff. Although the IT director has put in a tremendous amount of effort into enhancing technology in town, which we commend, there are numerous instances where staff could benefit from additional instruction. To begin, the IT director should identify specific training needs and develop appropriate courses that will enable staff to make better use of their computer systems. Not only will training serve as a refresher and help provide useful information, but opportunities will arise to explore alternative ways to operate more efficiently and effectively. Specifically, we feel staff could benefit from additional instruction on FundWare/DataNational and Excel.

Recommendation 14: Maintain System Backups Offsite

All computer related backup tapes should be securely housed offsite. Backups generally refer to the copying of computer data and files onto tapes that are available to restore information in the event of a loss. Although computer files are currently being backed-up on a routine schedule, with a maximum data loss exposure of three days, tapes are maintained onsite. Even though tapes are kept in a fire resistant safe, we advise the IT director to move them to at a secure offsite location, such as the fire station.

Alternatively, we suggest that the town invest in remote backup capabilities. Remote backup is an emerging service provided by numerous private companies whereby a copy of the town's computer data is stored remotely in a secure offsite location so that in the event of disaster your data is still retrievable. Typically, remote backup software is installed which manages the file selection, backup scheduling and location of backups.

Treasurer/Collector

The treasurer, as the community's cash manager, has custody of all municipal money. Included is the responsibility to post and deposit town receipts into appropriate bank accounts and to monitor balances to ensure that sufficient funds are available to cover town obligations. The treasurer invests town funds and manages debt to maximize investment income and to meet cash flow needs. The treasurer maintains a cashbook, debt schedule, check registers and various logs to track balances for grants, trusts, revolving funds and special revenue funds. As a financial control, the treasurer is obligated to reconcile cash balances and debt, both internally, and with the accountant on a regular basis. Lastly, the treasurer maintains tax title accounts and prepares documents to petition for foreclosure.

The town collector possesses the authority to receive all payments due the community including property taxes, excises, betterments and certain other charges. The collector has the responsibility to make certain that collections are properly counted, posted to taxpayer accounts, and either turned-over to the treasurer or deposited daily. The collector pursues delinquent accounts and then moves them efficiently into the treasurer's tax title accounts. To be successful, the collector must maintain an up-to-date receivable control that is reconciled internally and then externally with the accountant monthly. They should run credit reports as appropriate and complete necessary research to confirm legitimate refunds due to residents. In accordance with state law, the collector is required to respond to requests for municipal lien certificates. In most communities, the collector also manages the contractual agreement with the deputy collector.

In Hull, the positions of treasurer and collector are functionally combined and appointed by the town manager. The current treasurer/collector has served since October 2006. He is a Certified Massachusetts Municipal Treasurer and Collector. As the department head, he supervises two full-time clerks in the treasurer's office and three full-time clerks in the collector's office. A clerk in the collector's office splits her time with the parking department. Staff in the treasurer and collector's offices are cross-trained. Beginning July 1st a collector's clerk will be laid off while a treasurer's clerk will be reduced to part-time.

Both the treasurer and collector offices are located on the first floor of town hall where bill payments are received and other business is conducted. The collector's office is equipped with individual computers for staff where the DataNational financial software is accessed to perform daily posting work. Real estate tax bills are issued quarterly, but semi-annual mailings include two remittances. Customers' payments are either received over-the-counter or mail, or via lockbox (Century Bank) or online (MCC) payment service. According to the treasurer/collector, of the approximately 6000 real estate bills which are printed and mailed by Mark Altman & Associates, roughly 25 percent of the payments are handled over-the-counter or received by mail, while 30 percent are received from tax escrow firms. The remaining 45 percent are directly processed through the lockbox or online payment service. The office also issues approximately 12,000 annual motor vehicle excise bills and 4,500 sewer bills. The deputy collector, John Y. Brady, is under contract to pursue delinquent real estate, personal property and motor vehicle excise accounts.

Conclusion – Although it appears that everyday administrative activities of the treasurer/collector’s office are taking place, there are instances where core responsibilities need to be strengthened. Specifically, and as the treasurer/collector recommended, he should move outstanding receivables to tax title and devise a plan to reduce tax title properties, and be formulating a strategy for monitoring the reconciliation of cash and receivables as variances exist. We recommend that he also maintain a current cash flow budget and develop a long-term debt schedule. Beyond these areas in need of attention, we outline a number of other recommendations designed to incorporate best practice and streamline activities to enable a more efficient and effective operation.

Recommendation 15: Move Outstanding Real Estate Receivables into Tax Title

The treasurer/collector should move outstanding real estate receivables into tax title and formulate a plan to initiate foreclosure proceedings. For two consecutive fiscal years (FY2006 & FY2007) the treasurer/collector did not move outstanding real estate receivables or add following year taxes, costs and interest accrued, known as subsequents, into tax title. According to records provided by the treasurer/collector at the time of our interviews, Hull had over \$1 million in outstanding real estate, personal property and motor vehicle excise receivables, along with approximately 100 properties in tax title with over \$1.1 million in taxes, interest and other charges due the town. Accordingly, the treasurer/collector needs to take the necessary steps to move outstanding receivables and add subsequents into tax title. Once in tax title, the treasurer/collector should take appropriate action by initiating foreclosure proceedings, especially on properties of high value. Then, each year, the treasurer should identify at least the 10 largest tax title accounts ripe for foreclosure and proceed in Land Court in an aggressive fashion.

Moving forward, we suggest that the treasurer/collector organize, on an Excel spreadsheet, all tax titles into the following groupings, and then act to move them through the appropriate process:

- *Land of low value:* These properties, improved or vacant, can be placed on a fast track toward auction outside Land Court proceedings. To qualify, a tax title property must have a current assessed value less than \$19,130 for calendar year 2009.
- *Multiple parcels under single ownership:* In instances where a single individual owns multiple properties, greater efficiencies can be gained by dealing with these properties together either in Land Court or during a negotiation of a partial payment agreement.
- *Accounts with bad addresses and/or deceased properties owners:* These accounts should be individually investigated to determine the likelihood of identifying legal owners, or person(s) in possession. If an owner is found, contact should be made. If an owner cannot be found, available options include a petition to the Commissioner of Revenue under M.G.L. c. 59, § 11 seeking authorization to assess taxes to the person in possession of the property, or to assess the taxes to persons unknown.
- *Existing partial payment agreements:* Existing agreements should be reviewed to ensure they are being honored and that payments are sufficient to pay down the outstanding balance within a reasonable time.

- *Remaining accounts:* Most likely candidates for outside legal assistance, we recommend the treasurer/collector identify properties with the highest outstanding balance and solicit legal services through an RFP. Let respondents provide details on how many accounts, on what basis and for what fee each would contract with the town.

A successful collection of outstanding taxes requires a commitment from the treasurer/collector, town manager and board of selectmen. A well thought-out plan of action, supported by an infusion of resources, can help maximize collections and convince current and potential delinquent taxpayers of the town's seriousness in the collection of taxes.

Recommendation 16: Reconcile Cash and Receivables Monthly

The town manager should monitor monthly reconciliations of cash and receivables. This recommendation is intended to underscore the importance of cash and receivable reconciliations as critical financial controls, and to prompt agreement on a monthly reconciliation process. Although the treasurer/collector understands the fundamentals of cash and receivable reconciliation, for whatever reason, deficiencies in the process continue to be a recurring problem. As he acknowledges, variances within the receivable control and cash book continue to persist. Because reconciliations are an important control in the protection of town assets and the failure to do so has the potential to affect Hull's credit worthiness, we believe the town has a strong vested interest in knowing the job is being completed timely and accurately on a routine basis. As such, the town manager should require a report of reconciliation activity from both the treasurer/collector and town accountant each month. Financial management team meetings present a vehicle to discuss the status of reconciliations.

Recommendation 17: Maintain Current Cash Flow Budget

The treasurer/collector should maintain an up-to-date cash flow budget. The key responsibility of the treasurer is cash management, and one of the more effective cash management tools is a cash flow budget. A cash flow budget tracks income and expense trends and, in particular, reports the resulting available cash at any given point during the fiscal year. A cash flow budget is particularly useful for determining if surplus cash is available to invest and earn interest, or whether the community will need to temporarily borrow funds to cover obligations. We give credit to the treasurer/collector for establishing a detailed cash flow budget, but it is only valuable if he keeps it up-to-date and if essential operating data can be readily extracted.

Recommendation 18: Develop Long-Term Debt Schedule

The treasurer/collector should develop a long-term debt schedule that extends through the life of the bonds. The treasurer/collector has the statutory obligation to report annually information relative to the authorization, issuance and payment of debt. Currently, the treasurer/collector maintains a five year debt schedule that identifies the date of the issue, a description, payment type (principal or interest), and a schedule extending out five years.

In an effort to enhance this schedule, the treasurer/collector should maintain and annually update a chart of scheduled principal and interest payments over the full life of all existing debt. For the treasurer/collector, it would just be a matter of adding columns to the current debt schedule. He might also add the date of authorization, whether or not payments are self-supporting (covered by rates or by taxes), as well as whether the debt is excluded or not. In this way his debt schedule will include all information necessary to update the year end statement of indebtedness filed with the Department of Revenue

Recommendation 19: Compensate Deputy Collector through Vendor Warrant

The treasurer/collector should process deputy collector fees through the warrant. To date, the deputy collector maintains a separate bank account in which he deposits municipal funds. He also draws a fee from the account before delivering a turnover to the town collector. According to M.G.L. c. 60, §92, a deputy collector may not receive checks for tax payments, which are made out to him as payee. In addition, a deputy collector may not deposit municipal funds into a personal bank account or one maintained in the name of the community but solely under his control. Therefore, we recommend that the deputy collector either turn over all receipts to the treasurer/collector's office at least weekly, or deposit them into a joint bank account under the control of the treasurer/collector. He should also be compensated for his fees through the town's warrant process.

Recommendation 20: Centralize the Collection of Taxes, Fees and Other Charges

Hull should centralize the collection of taxes, fees and other charges due the municipality. As a matter of sound financial management practice, those responsible for determining payments due the town should not also be charged with collecting those payments. Therefore, officials should separate responsibility for creating the commitment that authorizes the collection of taxes, fees or other charges due the municipality from the collection function. Presently, the light plant creates a commitment, and is, at the same time, responsible for receiving payments. This approach may require that personnel currently operating in the light plant be reallocated to the collector's office in order to process the additional customer volume.

In addition, the collector's office should promote their lockbox and online payment service options. Successful lockbox and online payment options rely on a certain amount of public relations. Therefore, the town should seek ways to better inform the public and encourage the use of these services when returning tax and other payments. Well promoted lockbox and online payment services not only streamline the collection, posting and depositing processes associated with billing, but reduce foot traffic in town hall which enables staff to focus on other core responsibilities.

Recommendation 21: Consolidate Employee Personnel Files

The treasurer's office should consolidate and restrict access to employee personnel files. Because no rules or specific policies concerning employee personnel files exist in Hull, officials should develop a set of standards for file maintenance, storage and access. Once consolidated into a single

location, personnel files for each employee should contain information regarding their relationship with the municipality and be maintained in a way consistent with state and federal laws, regulations, and town policies. There are four distinct types of information that can be maintained on employees in the same location, but must be filed separately:

1. Personnel data, including all documents kept by an employer that have been used or may affect qualifications for employment, promotion, transfer, additional compensation, or disciplinary action, as outlined under M.G.L. c. 149, §52C;
2. Personal information, protected under M.G.L. c. 214 §1(b);
3. Medical records including Workers' Compensation and Family and Medical Leave, protected by the Americans with Disabilities Act; and,
4. Form I-9 required of all employers by the federal Immigration Reform and Control Act of 1986.

While a separate folder is required by law, materials may be housed within the same file cabinet. It is the responsibility of the town to authorize, by written policy, those that have access to employee records.

Recommendation 22: Streamline the Mooring Permit Application Process

The role of the harbormaster and collector's office in the mooring permit application process should be streamlined. Currently, boat owners submit a mooring permit application and fee to the collector's office who verify that the form contains all necessary information and that boat excise payments are current. Once permit fees are logged by staff, applications are forwarded to the harbormaster who authorizes and issues the mooring permit.

Moving forward, we suggest a computer connection be established between the collector's office database and the harbormaster so he could verify excise payments. Alternatively, the burden of responsibility could be shifted to the boat owner who would provide the harbormaster with the application, fee and a certificate from the collector's office which verifies that boat excise is paid.

In addition, we think Hull could benefit by an online application and payment process and creating a harbormaster webpage. It would offer a description of the department as well as contact information, applications, excise data and regulations. Valuable information would be made available to the public and the harbormaster's time could be freed up for other tasks.

Recommendation 23: Discontinue Delinquent Taxpayer Courtesy Notices

The collector's office should discontinue the practice of mailing courtesy notices to delinquent taxpayers. Separate from demand notices, which collector's can mail to taxpayers 15 days after the close of the 4th quarter due date, the collector's office issues approximately 300 courtesy notices per quarter informing taxpayers that they are delinquent. Although this is done as a customer service, it represents an additional expense to the town, and unless it can demonstrate faster collections, it is difficult to justify.

Recommendation 24: Reduce the Volume of Returned Mail

The collector's office should devise a plan to reduce the volume of returned mail. When a bill issued by the collector's office is undeliverable as addressed, it is returned to the town. Staff in the collector's office then sort, open and store all returned mail. During our visits we observed several boxes full of returned mail that was stamped undeliverable. Staff handles returned mail as time allows.

To help reduce the amount of returned mail, the collector's office should begin by communicating with the post office to better understand any underlying issues. The collector's office should also request change of address data prior to issuing bills from the assessors. For returned excise bills, the collector can contact the deputy collector to locate the individual. Alternatively, the town could subscribe to LexisNexis, which provides online investigative service tool that enables officials to locate individuals whose listed address is incorrect.

Recommendation 25: Encourage Direct Deposit

The town should strongly encourage direct deposit of payroll for all employees. Direct deposit reduces the cost of issuing checks, prevents the need to reissue lost checks and simplifies the reconciliation of payroll bank accounts because there are no outstanding checks. Approximately 80 percent of employees are on direct deposit.

Recommendation 26: Adopt Vendor Electronic Funds Transfer

The town should take advantage of processing vendor payments via Electronic Funds Transfer. Electronic Funds Transfer or EFT simply refers to the municipality's processing of vendor payments electronically. Similarly adopted for the direct deposit of employee payroll, vendor EFT has identical advantages. EFT payments provide for better cash management capabilities at lower costs than traditional paper check payments. By allowing funds to be electronically credited to a vendor's bank account, the town can avoid paper check handling and other associated costs. Processing would still be subject to proper vendor warrant procedures.

Accountant

The town accountant has a legal obligation to oversee all financial activity of the municipality. Through the maintenance of independent records and by following well-defined procedures, the office documents the flow of money into and out of municipal accounts, and plays a role in the system of checks and balances established by statute to monitor and protect local assets. To fulfill this responsibility, the office prepares warrants to be signed by the town manager; maintains a general ledger where receipts, expenditures and all other town financial activity are recorded; and, reconciles cash and debt with the treasurer and receivables with the collector monthly. In addition, the town accountant tracks revenue and expenditures, and is typically involved in the annual budget process. Among required submissions to the Department of Revenue, the town accountant is responsible for producing the town's annual Schedule A and year-end balance sheet (for Free Cash certification). Finally, the town accountant works with the board of assessors and town clerk in the preparation of the town's Tax Recapitulation Sheet.

Appointed by the town manager, the town accountant supervises a full-time clerk. The clerk provides administrative assistance and is generally responsible for accounts payable. Both the town accountant and clerk have been in the office for three years. The town accountant previously served as the retirement system administrator, while her clerk was in the treasurer's office.

In July 2007 the town purchased FundWare, an integrated financial management software application supported by DataNational. At the time of conversion, the town accountant consolidated the chart of accounts of both the town and school into the system, and designed it to tie to the Schedule A and School End of Year Financial Report. This has vastly improved report building capabilities. The software also allows the treasurer/collector's office to input receipts which are reviewed by the accountant then accepted, thus eliminating duplicative manual entry.

The reconciliations have been a point of frustration with the accountant. Although she attempts to reconcile cash and receivables with the treasurer/collector as recommended, cash tends to lag. Grant revenue and other state related funds are reconciled using VendorWeb, an online tool which allows quick and easy access to state payment information. The accountant submits required documentation to the DOR timely, including the Schedule A, statement of indebtedness and the Balance Sheet for free cash certification.

Conclusion – Hull's accounting department operates on a professional level and in accordance with sound practices and procedures. The office effectively fulfills fundamental responsibilities relative to the vendor and payroll warrant processes, the reconciliation of cash and receivables, and compliance with various internal and external reporting requirements. Our initial recommendation is designed to further enhance operations town-wide by encouraging the development of a comprehensive procedures manual. We also feel stronger fiscal control can be obtained both through a procedure to centrally track sick and vacation accruals, and through a policy that requires departments to seek the accountant's authorization prior to transferring funds.

Recommendation 27: Track Sick and Vacation Accruals

The accountant should centralize record keeping for employee accrued sick and vacation time. For the purposes of GAAP accounting, the accountant must annually report employee sick and vacation time vested and accrued. This accounting reflects the obligation of the town under contracts to compensate employees upon retirement for all or a portion of their sick and vacation time earned, but not taken.

The maintenance of records at the departmental level represents good practice only if the practice is uniform, and if corresponding data is retained in a centralized location, i.e. with the accountant. Checks and balances do not otherwise exist. The absence of a systematic procedure for maintaining these records can give rise to circumstances where an employee's claim of accrued sick leave and vacation time cannot be corroborated or challenged with credibility. Therefore, as a matter of strengthening internal controls, a system should be implemented where running balances of all employee sick and vacation is administered by the accountant's office. Payroll software applications are generally capable of automatically tracking balances for employees. Under these systems, the information can also be readily available to employees.

Recommendation 28: Consider Budgetary Controls

Hull should consider implementing budgetary controls that limit department's ability to transfer funds between salary and expense line-items. As was communicated to us, department heads independently manage their budgets. They acknowledge that in doing so, staff will often transfer funds between salary and non-salary expense line-items. Although the reallocation of budget appropriations between two non-salary expenditure categories (i.e. supplies, utilities, other charges & expenses) is often employed as a management tool, the transfer between salary and expense line-items has inherent risks.

Moving forward, stronger budgetary controls methods should be applied. We recommend that either town meeting authorize department budgets on a salary and expense line-item basis rather than on the current single departmental line-item; or, that the accountant be instructed to encumber all salary related costs at the beginning of the year. Either method would provide a basic means of restricting access to salary accounts which is intended. If, based on monitoring expenditures as well as revenues, the town accountant can safely identify where any surpluses in salary line-items will occur, line-item transfers could be implemented where warranted.

Recommendation 29: Simplify Utility Billing

The accountant's office should simplify utility billing. According to department records, the accountant's office receives approximately 40 separate invoices for electricity services provided by the municipal light plant on a monthly basis, which requires an equal number of checks to be processed for payment. Moving forward, the office should request that the light plant issue a consolidated statement for all service locations for the entire town. Alternatively, the entire billing and remittance process can take place electronically with billing detail on all service locations emailed to the accountant's office.

In either case, the town should make payment via wire transfer per usual procedures rather than by check. The current practice of processing municipal light utility bills is cumbersome and time consuming on the part of the department. By moving to either an e-billing process or consolidated invoice, processing costs will be reduced (i.e. check stock, postage, paper, etc.).

Assessors

The assessors' office is responsible for valuing all real and personal property in town and generating the commitment that authorizes the tax collector to collect real estate tax and motor vehicle excise payments. Work is generally performed through a combination of office staff and professional appraisal firms. DLS annually reviews town assessments to ensure that they reflect full and fair cash value, and conducts a certification of values every third year. In addition, the assessors calculate annual "new growth" increases in the community's levy limit; participate in setting the annual tax rate by submitting the Tax Recapitulation Sheet to DLS for approval; and prepare the annual property tax commitment for the collector. The office also handles all abatement applications, property tax exemptions allowed under state law, and sets the overlay.

At the time of our visit, Hull's assessing office was in transition. The previous assistant assessor had resigned, and an interim was appointed under a 90 day contract. During the period of our review, we met with and discussed departmental operations with both the interim assistant assessor, chair of the board of assessors and staff. However, since the time of our initial interviews, the interim had accepted a job as Hull's school business manager. He has since resigned that position and is now working again as the interim assessor. Going forward, the town is exploring whether to have an outside appraisal consulting firm handle all assessing functions including inspections, sales review and revaluation related activities, among others. Day-to-day administrative work would continue to be processed through the department's two existing full-time clerks, while the elected board of assessors would retain their role and primary responsibility to establish policy, approve property valuations, set the overlay, approve new growth estimates and authorize abatements. A decision on the final long-term structure of the office is still under consideration.

The volume of work in the assessing office involved approximately 4,800 residential and 96 commercial/industrial parcels, as well as 820 personal property accounts. There are 360 vacant and other parcels. Billed on an annual basis, Hull's motor vehicle and boat excise collections accounted for approximately \$1,000,000 in FY2008. The department managed a \$266,000 overlay reserve account for exemptions and abatements in FY2008, and has a potential estimated liability of \$25,000 as a result of Appellate Tax Board (ATB) cases. The overlay reserve is about 1 percent of the total tax levy.

Conclusion – Our recommendations reflect an expected transition in administration of the town's assessing function. At the time of our review we felt that staff were experienced and had a thorough understanding of their roles and responsibilities. Besides an evaluation of the activities performed by the outside consultant Patriot Properties, we feel the town should routinely mail sales questionnaires, develop a commitment bridge, as well as migrate to a fixed fee contract for valuation services.

Recommendation 30: Evaluate Consultant Responsibilities

We recommend that the assessing office complete an analysis of the town's in-house capacity versus outside consulting services. Given the recent interest in outsourcing assessing responsibilities and the current financial strain on the town's budget, it is our expectation that the assessors will evaluate

the services they provide against those received under the existing vendor contract. As a measure of due diligence, the current office structure and staff responsibilities should be measured against the potential to enhance capacity to complete certain assessing tasks in-house.

Although communities engage consulting firms to perform a varying degree of appraisal services, the town should look closely at whether raising the level of professional capability in the assessing office would improve operations. Given the relative number of parcels in Hull and full-time day-to-day management presence within the office, additional appraisal services could be completed in-house. Considerations should include comparative cost and office structure analysis to determine what will best serve Hull given that valuation issues are becoming increasingly more complex.

With enhanced planning, training and support, the assessors and staff, would improve the internal management of the database and reduce outside consultant costs. Duties that could be completed in-house and re-allocated to the assistant assessor, board members or the two clerks, include the following: all data entry, building permit and sale inspections, interim year adjustments and triennial revaluations for residential properties, and cyclical re-inspections.

Recommendation 31: Mail Sales Questionnaires

We recommend that assessors regularly mail sales verification questionnaires. Assessors must gather and analyze real estate sales data in order to conduct a mass appraisal program that fairly values the community's property at full and fair market value. Sale details of comparable properties are the primary indicators of property values and provide a basis for annual value adjustments, if any. The validity of the sales analysis depends largely on information about arms-length sales. Sales questionnaires can help determine whether the sale is arms-length or whether there are special circumstances. Together with inspections, sale questionnaires represent an information source that ensures property records are current, complete and accurate.

Recommendation 32: Implement Commitment Bridge

We recommend that the IT director work with the assessors to create and implement a means to electronically transfer the real estate and personal property commitments from the assessor's database to the town's financial management software application. Currently, staff relies on the services of their outside vendor Patriot Properties to convert data from the assessor's computerized mass appraisal system to Data National, which functions as the town's financial management software application. In doing so, the town is incurring a cost for each time a conversion of the commitment is required. Not only would this serve as an additional cost savings measure, but staff would no longer have to rely on support from an outside vendor to complete fundamental procedural responsibilities.

Recommendation 33: Move to Fixed Fee Contract

The assessing office should move to a fixed fee contract for appraisal services. Assessing responsibilities in Hull are largely completed by the professional appraisal firm Patriot Properties through a fee-for-service contract. Under this arrangement, various valuation and appraisal services

related to commercial, industrial and personal property are conducted on a per diem fee schedule. Although this type of agreement is not unusual, it can be difficult for officials to determine what appropriation may be required to fully fund all necessary services within a given year. Therefore, we advise the department to adopt a fixed fee contract. Under a fixed fee contract the firm agrees to a flat price to provide all necessary services described within the agreement. Once the contract is effective, the fixed price is paid regardless of the actual costs incurred by the appraisal firm, thus ensuring the full scope of work is completed at a price that can be easily calculated at the start of the year for budgetary purposes.

Municipal Light Plant

Entering its 115th year of service, Hull's municipal light plant generates and sells electricity to approximately 6,000 customers. The light plant is connected to a broader power grid through its memberships with the New England Power Pool (NEPOOL) and ISO-NE (Independent System Operator – New England). Organized under M.G.L. c. 164 and various special legislative amendments, the light plant operates more or less as a department of the town. The plant manager, who started this past year, is appointed by the town manager. He supervises a full-time office manager, administrative assistant, two financial assistants, a billing clerk and a part-time clerk. Rates are set by a five member elected municipal light board that advises on policy.

In 2002 the plant installed a 660 kilowatt wind turbine (Hull Wind 1) on Windmill Point. The turbine has generated approximately 11.2 million kilowatt hours of electricity. In 2007, the light plant completed construction of a second wind turbine (Hull Wind 2) on the town's capped landfill. Hull Wind 2 is a 1.8 megawatt turbine which has generated approximately 10.5 million kilowatt hours of electricity. Combined, the two turbines supply more than 10 percent of Hull's electrical energy needs. The light plant is pursuing the construction of an additional four offshore wind turbines which will produce a total of 15 megawatts. Combined, they are projected to meet the town's entire electrical needs.

The light plant issues bills on a monthly basis. They are generated in two batches with half the town processed per batch. The plant is under contract with W.A. Wilde who provides bill printing and mailing services. All bills are spot-checked against current and previous usage to verify accuracy. Payments are received either by mail, drop box or over-the-counter at the light plant. They do not utilize lockbox or online payment service options. The office posts payments throughout the day and deposits daily. Customers who make timely payment are offered a discount of approximately 10 percent. The light plant is currently undergoing a rate study through the outside consultant Chuck Underhill. Rates have not been adjusted for approximately ten years.

Conclusion – The current director is a seasoned professional. Although new to the light plant, it is clear his efforts will direct a more effective and efficient management of the department. Our recommendations are intended to continue to move the operation in a positive direction.

Recommendation 34: Adequately Fund Cash Reserves

The light plant should fund its cash reserves in order to retain a healthy financial position. As specified within the municipal light plant's FY2007 management letter by independent auditor Bill Fraher, the plant depleted its reserves to construct the new windmill out of available cash. As a result and despite the relative financial health of the plant, stabilization, depreciation and other operating cash reserves decreased from \$2,700,000 to \$470,000 as of December 2006. As recommended in the management letter, we advise the plant to adequately fund and build its cash reserves to a level commensurate with industry standards.

Moving forward, we encourage light department officials to consider the financial benefits of bonding for such large-scale capital intensive projects of which the benefit will be felt over an extended period of time. Typically, such projects are bonded to spread the cost burden over the life of the project

and to protect capital reserves. Financially there is little rationale behind making such a large-scale capital outlay from available cash. The same capital principles and debt rationale on the town-side should hold true for the municipal light plant.

Recommendation 35: Resolve Outstanding Receivables

The light plant should work to resolve all outstanding receivables. To date, there is approximately \$100,000 in outstanding municipal light receivables, primarily from renters. As a solution, and as discussed in the Town of Hull Municipal Light Plant's 2007 independent audit, the operations manager should review shut off and delinquent account policies and procedures.

We also recommend that the light plant utilize the services of a deputy collector who is equipped to follow through and obtain money owed the plant. As important, he can provide evidence that accounts are uncollectible (due to death, absence, poverty, insolvency, or other inability of the person assessed to pay). If the plant has determined that these accounts are impossible or unlikely to be collected, they should be deemed uncollectible with amounts charged to the light plant's reserve for uncollectibles.

Recommendation 36: Suspend Discount Program

Hull should suspend the light payment discount program indefinitely. Designed to encourage early payment and improve cash flow for the Municipal Light Plant the payment discount program has become costly, and may no longer be useful. Because the light plant issues bills monthly and therefore receives an infusion of revenue throughout the year, cash flow problems are largely eliminated. Still, the town granted about \$221,600 in payment discounts to approximately 64 percent of the roughly 6,000 customers in FY2008, and receives no benefit in exchange. While discounts do not cause a corresponding decrease in expenses, the \$221,600 cost of the discounts is spread across all consumers. Lastly, given the light plant's low reserves there is question whether discounts are feasible or financially responsible. At issue as well is whether a municipality should forego revenue by encouraging customers to pay a bill early that has to be paid in any event. Because the light plant receives no real benefit, we encourage the light commissioners and plant manager to rethink the prudence of offering discounts.

Recommendation 37: Annually Review Rate Schedule

The Municipal Light Board should annually review its rate schedule. Although we acknowledge that the board is currently completing its first rate study in approximately ten years through the outside consultant Chuck Underhill, such analysis should be conducted on an annual basis. It is financially prudent for departments that operate on a fee-for-service basis to annually review fees to verify that the total cost of operations is being adequately funded. A review should also include an examination of direct and indirect costs associated with operating the department, and might include a survey of similar fees in other communities for benchmarking purposes. In addition, the light board may want to explore simplifying its schedule by consolidating rates. The director of the light plant may also want to discuss

with the town manager the inclusion of an appropriation within the light plant's budget to fund a consultant to review rates every three years or so.

Recommendation 38: Consider Paperless e-Billing Option

The municipal light plant should consider the merits of offering e-billing as an option for customers. Widely referred to as e-billing, electronic bill presentment and payment (EBPP) is the sending of bills and corresponding payment for service via the internet. Common across a range of businesses and government entities, e-billing can provide the light plant and their customers with a new, more efficient and effective method for delivering and accessing billing information. The advantages of e-billing include: direct cost reduction through the elimination of invoice handling (printing & mailing), improved cash management, greater processing efficiency and improved customer relations. Although cost savings alone may not convince officials to adopt e-billing, published surveys underscore that numerous customers prefer this method because it is secure, convenient and quick.

Like any new process however, e-billing does require a certain amount of upfront effort and resources. An effective system relies entirely on the quality of the utility's customer database or CRM (customer relationship management) system in order to be effective. The light plant will be required to solicit and maintain a secure database of customer information which might be separate from customers who prefer traditional bills. However, we feel that a web-based self-service method is of obvious value to both the utility and its customers, providing 24-hour online access to account information and bill processing.

Alternatively, under a centralized collection method as outlined in Recommendation 18, the town should consider expanding lockbox and online payment services to the light plant. Already adopted by the town for tax and other payments, a lockbox, administered by a financial institution, would receive payments, deposit checks, and return daily receipt reports for a given billing period. Similarly, an online payment method offers parallel advantages to a lockbox service by reducing foot traffic and mail volume, accelerating deposits, and providing a convenient and flexible service for taxpayers. For additional information on electronic online billing, see "Online Bill Payment" under the Best Practices section of Financial Management Assistance link at www.mass.gov/dls.

Appendix

Table 1: Hull-State Comparison

	2006 Income Per Capita	2008 EQV Per Capita	FY2009 Average Single Family Value	FY2009 Average Single Family Tax Bill
Hull	\$28,927	\$206,501	\$411,749	\$4,319
MA Towns	\$39,596	\$202,820	\$425,917	\$4,555

Table 2: Hull Revenue Components

FY	Tax Levy	State Aid	Local Receipts	All Other	Total Receipts	As Percent of Total Revenues			
						Tax Levy	State Aid	Local Receipts	All Other
2000	14,289,830	6,970,972	3,886,501	1,177,777	26,325,080	54.28	26.48	14.76	4.47
2001	14,119,099	7,573,962	4,063,377	1,563,405	27,319,843	51.68	27.72	14.87	5.72
2002	15,937,879	7,838,967	4,593,926	2,002,640	30,373,412	52.47	25.81	15.12	6.59
2003	16,613,254	7,551,168	4,504,217	3,133,308	31,801,947	52.24	23.74	14.16	9.85
2004	17,528,098	6,167,065	4,392,389	3,344,059	31,431,611	55.77	19.62	13.97	10.64
2005	18,416,437	6,190,572	5,152,240	3,095,862	32,855,111	56.05	18.84	15.68	9.42
2006	19,305,101	6,454,703	5,398,220	3,027,552	34,185,576	56.47	18.88	15.79	8.86
2007	20,508,768	6,727,396	5,759,939	3,044,989	36,041,092	56.90	18.67	15.98	8.45
2008	21,025,455	6,798,243	6,075,773	1,805,863	35,705,334	58.89	19.04	17.02	5.06
2009	21,717,472	6,811,246	6,093,323	1,267,457	35,889,498	60.51	18.98	16.98	3.53

Table 3: Hull Free Cash and Stabilization Balances

FY	Free Cash Balance	Stabilization Balance	As Percent of Total Revenues	
			Free Cash	Stabilization
2000	1,895,243	2,566,646	7.2%	9.7%
2001	2,342,743	2,718,517	8.6%	10.0%
2002	2,718,481	2,076,244	9.0%	6.8%
2003	3,260,038	3,036,195	10.3%	9.5%
2004	1,938,362	3,068,973	6.2%	9.8%
2005	1,593,987	3,136,004	4.9%	9.5%
2006	1,556,344	2,862,317	4.6%	8.4%
2007	656,326	2,551,066	1.8%	7.1%
2008	705,495	2,114,169	2.0%	5.9%
2009	340,379	1,922,225	0.9%	5.4%

Table 4: Estimated Residential Exemption

Tax Rate without Residential Exemption	Tax Rate with Residential Exemption	City/Town data from Fiscal Year
10.49	12.31	2009

Value of owner-occupied home	Tax bill w/o exemption	Tax bill with exemption	Change in tax bill*
\$80,000.00	\$839.20	\$51.17	(\$788.03)
\$230,000.00	\$2,412.70	\$1,897.67	(\$515.03)
\$300,000.00	\$3,147.00	\$2,759.37	(\$387.63)
\$370,000.00	\$3,881.30	\$3,621.07	(\$260.23)
\$440,000.00	\$4,615.60	\$4,482.77	(\$132.83)
\$512,985.41	\$5,381.22	\$5,381.22	\$0.00
\$590,000.00	\$6,189.10	\$6,329.27	\$140.17
\$660,000.00	\$6,923.40	\$7,190.97	\$267.57
\$730,000.00	\$7,657.70	\$8,052.67	\$394.97
\$800,000.00	\$8,392.00	\$8,914.37	\$522.37
\$870,000.00	\$9,126.30	\$9,776.07	\$649.77
\$940,000.00	\$9,860.60	\$10,637.77	\$777.17

*Amount in parentheses represents projected decrease in tax bills

Acknowledgements

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Eileen White, Clerk

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