



Town of Leicester

Financial Management Review

Division of Local Services / Technical Assistance Section

April 2012



April 23, 2012

Board of Selectmen
Town Hall
3 Washburn Square
Leicester, MA 01524-1333

Dear Board Members:

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

Our technical assistance team welcomes the opportunity to present the report to the board of selectmen at a public meeting. As an added service, we are willing to meet with staff, earlier on the same day, to discuss implementation of the report recommendations.

As a routine practice, we will post the completed report on the DLS website, www.mass.gov/dls, and forward a copy of the report to the town's state senator and representative.

If you have any questions or comments regarding our findings and recommendations, please feel free to contact Rick Kingsley, Bureau Chief of the DLS Municipal Data Management and Technical Assistance Bureau at 617-626-2376 or at kingsleyf@dor.state.ma.us.

Sincerely,

Robert G. Nunes
Deputy Commissioner &
Director of Municipal Affairs

cc: Senator Michael O. Moore
Representative John J. Binienda

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Introduction

At the request of the board of selectmen, the Department of Revenue's Division of Local Services (DLS) completed a financial management review of the Town of Leicester. The recommendations contained within this report are based on site visits made by a team from the DLS Technical Assistance Section and their consultations with the Bureau of Accounts and Bureau of Local Assessment.

The scope of the review focused on the town's financial offices and the practices, procedures and policies that guide municipal decisions. We examined the duties and responsibilities of finance officers and the degree of coordination and communication that exists among the various boards, committees and officials involved in financial management. We comment on the effectiveness of financial checks and balances and on compliance with state laws and regulations that govern fiscal matters. The municipality's technology condition was assessed and the impact of organizational structure on financial operations was evaluated.

To complete the report, we interviewed and received information from members of the board of selectmen, town administrator, town accountant, treasurer/collector, principal assessor, school committee chair, school superintendent, and others. A full list is available on the Acknowledgments page.

Also included as part of our review, we gathered and examined information from various documents including the Tax Recapitulation Sheet, Schedule A, Balance Sheet, and Leicester's annual budget, warrant payables, revenue and expenditure reports, and reconciliation reports. We reviewed the town by-laws and locally accepted statutes, as well as the outside audit report completed by Powers & Sullivan and the independent credit rating report by Moody's.

On completion of this review, the Technical Assistance team is available to formally present its report at a meeting of the board of selectmen. We can also assist in the implementation of our recommendations by meeting, individually or collectively, with managers and staff earlier on the same day.

Overview

The Town of Leicester (2010 US Census population 10,970) is a primarily residential community that lies on the western border of the City of Worcester. The town's land comprises almost 25 square miles, ranging from northern upland to southerly-stretching valleys characterized by plentiful lakes and streams. Due to the town's distinctive history during the Industrial Revolution, it was one of the 22 Massachusetts communities included in the October 2011 US congressional bill seeking to establish the Blackstone River Valley as a National Park.

Today, characteristic of many former mill towns, approximately 75 percent of Leicester's working population commutes to jobs elsewhere. The Worcester Regional Transit Authority has bus service to Leicester, providing commuter access to downtown Worcester in under 45 minutes. A few years ago, town officials made infrastructure investments to entice Wal-Mart to open a store, in the hopes it would also spur more commercial development in retail and restaurants. Unfortunately, the years since the Wal-Mart store opened have not yielded much in the way of additional businesses or jobs. Among other major land uses, Leicester remains the home to one of two campuses of Becker College (the other being in Worcester) and a large portion of Worcester Airport lies within the town's borders, but neither has served as an economic stimulant.

Statistical analysis of income and property value data reveals Leicester to be among the poorer of Massachusetts towns in relative terms. According to DLS data, the town's 2009 income per capita of \$24,532 was 21 percent below the state average. Its equalized valuation (EQV) is \$93,634 per capita, which is only 60 percent of the state average of \$156,493 and ranks Leicester in the bottom 12 percent in the state. In FY2011, the average single-family home value of \$225,518 was 37.6 percent below the state average of \$361,629.

As reported to DOR on the Tax Recap sheet, Leicester's total budget in FY2012 was \$26,643,152. Among major revenue sources, 45.2 percent was from the tax levy, 44.8 percent from state aid, 5.8 percent from local receipts and 4.2 percent from "Other" categories including free cash and stabilization. Education spending of \$15,350,000 is approximately 60 percent of the FY2012 budget, but when fixed costs¹ are netted out from the overall budget, education accounts for about 71 percent of it. A combination of public works, public safety, general government and other departmental spending made up the remaining operating budget.

¹ Debt principal and interest, bond costs, pension contribution, unemployment compensation, employee benefits, property and liability insurance.

Until recently, the town had very effectively built free cash and stabilization balances. In the ten years since 2002, the town generated an average of \$1 million in free cash annually, or roughly 4 percent of its budget each year. Over the eight years ending in 2010, the town's general stabilization balance averaged \$1.46 million - almost 6 percent of each year's budget. It is only in recent years that practices have shifted, in an apparent response to general revenue declines experienced by the town.

In the last four years, the town's local receipts have dropped by \$274,347, or 16.1 percent. State aid is lower by \$1.2 million, or 9.9 percent, compared to three years ago. The town has a history of depleting its free cash, most often appropriating it as a revenue source for the ensuing year's budget. However, the pressure to cover revenue shortfalls combined with cost inflation in the last two years has caused the town to appropriate \$1.2 million in free cash at fall town meetings to supplement budgets approved the prior spring. In addition, two years ago, it began tapping its stabilization balance for operations, drawing down \$1.16 million since then.

Certified free cash was \$947,372 in FY2012, or 3.6 percent of the budget, compared to \$1,131,963 in FY2011. The town's general stabilization fund balance has declined from \$1,361,814 in FY2010 to \$750,063 in FY2011, to a current estimate of \$211,200. Not coincidentally, when reserves were strong in 2010, Moody's raised Leicester's bond rate from an A3 to an A1, reflecting improvement in the town's financial position. If these practices continue, the town risks depleting its reserves and losing its credit rating gain.

Attempting to plan and manage in the face of severely limited resources inevitably strains relationships. In Leicester, the pressure on the town's finances has been a contributing factor to tension in town government, particularly between town hall and the school department. To balance budgets, town departments have been asked to tighten their belts and most have responded by turning back funds at year-end. However, there is a perception that the school department has been less willing to do the same, which has fostered some resentment.

The school department has been questioned about building a balance in its bus transportation revolving fund, among others, and about its management of school choice money received from the state. Established in 2007 under M.G.L. c. 71, §47, the school transportation revolving fund is a repository for fees collected from parents. In the last few years, the school department has built up a balance and apparently paid the bus company from its general appropriation. By the end of FY2011, the account balance had grown to \$272,277.

Held in another fund is school choice money distributed by the state to cover additional education costs for students from other districts who choose to attend Leicester schools. Despite

criticism, the school department is within its authority to maintain a balance in this fund which has accumulated to \$788,146 as of June 30, 2011.

Also lingering are ill-feelings from a lawsuit brought by the Leicester School Committee against the Town of Leicester in 2010. At issue was a special education summer program for which the school committee sought pre-payment. Ultimately, the court ruled in favor of the school department. It is unclear to us whether the town intends to appeal the decision.

In fairness, the school department cannot be entirely faulted for a course of action intended to protect the quality of the system's educational programs. It is a task that has become difficult in recent years. Further aggravating the situation is a feeling among school supporters that the budget process and the town-side management of reserves have worked to the disadvantage of the schools. As an example, they perceive little concern among others that given contractual wage obligations and the rate of inflation, level-funded budgets actually amount to annual budget cuts. In fact, according to spending information filed by the town with DOR, school expenditures have declined in three of the last four years, while non-school expenditures have decreased once. Facing these circumstances, the school committee and superintendent have built balances in certain funds as ways to ensure the maintenance of educational services.

The budget process moves forward in this environment, but not without friction between the town and school leadership. Up until recently, Leicester's advisory committee response was to step back from its advisor role, in part, motivated by the wish to maintain its independent stance. However, recognizing the value of its role in the budget process, the committee has followed the guidance of its newest chair and begun to take a more active role in financial planning than it had in the recent past.

In addition, the town moderator, who has gained a wide reputation for integrity and even-handedness, has made efforts to bridge gaps and advance intergovernmental cooperation. He took the initiative to coordinate a convention of the boards last spring. That and successive meetings generated open discussions among members of the board of selectmen, school committee and advisory committee with the ultimate goal of creating a timely and unified town budget. The meetings have also helped to focus more public attention on the process and on the efforts being made to build better working relationships.

Still for all that, an unfortunate but predictable byproduct of the intermunicipal discord has been the alienation of Leicester voters. For a community of almost 11,000, an average of only 67 voters at annual and special town meetings in recent years is relatively low. Local officials noted

high levels of resident cynicism about the different parties' motives and skepticism about their ability to work things out. But until a new, constructive paradigm is created, all sides will suffer.

Conclusion - Municipal government can only succeed as a cooperative enterprise. At the departmental level, the ability of one office to fulfill its legal responsibilities oftentimes depends on others to do the same. In Leicester, financial offices function adequately. A greater commitment to completing cash reconciliations is needed though, and we state as much. Otherwise, our recommendations for the various finance departments encourage more attention to detail and suggest more efficient ways of operation. They are preceded by recommendations in our overall financial management section that address issues we found among practices and procedures that cross departmental lines and impact government on a more global basis.

The greater obstacle for Leicester is at the higher decision-making and policy-setting levels. Some have characterized the problems as steeped in a lack of trust, particularly among town and school officials. Others have attributed issues to personality clashes. Whatever the case, unless resolved, the town's ability to gain any financial footing will be severely inhibited.

Therefore, our primary recommendations are intended to encourage the adoption of policies and the establishment of a structure that will provide an underpinning for stability and a foundation for trust. If implemented and committed to, they will help shift the paradigm of town budgeting from one of fighting over money and information to one that leads to the rational and cooperative allocation of resources.

Primary Recommendations

1) Complete a Five-Year Revenue Projection

A long-term revenue projection is a means to create structure. When overlaid with a town-school revenue allocation ratio (recommended below) and policies on the use of reserves, the revenue side of the budget is set, enabling town and school officials to focus solely on managing their respective expenditures.

The first year of a projection chart would be adjusted to reflect the revenue forecast completed by the town administrator at the start of the budget process each fall. Many communities use the revenue detail listed on page 3 of the Tax Recap Sheet as a guide, but these categories can be further expanded or consolidated. We would expect estimates to be conservative, but as adjustments are incorporated before and after approval of the annual budget, subsequent-year estimates should be updated as well.

2) Discontinue Appropriating Reserves in the Fall

The town should cease using its free cash, once certified in the fall, to fund current-year operations. The practice is essentially stealing from next year to fully fund this year's budget. By allowing the belief that additional money will be available in the fall, it discourages the adoption of realistic budgets in the spring. Instead, the town should return to the practice of retaining its free cash as a true reserve during the year, then approving it in the spring as a funding source for the ensuing year's budget. This will solidify the expectations among department managers that they have to live within their annual appropriation and will remove any infighting for resources later on. Returning to this practice will require a transition year, but thereafter, if budgets are fully funded in the spring, town leaders should resist pressure to appropriate additional money in the fall.

Nor should the general stabilization fund be used to support operations. It is non-recurring revenue, which should only be expended on non-recurring costs, e.g., capital items. Town leaders should discuss policies to guide the use and enhancement of its stabilization fund.

3) Agree to a Revenue Allocation Ratio

Many communities have avoided town-school struggles over resources by agreeing that certain percentages of revenue will be allocated to town operations and to school operations. This ratio would apply to revenue projections completed at the start of the budget process, to subsequent

revenue adjustments as more information becomes available, and to any unexpected and available income the town might realize during the year. Since general revenues cannot be earmarked, this becomes an informal agreement, which can be documented in a memorandum of understanding or in an accepted policy.

To arrive at a ratio, a small joint committee should be formed to analyze spending over a ten-year period. It should seek to account for, or even out, aberrations in revenues or expenditures. The goal should be to find middle ground that is fair and will provide equal prospects for future gains.

It also makes sense to extract off the top, or net out, revenues necessary to cover fixed costs. These would normally include debt principal and interest, bond costs, pension contributions, unemployment compensation, employee benefits, and property and liability insurance. Otherwise, the task becomes complicated when amounts attributable to town and school personnel or operations must be assigned. In Leicester, the discussion should also address the status of town reserves and school fund account balances.

This approach only works if all parties understand and agree that the rules will not change in midyear. Once the annual budget is approved in the spring, absent unforeseen circumstances, there can be no option for an allocation above the agreed-upon ratio.

4) Agree on the Use of Town Reserve Funds and School Fund Accounts

Town and school leaders should come to an informal agreement on how town reserves and school fund account balances will be treated if an allocation of revenue approach is adopted.

The town's outside auditor has determined that the fees received and retained in the school's bus transportation revolving fund resides outside the budget and must be expended for current student transportation costs. We agree. Other revolving funds on both the town and school side of the ledger are similarly outside the annual budget appropriation and should be monitored only to ensure they are maintained in accordance with applicable rules. These fund balances would not be incorporated into the allocation calculation.

For the school department, the school choice fund can function like free cash. Each is theoretically replenishable, but neither can be viewed as a reliable, recurring income source. Therefore, it is prudent not to deplete either fund in any given year. There is also a certain logic or fairness in the expectation that the school department would expend from its school choice fund before seeking to draw from the town's free cash or stabilization. As a possible approach,

we recommend that to the extent that school choice money is expended, free cash should remain unexpended. Agreement can be reached that both funds be allowed to retain a certain balance either on a dollar amount or as a percentage of the fund balance as of July 1.

5) Analyze Fixed Costs Annually

Both the town and school department have a direct interest in fixed costs. Inflation in these expense categories could offset revenue gains that would otherwise be allocated to departmental budgets. Therefore, we recommend that the town focus on ways to hold down these costs. Health insurance options should be evaluated annually. Debt management should include a realistic long-term capital plan, an analysis of debt roll-off and funding options. If utilities are included, ESCOs (Energy Service Company) or a Green Community designation might offer the potential to lower costs. On balance, the town should take steps to be more proactive in all fixed cost areas.

6) Continue the Conventions of the Boards

At Leicester's annual town meeting in May 2011, a motion was passed to postpone voting on FY2012 budget-related articles until another town meeting could be scheduled in the following month. This exposed the lack of a timely, unified town budget to put forth to town meeting. To bring the major parties to agreement in the interval, the moderator and the chair of the board of selectmen coordinated a convention of the boards in early June 2012. This meeting brought together a quorum of the select, advisory and school boards, along with the town administrator, school superintendent and school business manager. Although the meeting was reportedly contentious, ultimately the parties arrived at a budget that was voted on and approved at the reconvened town meeting on June 21, 2011.

We endorse the town's resolve to continue holding conventions of the boards as a way to promote and facilitate intermunicipal collaboration. We especially agree that meetings prior to the conventions, involving the chairs of the various committees and the moderator, make sense and can be a productive means to resolve early differences and establish direction.

Instead of being ad hoc, the conventions should be scheduled at specific times in the year, and we believe that, absent unforeseen fiscal events, two may suffice at times consistent with the meetings in FY2012. The first meeting should occur in the fall to review revenue projections, reaffirm a revenue allocation ratio (if adopted), and attain a consensus on budget guidelines for the forthcoming year. A second should take place in April, just after the close of the third fiscal quarter. This would allow for a review of current-year revenues and expenditures and for

analyses to determine where shortfalls and surpluses might occur. A discussion of responsive action would follow.

Overall Financial Management

In the absence of a charter, the Town of Leicester operates under a mix of state statutes and local by-laws that define the responsibilities of office holders and set out the requirements relative to the procedures of government. A five-member board of selectmen serves as the town's executive branch. The select board appoints a town administrator to oversee municipal operations. Among the chief financial officers are an accountant and a combined treasurer/collector, both of whom are appointed by the selectmen and report to the town administrator.

The town administrator plays the lead role in coordinating the annual budget process. As part of his managerial functions, he also meets monthly with the town's core financial team, which includes the accountant, the treasurer/collector and the principal assessor, to discuss and assess ongoing financial operations. The principal assessor is included in these team meetings because of the critical interactions of these departments, but he functionally reports to a three-member, elected board of assessors.

The legislative functions of the town are fulfilled by an open town meeting, which routinely meets in the fall as well as annually in the spring. A nine-member advisory committee has a role in the budget process, while a capital improvement committee has six members and is chaired by the chairman of the board of selectmen.

The town does not have an information technology (IT) department. The school department's budget funds an in-house IT unit to handle all of its hard- and soft-ware maintenance and data management needs. For the remaining town departments, Leicester has an annually-renewed contract with ClearCom IT Solutions to provide support, maintenance, updates, daily data back-ups, and purchasing advice. In early 2012, the town launched a new town website designed and maintained by Virtual Town Halls & Schools.

There is also no town department for water and sewer. Instead, Leicester businesses and residents receive these services from a network of seven independent districts. However, the town's financial offices bill and collect for betterment, lien and delinquent usage amounts assessed by these districts.

Conclusion. The Town of Leicester functions under an organizational structure that is common among Massachusetts towns. Although day-to-day tasks are performed with consistency, and deadlines to meet annual or periodic responsibilities are generally met, there are areas of government that warrant attention. The recommendations we offer address a range of global

issues with the underlying intent to create greater stability and effectiveness in municipal operations. However, those goals will not be reached while conflict and mistrust characterize the relationship between town and school officials.

Therefore, the first of our recommendations seeks to enhance communication and cooperation among local officials. In the pages that follow, we provide advice on defining roles and responsibilities and creating a formal structure that budget-makers can refer to for guidance on the process. We also suggest ways that the town can maximize its limited resources by adopting practices that increase efficiency and reduce cost.

7) Strengthen the Role of the Advisory Committee

We noted earlier that the advisory committee has resisted deep involvement in the town-school disagreements for the purpose of maintaining objectivity. While we agree that objectivity is a critical characteristic for advisory committee members, we also believe that disengagement from issues runs counter to the greater goal of building and sustaining committee credibility.

In most towns, the advisory committee is viewed as a watchdog over town finances reporting to town meeting. With a town administrator in place, the advisory committee would not be expected to formulate the annual budget. However, to be most effective it must play an active, well-defined role in the budget process and in all finance-related policy matters. In this regard, the Leicester by-law provides little guidance, but more important is the mindset advisory committee members bring to the task.

The advisory committee members need to feel confident in their standing to ask questions, seek information and delve into issues. It is not a micro-management function, but committee members should, in a general way, understand how major expenditure decisions were made, how priorities were set, and where funding originated. The committee should examine how the allocation of resources in the annual budget conforms to town policies on the incurrence of debt, the use of free cash, and general spending goals. Even though the budget is developed by the town administrator, the advisory committee's recommendation is placed before town meeting. The committee needs to be sufficiently informed to demonstrate that it has been committed and thorough in performing its watchdog function. If this is successful, credibility will follow.

The advisory committee's diversity and autonomy would also be enhanced by a revision of its appointment process. The current by-law calls for a nine-member committee that fills vacancies through a two-thirds vote of the selectmen, moderator and remaining members of the advisory committee. Because advisory members represent the largest voting block, it is effectively a self-appointing committee, which is rare in Massachusetts and not necessarily desirable. Whether

intended or inadvertent, this could tend toward the appointment of like-minded individuals and fuel the perception that the committee fails to represent all points of view or all town residents.

We recommend instead that the town consider a by-law change that grants the power to appoint the advisory committee members to the town moderator. The moderator protects the integrity and interest of town meeting. Therefore, if the advisory committee reports to town meeting, it is appropriate for him to appoint its members. Also, if there is difficulty filling advisory positions, we recommend the town consider reducing the membership from nine to seven. This number should still be adequate for reasonable distribution of liaison responsibilities and yet be large enough to ensure regular quorums.

8) Adopt and Codify a Formal Budget Process

All the town parties we spoke to about the budget process expressed praise for the efforts being made by the current select board chair to establish a more collaborative budget process based on consensus building. To build on the gains achieved thus far, we offer the following guidance as a roadmap for a sound budget process going forward. We also recommend that Leicester solidify the budget process by codifying it in the town's by-laws.

Early start - The budget process begins early in the fall with a budget calendar created by the town administrator with input from the chair of the board of selectmen, school committee and advisory committee. Working back from town meeting, he establishes dates for the milestones described below.

Revenue Projections - In the next step, the town administrator develops revenue projections based on consultations with financial team members and department heads whose offices generate revenue. Predictions can be based on conservative estimates of new growth in the property tax base, and on 95 percent of the prior year's total for local receipts. The initial projection for state aid should equate to the prior year's distribution. Established town policies dictate the use of miscellaneous revenue and reserves.

Consensus and Guideline Distribution – At a joint meeting attended by the chairs of the select, advisory and school boards, the town administrator presents revenue projections, factoring in and explaining the impact of fixed costs (e.g., health care, pensions, debt service, etc.). The parties record a consensus on the projections and on the division of revenues between the town and school department. They also agree to an allotment ratio for any future revenue adjustments. By the end of the meeting, they settle on the budget guidelines to be distributed to department heads with solicitations for appropriation requests.

Review of Budget Requests - The town administrator meets with department heads to review their submitted requests. Subsequently, he creates a budget proposal for the review of the selectmen, who may then choose to meet with managers of major town departments if so desired. Subject to any changes, the selectmen approve the budget and

forward it to the advisory committee. The advisory board reviews the line item budget, holds hearings with departments when necessary, and discusses any potential modifications with the town administrator before making changes.

Finalize Budget - Depending on state budget proposals put forth by the Governor, House and Senate from January to May, the town administrator and the advisory committee chair should review possible adjustments to revenue projections. By early May, the advisory committee should review its final budget recommendation with the town administrator before posting it or having it printed for the public and town meeting.

A high level of communication is essential to the budget process, and joint meetings help serve this purpose. There should be an ongoing exchange of information amongst the town administrator, selectmen, advisory board, financial officers, school committee, and other major departments, particularly as they get deeper into the process. In this way, town leaders can present a unified budget position at town meeting, which will go far to build public confidence in the process and in the people involved.

9) Consider Changing the Way the Budget is Presented to Town Meeting

In the absence of a by-law directing that the selectmen or town administrator present the annual budget to town meeting, this responsibility falls to the advisory committee by statutory default. Normally, we would expect the moderator to read the budget motion and then recognize the advisory committee chair, who would move for its approval. Once the motion is seconded, the moderator would open discussion and debate on the budget by again recognizing the chair to offer comments. These comments should mirror a written budget message drafted by the advisory committee for the benefit of Leicester voters. The chair would remain available as the moderator guides a department-by-department review of the proposed appropriations and solicits questions and comments from town meeting members. On the conclusion of debate, all proposed expenditures in the annual budget would be approved collectively in a single vote.

In its report, the advisory committee should provide an assessment of the current financial state of the town, comment on major considerations in the budget's development, and generally explain deviations from prior-year appropriations. This budget message should be completed in time to be included as an attachment to the warrant. In some towns, the report is mailed to all residents, although this can be cost-prohibitive. More inexpensive options include posting it on the town's website and making hard copies available at the town hall and public library. The town could also consider adding notices to the fourth quarter property tax bill envelopes telling residents to look for the advisory report on the town website within the last two weeks before the town meeting date. As required in the current advisory committee by-law, the board should hold a public meeting prior to town meeting to present and discuss its report, the budget and other articles.

We also recommend that the capital planning committee provide a narrative of its annual capital plan to be attached to the warrant and otherwise made available. Assuming all capital requests are included in a single warrant article, the same process for motions and discussion can be followed at town meeting.

10) Perform a Substantive Review of Town By-laws

We recommend the town complete a substantive review and recodification of its by-laws. In their present form, Leicester's by-laws are lacking in cohesion and continuity, and for the most part provide inadequate information on the duties of town offices, the budget process, and financial policies. In contrast, well-run communities typically include by-law provisions to define the roles and relationships of officials and the expectations placed on government. Through the medium of the by-laws, towns can formally codify the annual budget process, provide for regular revenue and expenditure forecasting, clarify the roles of town office holders, and define the rights and obligations of residents relative to their interactions with local government.

Leicester has a standing five-member by-law committee appointed by the board of selectmen. Presently, this committee has two vacancies and does not have a regular schedule of meetings. We recommend that the selectmen disband the current standing by-law committee, and establish a new one to perform an ad hoc substantive by-law review. The selectmen should attempt to create a committee membership that is balanced between residents and town officials. The revitalized committee should review the existing by-laws to recommend the ones that should be retained, amended or deleted, and to propose new by-laws for adoption. They should identify any missing positions, boards or committees, and also consider codifying the town's financial principles, such as cash management procedures or debt policy. For guidance, the committee should examine the by-laws of other towns and seek input from residents, employees and officials through hearings and public forums.

For the end-product, we recommend that chapters and subsections be reorganized under topic areas with group headings, and that they be ordered in a flow that is logical rather than chronological. The goal of the format should be to ensure that the by-laws are easily readable and searchable. Once approved by town meeting and the State Attorney General, the town should make the by-laws available to residents in hard copy at the town clerk's office and electronically on the web.

By-laws present the opportunity for a town to operate under rules that fit its character and preferences. Many of the issues we raise in this report are appropriate topics for by-law

discussions, but there are others too. Given the official status of by-laws as records of the town and the important role they play in informing and empowering municipal officials, employees and residents, well thought-out language is vital to creating clarity of purpose and strengthening confidence in government.

11) Consolidate Revolving Fund Authorizations

The May 2011 annual town meeting warrant listed ten separate articles for revolving funds authorized under M.G.L. c. 44, §53E½. To streamline the warrant, Leicester could combine these into a single chart under one article. Once the motion for the article is put forth, participants could still discuss, amend or reject each individual fund. But approval of all revolving funds in the article would only require one vote. This model would help expedite the process, thereby reducing the length of town meetings. Below we provide a sample of a combined revolving fund article and motion.

Article XX - DEPARTMENTAL REVOLVING FUNDS AUTHORIZATION. To see if the town will vote to authorize revolving funds for certain town departments under Massachusetts General Laws Chapter 44 §53E½ for the fiscal year beginning July 1, 2###, or take any other action relative thereto.

<u>Revolving Fund</u>	<u>Authorized to Spend Fund</u>	<u>Revenue Source</u>	<u>Use of Fund</u>	<u>FY{current} Spending Limit</u>	<u>Disposition of FY{prior} Fund Balance</u>	<u>Spending Restrictions or Comments</u>
Passport	Town Clerk	Fees for passport processing and other related revenue	Supplies, equipment, postage and any other related expenses	\$10,00	Unencumbered balance available for expenditure	
Recreation	Director of Social Services	Recreation department program fees, proceeds from fundraising activities, and donations	Programs, supplies, equipment, contracted instructors and any other related expenses	\$120,000	Unencumbered balance available for expenditure	
Recycling	Chair of Recycling Committee with approval of town administrator	Receipts from recycling programs and projects, proceeds from fund-raising activities and donations	Programs, supplies, equipment and any other related expenses	\$50,000	Unencumbered balance available for expenditure	
TOTAL SPENDING				\$180,000		

12) Close Certain Revolving Funds Authorized under M.G.L. Ch. 44, §53E½

On review of the ten §53E½ revolving fund warrant articles, it appears that some may not meet statutory requirements. When a municipality receives fee payments in exchange for providing a service, it may set aside the receipts in a revolving fund. Without further appropriation, the official authorized to expend from the fund must use the money to support the provided service. However, in order to qualify as a revolving fund:

- 1) The service or program must provide a specific, tangible benefit to the payer.
- 2) It must be voluntary. Participation or payment charges cannot be required.
- 3) The fee charged must directly pay for the service in the appropriate amount to offset the cost of providing the service.

Based on the language of the warrant article and other information provided, the Hillcrest Country Club leasing revolving fund is highly questionable. This prompts us to recommend that all revolving funds be reviewed. To otherwise set aside the receipts raised in these programs, the town can seek special acts permitting it to establish special revenue accounts. In the meantime, the income referenced above must be accounted for as general fund revenue.

13) Use Transportation Revolving Fund to Pay Current-Year Expenses

The school also has a revolving fund authorized under M.G.L. c. 71, §47 to pay for school bus transportation costs. As befits a revolving fund, the school department deposits fees collected from parents into this account, and the superintendent should then request the treasurer/collector to draw from this account to pay the bus company's invoices. It should be a money in / money out arrangement. However, at the end of FY2011, this account held \$272,277. It appears that the school department has been paying the bus invoices out of its line item operating funds.

The FY2010 management letter by the outside auditor cited concerns regarding this account, noting that school transportation expenditures are not within the line item autonomy of the school committee. And, paying the transportation costs from the school department's operating budget evades the reversion of the parents' fees back to the general fund. We concur with the opinion of the outside auditor and recommend that the school department alter its management of the school transportation revolving fund accordingly. In fact, DLS issued a letter to the town in March 2011 stating as much.

The school also had seven other revolving funds showing year-end balances, though significantly smaller than the transportation fund. We recommend that the school department review these funds as well to ensure compliance with state laws.

14) Verify Town Meeting Appropriations

We recommend that the town clerk, accountant and treasurer/collector meet soon after town meeting to verify appropriations approved in the operating budget, in separate articles and as debt authorizations. If major purchases or projects were approved, the treasurer/collector can

later communicate with the department heads given spending authority to get a sense of when funds should be made available.

15) Revise the Annual Town Report

Like other Massachusetts towns, Leicester publishes an Annual Town Report, which provides a detailed statement of the town's financial position from the accountant, narrative reports from each town department, board and committee, and summaries of town meetings and election results. To make the report more informative and readable, we suggest that future reports incorporate changes to the town meeting sections.

Leicester's annual reports provide the warrant articles for the annual and special town meetings that take place in the spring of each year. However, any special town meetings that take place in the fall are not consistently included in the reports. In most years, these fall special town meetings involve financial articles. Therefore, we recommend that the annual reports include summaries for all town meetings that took place during each calendar year. Doing so allows the reader to make the correlation from the appropriations voted by the town to the expenditures listed in the financial reports.

We also recommend that the motion and voting minutes be integrated within the listing of warrant articles. Currently, the report lists each original set of warrant articles, and on the following pages lists the minutes of motions and voting, referenced by each article number. In most communities, the motions and votes are displayed immediately after each article in the warrant, a format which is more direct and therefore more easily comprehended. By eliminating the repetition and cross references necessitated under the old system, the town would also save on the paper needed for producing the hard copy versions of the report.

16) Grant Authority to the Town Administrator for Signing Vendor Warrants

Under M.G.L. c. 41, §52A, the board of selectmen have the sole authority to approve bills for payment. This approval is affirmed by the signatures of the majority of select board members on vendor warrants. However, it is our understanding that there is sometimes difficulty in timely obtaining the requisite signatures. Therefore, as a matter of convenience, we recommend that Leicester file special legislation delegating this responsibility to the town administrator. Model language for the special act can be as simple as: "The board of selectmen of the Town of Leicester delegates the responsibility for signing the warrants for payment of town obligations to the town administrator."

17) Centralize Procurement of Office Supplies

Leicester would benefit from centralizing the purchase of all office supplies. By doing so, the town could realize lower prices through bulk purchases, more competitive bidding and greater levels of standardization. Officials could also ensure the quality of goods purchased and more efficiently control inventory. To centralize purchasing, town officials should first designate the town administrator as the purchasing agent authorized to administer the program and interact with vendors. Second, the town should adopt written policy and procedures for program administration that conform with state procurement laws to ensure that all purchases follow the standardized protocol for bidding, quotation and buying procedures. Leicester should also research the possibility of establishing cooperative purchasing relationships with other communities or regional associations.

18) Encourage Payroll Direct Deposit for All Employees

Approximately half of all of the town's employees receive wages through direct deposit, and this group includes all school department employees. We recommend that Leicester encourage payroll direct deposit for all town employees. Although any mandate would have to be negotiated through the collective bargaining process, it is worth pursuing for its many advantages. Direct deposit eliminates the cost of issuing payroll checks, reduces the possibility of check fraud, prevents the need to reissue lost checks, and simplifies the reconciliation of bank accounts due to the absence of outstanding payroll checks.

19) Ensure Corrective Action is Taken to Address Audit Issues

We recommend that the town administrator devise corrective action plans to address weaknesses identified by the outside auditor in prior-year management letters and going forward in new audit years. For the latest completed annual audit (FY2010), the management letter from Powers & Sullivan presented two current-year weaknesses and listed nine from prior years that were still not fully resolved, some of which date back multiple years. For every identified weakness, the town administrator should work with the town's finance officers to develop corrective action plans, indicating what steps will be taken, who will be responsible, and when the action will be completed.

Many cities and towns appoint audit committees to perform this function, and Leicester may want to explore this option also. The audit committee could be comprised of three or five members and include selectmen, advisory committee members and residents. Financial officers should not serve as committee members to avoid any potential conflicts of interest, given the scope of the audits. At the very least, the town administrator should monitor the implementation of the corrective actions and periodically inform the selectmen and advisory committee of

progress made. Effective use of the recommendations of the annual audit reports and of this financial management review can assist the town to improve its financial controls and practices, which leads to increased public confidence in local government.

20) Refine and Expand Succession Plans

We recommend the town continue to develop succession plans to fill anticipated vacancies. As the accountant and treasurer/collector approach retirement age, they have been actively training personnel within their departments in anticipation that they could make good candidates to succeed them in these positions. If these promotions should occur, the departments will then have critical vacancies at the assistant level. Proactive succession planning can help provide a smooth and thoughtful transition during times of turnover. With this lead time available, the town should take advantage of the opportunity to rethink individual roles, reporting relationships and office functions with a vision towards promoting efficiencies and exploring possible cost savings.

Town officials should determine target dates for filling each position and also develop transition plans for any potential gaps in time between former employees and new hires. In anticipation of these transitions, officials should allow time to document information about the core functions and legal responsibilities of each office and position. These would include classification, grade, job description, assigned hours, and benefits package, if any. Applicable provisions of the personnel policies or by-laws should also be identified.

Before advertising any position, a salary survey of similar neighboring communities should be completed to determine whether the town is sufficiently competitive to attract qualified job candidates. Interviews with the departing employee, remaining staff and others should prompt discussions of whether changes in the job duties or office functions are warranted. The skill sets, experience and qualifications needed to fulfill the resulting job responsibilities should be defined and incorporated into updated job descriptions.

21) Negotiate a PILOT Agreement with Becker College

When the economy starts to improve, we recommend that Leicester engage the Becker College administration in negotiations for a formal Payment in Lieu of Taxes (PILOT) agreement. PILOTs are voluntary payments made by non-profit institutions to compensate municipalities for services provided to their tax-exempt properties. PILOTs can help provide relief for distressed municipalities and are a means for non-profits to pay for the public services they consume.

While the Becker's non-profit status means it is not subject to property tax assessment, the Leicester Board of Assessors has appraised the college's total non-taxable property holdings in

town to be \$12,162,900. If all of its properties were non-exempt, the assigned tax bill would be \$160,307 in FY2012. However, typically, PILOT agreements are established for far less than the municipal tax rate.

In preparing for negotiations, Leicester should attempt to quantify the dollar value of services it provides the college, including public safety, health and building inspections, etc. Based on successful PILOT programs in other communities, we also advise Leicester officials to standardize the basis or formula for payment calculation, pursue a multi-year agreement to reduce uncertainty for both parties, and set policy precedence for future PILOT agreements with other non-profits.

22) Negotiate for Compensation from the Water, Sewer and Watershed Districts

Although water and sewer services in Leicester are provided by seven independent districts, the town's assessing and treasurer/collector departments are engaged in significant amounts of clerical and banking work to collect betterment, lien and delinquent charges. While it appears that some districts permit Leicester to retain modest fee amounts for some collections, it was not clear to us whether any consistent, standard and significant compensation plans exist.

We recommend that the town administrator determine if the town currently receives payments from the districts for administrative work performed by town staff. In any case, we recommend that the town administrator independently identify the town hall staff who devote time to district business, for the purpose of placing a dollar value on the time expended. He should then contact all seven water, sewer and watershed districts to negotiate compensation agreements.

As an aside, as turnover occurs in the leadership of the districts through retirement, we recommend that Leicester town officials advocate for combining them.

23) Pursue Regionalization Opportunities

In recent years, Leicester officials have discussed the possible benefits of regionalizing certain town operations. Leicester's first inter-municipal agreement was established in 2011 with Worcester's Division of Public Health to share administrative, regulatory and community health services. In early 2012, the state awarded Leicester with a Community Innovation Challenge (CIC) grant to establish a stormwater management regional agreement with 12 area communities. Other agreements have been contemplated in the areas of education, animal control and emergency dispatch. We encourage Leicester to continue to engage neighboring cities and towns about these prospects and to investigate state funds that may be available to offset some start-up costs.

The CIC grant program was created in 2011 to stimulate and support innovative efficiency projects, including regionalization agreements. The grants can be used to contract for technical assistance, training and other transition costs related to implementing long-term agreements for sharing resources or coordinating activities. Allowable applicants include municipalities, school districts and counties, or regional planning agencies or councils of governments serving as administrative or fiscal agents on behalf of municipalities. Although the most recent CIC application period has passed, the Governor has requested \$7 million to continue the program in the FY2013 State budget.

Treasurer/Collector

In Leicester, the positions of treasurer and collector are functionally combined. The current office holder is a Certified Massachusetts Municipal Treasurer and Collector who was appointed to her position by the board of selectmen almost four years ago. She reports to the town administrator, and she supervises a full-time assistant treasurer and a part-time assistant collector.

A town treasurer is the community's cash manager and, as such, has custody of all municipal money. In addition to assuring the timely deposit of all town receipts into appropriate bank accounts, the treasurer monitors account balances to safeguard the availability of sufficient funds to cover town obligations. The treasurer also invests town funds to maximize investment income and meet cash flow needs. Necessary tools for the job include a cashbook, debt schedule, check registers, and various logs to track balances for grants, trusts, revolving funds, and other special revenue funds. As a financial control, the treasurer is obligated to reconcile cash balances and debt, both internally, and externally with the accountant on a regular basis. Other key duties include maintenance of tax title accounts and document preparation to petition for foreclosure. In Leicester, the treasurer's office is also responsible for payroll processing and benefits administration.

Leicester's treasurer tracks the cash position of the town's bank accounts in QuickBooks spreadsheets. There she records the turnovers of receipts from all town departments, as well as the disbursements done through weekly vendor and payroll warrants. The treasurer deposits the town's receipts to a local bank every workday. In between deposits, the receipts are kept in a locked drawer and in a safe overnight. She is also responsible for the town's debt and uses the services of a financial advisor, First Southwest, for borrowing and investment decisions.

A 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 the appropriate accounts, and turned over to the treasurer's books. The collector pursues delinquent property owners and moves their parcels into tax title as an enhanced enforcement measure. To be successful, the collector must maintain an up-to-date receivable control and reconcile it with the accountant monthly. Credit reports should be run as appropriate and research completed to confirm when refunds are due. The collector is also required to respond to requests for municipal lien certificates in accordance with state law.

The Leicester treasurer/collector's office issues bills for approximately 4,845 real estate and 225 personal property accounts. After receiving the annual property commitment from the assessing department, the treasurer/collector transmits a corresponding file to the vendor, Mark Altman & Assoc., to create and mail out bills on a quarterly basis. On an annual basis, the office also issues just over 9,000 motor vehicle and boat excise bills. The treasurer sends this commitment file to deputy collector firm Kelly & Ryan Assoc. Inc. to mail the bills. Kelly & Ryan are contracted to send out the initial annual bills, send demand notices to non-responders, and do collection enforcement work on accounts that remain delinquent after the demand notices. Finally, semi-annually, the assistant treasurer generates and mails out approximately 230 bills to property owners in three watershed districts.

Each staff member in the department has a workstation equipped with a personal computer and does their daily accounting work using a combination of Excel and VADAR software applications. The great majority of payments are transmitted to the office from escrow companies, and it also receives payments by mail, over-the-counter, and from the Unipay application on the town website. As payments are received each day, the assistant collector enters them into an Excel worksheet. At the end of the workday, the assistant treasurer uses the Excel worksheet to verify and compile the bank deposit. Post-deposit, the daily receivable data is entered into the VADAR accounting system. The assistant treasurer also does the biweekly entry of employee work hours and payroll data in the Harpers Payroll Services database.

Due to the existence of multiple water, sewer and watershed districts in Leicester, the treasurer/collector has more receivable accounts to manage than a typical Massachusetts town. The vast majority of the district collections (1,229 accounts) are for water/sewer lien or betterment amounts that were added to property tax assessments by the assessors' department. These are in addition to the 230 watershed accounts previously mentioned. The treasurer/collector department must ensure that receipts are credited to the correct town or district accounts, run monthly reports of the district payments received, and correctly transfer the appropriate sums to the districts.

Overall, the treasurer/collector fulfills the core responsibilities of the office. However, we believe that there are some areas that could be improved. The recommendations below are designed to promote efficiencies, tighten financial controls, and strengthen the town's ability to collect on its debts.

24) Reconcile the Cash Book Monthly

We recommend the treasurer/collector complete internal reconciliations of the cash book every month. The outside auditor's management letter cited the treasurer/collector's office for

inadequate evidence of reconciliation checklists and retention of bank statements, indicating weak internal controls over the timely accounting of all receipts and disbursements. A system of regular reconciliations is necessary to maintain a consistently accurate picture of the town's cash standing. It also minimizes the extra work needed to resolve variances during external reconciliations with the accountant, which have been lagging several months behind.

With the availability of on-line banking transaction and statement information, the treasurer/collector should be able to view current activity and balances as needed, enabling her to conduct internal reconciliations without waiting for printed statements. Despite the on-line availability, she must still download hard copies of the bank statements and file them timely and logically in order to maintain adequate records for annual audit oversight.

25) Initiate Tax Takings and Resolve the Tax Title Backlog

We recommend that the treasurer/collector complete prior-year tax takings by the autumn of each fiscal year. In Leicester, the treasurer/collector issues demand notices timely after fourth quarter bills, but more than a year passes before she issues notices of tax takings and moves the receivables into tax title. This is the critical step towards securing the town's liens on delinquent properties, and the treasurer/collector has an obligation to advance this course of action in a timely fashion. She also should record the addition of subsequent taxes into previously-established tax title accounts before the end of each fiscal year.

Furthermore, we recommend the treasurer/collector formulate a plan to reduce the number of properties in tax title. Leicester has approximately 58 properties in tax title, collectively owing in excess of \$263,000, including fees, interest and other charges. To reduce this figure, we suggest the treasurer/collector use a spreadsheet to organize tax titles into groups and then move them through the process by taking the appropriate actions listed below.

- Fast-track land of low value properties toward auction outside of Land Court proceedings. To qualify, a vacant or improved tax title property must have a current assessed value less than \$19,450 for calendar year 2011.
- Consolidate multiple parcels under single ownership to address them together, either in Land Court or during negotiations for partial payment agreements.
- Investigate properties with bad addresses and/or deceased owners to try to identify and contact the legal owners or persons in possession. For owners that cannot be found, either assess taxes to persons unknown or petition the Commissioner of Revenue under M.G.L. c. 59, §11 for the authority to assess taxes to the person in possession.

- Review existing payment agreements to verify if they are being paid in sufficient amounts to discharge the outstanding tax balances within reasonable time. If not, restructure or void the agreements and initiate foreclosure proceedings.
- Obtain outside legal assistance for the remaining properties through the request for proposal process.

To reduce tax title accounts and collect any portion of the outstanding taxes owed, the town will require commitments not only from the treasurer/collector but also from the board of selectmen and town meeting. 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.

26) Revise Deputy Collector Procedures

We recommend the treasurer/collector modify procedures related to the deputy collector, Kelly & Ryan, to ensure compliance with state laws and strengthen financial controls. Leicester contracts with Kelly & Ryan to collect delinquent motor vehicle and boat excise payments. Under the current practice, Kelly & Ryan deposit collections into their own bank account. Then, once a week, a company representative delivers a check written on that account to the treasurer/collector's office, along with a summary of the payers. The turnover check is the total of payments received, minus Kelly & Ryan's service fee.

Massachusetts law does not allow deputy collectors to receive tax payment checks made out to them nor to endorse any checks made payable to municipalities. In addition, no deputy collector may deposit municipal funds in a personal bank account nor maintain a personal bank account in a community's name. Further, state law requires that a deputy collector must make weekly turnovers to the collector of all amounts that were collected or deposited into a community-controlled bank account (reference DOR's IGR 90-219).

In light of the above, 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. We also recommend that the treasurer/collector process deputy collector fees through the standard warrant process. Financial controls are strongest when the deputy collector submits detailed bills to be paid through the vendor warrant process with the appropriate checks by the treasurer/collector. Additionally, if a joint bank account is established, the treasurer/collector should transfer balances in that account to the main treasurer/collector's account weekly, including accrued interest.

27) Improve Turnover Procedures

To increase efficiencies and strengthen financial controls, we recommend that the treasurer/collector's office implement new turnover procedures. It was reported that some departments do not turn over weekly, while others turn over receipts multiple times daily, whatever the payment amounts. Taking too long to turn over money can negatively impact cash flow, while too frequent turnovers slows down processing work in the treasurer/collector's office. We encourage the treasurer/collector to promote a policy that requires departments to turn over receipts weekly and increase the frequency only when certain dollar thresholds are exceeded.

The VADAR accounting software application provides an opportunity to further streamline the turnover process. The larger departments that regularly receive high volumes of payments and directly deposit their receipts could be trained in VADAR to remotely transmit their turnovers. The treasurer/collector could then simply transfer the receipt data into VADAR's cash book. Some departments (e.g., schools, library) already make their own bank deposits, and this would allow the cash flow data to be recognized more quickly, although all departments would still need to turn in hard copies of the turnover documentation.

For departments that continue hand-delivering turnovers, the treasurer/collector's office should revise the turnover sheet to include all of the following: the name of the department, corresponding revenue account information, and appropriate blank lines for dates, affirmations and for the signatures of both the department representative and the treasurer staff member. The revised turnover sheet could be designed as an Excel template customized by department, and include a payment column embedded with a formula to calculate the total receipts. Once designed, the treasurer/collector could email the customized template to each department. The treasurer/collector should remind departments that turnover sheets require the signature of the individual making the turnover, not merely the name of the department. Electronic VADAR turnovers provide this control via the application's systemic audit trail, which records individual user activity.

28) Print Vendor Checks in the Treasurer/Collector's Office Using Digital Signature

We recommend the town take advantage of VADAR's digital signature feature to complete the vendor warrant payment process more efficiently. Under the current system, after the accountant obtains the selectmen's authorization signatures on the warrant, she brings it to the treasurer/collector. The treasurer/collector hands over the correspondingly appropriate number of blank checks, with pre-printed check numbers for tracking, to the accountant. The accountant takes the blank checks to her office, loads them into her printer, and transmits a print job from

VADAR to the printer. Once the payees and amounts have been printed on the checks, the accountant walks them back to the treasurer/collector's office. A treasurer staff member then authorizes each check with a rubber-stamp signature, stuffs envelopes, and mails the checks.

The VADAR database can store the treasurer/collector's signature digitally, and its check-printing programming can be enabled to print the stored signature on the checks at the same time as the other payable data. We recommend that the treasurer/collector contact the town's VADAR liaison to get her signature scanned into the system and enable this print feature. Staff would no longer need to hand-stamp the checks. And, printing them in the treasurer/collector's office will eliminate the inter-departmental check-tracking step without sacrificing any internal controls, since check disbursements would still take place only after the accountant's and selectmen's approvals.

29) Revise the Payroll Process

We recommend that Leicester implement revisions to its payroll and data management procedures to increase efficiencies and tighten internal controls. Firstly, the accountant should determine if her office can review employee payroll information after it has been entered into the Harpers Payroll System, rather than before data entry as she does now. If so, we propose that departments submit their biweekly payroll information directly to the treasurer for data entry into Harpers, eliminating the step of submission to the accountant. After the assistant treasurer inputs the data into Harpers, she should generate the payroll report and payroll warrant from the system and send them to the accountant for review and approval.

We also recommend that the town allow departments to submit time sheet data electronically, using a standardized Excel template. Electronic tracking and transmission of this information will reduce paperwork and thereby ease the load on finance officers, department heads and employees. To address the requirement for department head signatures on time sheets, we refer the town to the Massachusetts Uniform Electronic Transactions Act, which allows for the electronic transfer of authorizing signatures in municipalities.

Finally, we recommend that Leicester use the Harpers application to centrally track the accrual and usage of employee sick and vacation time. Currently, leave balances are maintained only at the department level. When employees stop working for the town, they are entitled to compensation for varying amounts of unused vacation and sick time based on contract terms and pay rates. The Harpers database has the capacity to maintain ongoing leave balances for all employees across the full range of contractual accrual plans, and it can also print current balances on each biweekly payroll stub.

For financial statement purposes, the accountant must annually report employee sick and vacation time vested and accrued. This reflects the town's contractual obligation to compensate employees upon retirement for all or portions of their earned but unused leave time. For Leicester, this represents a future, potentially unfunded, liability which can only be determined and planned for with proper procedures for the collection and maintenance of employee payroll information. The maintenance of these records at the department level represents good practice only if the practice is uniform, and if corresponding data is retained in a centralized location. Otherwise, checks and balances do not exist. Therefore, we recommend that Leicester initiate a project to gather all the current leave balances from the departments, input them into Harpers, and use Harpers as the central, ongoing database for maintenance of leave-time balances going forward.

30) Pursue Tailings

Since her appointment to the position, the treasurer/collector has not addressed her inherited or accumulating tailing balances, and we recommend that she do so. A tailing refers to a returned check or one that otherwise remains uncashed, which when neglected, represents a debit liability on the town's books. A tailing can arise from any check disbursed by the treasurer to pay an employee or vendor, to refund a municipal tax or charge, or to pay any other municipal obligation.

Massachusetts General Law Chapter 200A dictates the steps municipalities must take to deal with an uncashed check, which is a form of unclaimed property. M.G.L. c. 200A, §5 deems to be abandoned any check that remains uncashed three years or more after its issuance date. Municipal treasurers holding abandoned checks may turn them over to the state treasurer (M.G.L. c. 200A, §7). Alternatively, the town could locally accept M.G.L. c. 200A, §9A, as amended in 2010, allowing it to print one-year expiration date notices on the checks it issues. Unclaimed checks that continue to be outstanding after the treasurer complies with the further notice and publication requirements listed under §9A will close to the general fund balance and be included in the town's subsequent certification of free cash.

31) Convert Cash book over to VADAR

The treasurer/collector maintains her cash book using QuickBooks software. The department's internal reconciliations would be facilitated if she converts to using VADAR's cash book rather than managing parallel data in QuickBooks. Unlike QuickBooks, VADAR has an audit trail, as well as user access rights for the two assistants in the treasurer/collector's office and the accountant. To help guide her through the transition, the collector/treasurer could ask her VADAR liaison about existing user groups, through which she could foster peer relationships in

other towns and share practical tips. VADAR Systems should know of active user groups or could provide a list of Massachusetts communities using their software.

32) Consolidate Bank Accounts

We recommend that the treasurer/collector reduce the number of town bank accounts, of which there currently appear to be about 20. Many of these are small and designated for single budget line items or grant programs. Although some federal and state grant programs may require the maintenance of separate accounts, most do not. In addition, many of these smaller single-purpose accounts are not very active, and we support the treasurer/collector's plan to consolidate them.

Accountant

The town accountant has the legal obligation to oversee all financial activity of the municipality, and thus plays a critical role in the system of statutory checks and balances established to safeguard local assets. The overarching mission of the position is to monitor the town's revenues and expenditures. Leicester's town accountant has been in the position since her appointment by the board of selectmen in April 2006. She is aided in her duties by a full-time assistant accountant.

Through the maintenance of independent records and adherence to well-defined procedures, the office documents the flow of money in and out of municipal accounts. Essential duties include the verification of expense and payroll warrants; maintenance of a general ledger recording all of the town's financial activities; and monthly reconciliations of account records with the treasurer/collector. Among required submissions to DOR, the accountant is responsible for producing the annual Schedule A and the year-end balance sheet necessary for free cash certification. The accountant also reviews the tax recapitulation sheet prepared by the board of assessors.

The quality and frequency of the data the accountant receives from town departments critically affects her job performance, and in this regard she reported satisfactory departmental compliance. It is also vital that the accountant regularly reconcile her balance records of cash and receivables with the treasurer/collector. However, the accountant reported difficulty receiving timely data from the treasurer/collector, and cash reconciliations have especially tended to lag.

Since July 2010, the accountant has used VADAR accounting software to maintain her general ledger. VADAR is integrated with the assessing department and treasurer/collector operations, providing great transparency across departments. The department also relies heavily on Excel software for distribution of revenue, expenditure and other reports to departments.

Leicester's accounting department operates on a professional level and in accordance with sound practices and procedures. The office fulfills fundamental responsibilities relative to the vendor and payroll warrant processes, and also complies with various internal and external reporting requirements.

33) Reconcile Cash and Receivables Monthly

We recommend that the accountant meet monthly with the treasurer/collector to reconcile cash and receivables with the general ledger. The outside auditor's management letter cited the lack of a formal cash reconciliation procedure between these two departments, and this condition statement will be repeated until the issue gets corrected. As the chief financial record keeper of the town, the accountant must make certain that her books stay current. A frequent schedule of reconciliations is fundamental to identifying and correcting posting or reporting errors, thus ensuring the accuracy of town financial records.

The accountant and treasurer/collector should establish a specific day to meet each month to compare their prior month-end cash and receivable balances. Early in each new month, the accountant should prepare balance reports for all funds as of the month that just closed. In advance of their meeting, the treasurer/collector should internally reconcile her cash balance and receivable control to their source documents. If any variances between the two departments are identified in the meeting, the source documents should be re-examined.

By meeting and comparing entries, the parties will gain a clearer understanding of which adjustments tend to be systemic, where timing issues arise, and how the process can be further improved. A system of frequent reconciliations should identify posting and reporting errors, which would help to minimize extra year-end work and ensure the safeguarding of the town's cash and assets on an ongoing basis. To further ensure adherence to the monthly schedule, the assistants in each office should be also trained to handle these reconciliations. Finally, we recommend that the town administrator oversee and sign off on the process to confirm its regular completion.

34) Revise the Vendor Warrant Procedures

We recommend the accountant file invoices with their approved warrants, instead of continuing the present system of filing them alphabetically by vendor name. The accountant must retain copies of all town bills to allow for independent audit verification of the appropriateness of purchases and the accuracy of disbursement records. Disassembling warrants in order to file invoices by vendor name is time-consuming and unnecessary. If properly entered into VADAR, accountant staff can query any purchase by vendor, date, department or amount. Hence, retrieval of original invoices filed by specific warrant would be just as easy as by vendor name.

With the filing system change, we also recommend that the accountant stop requiring departments to submit invoices using separate, manual vouchers for each bill. Instead, a standard electronic coversheet should be employed to allow for batch invoicing. Designed as an

Excel template with a common format customized by department, it could then be e-mailed to each department. The sheet should display the department's name at the top and include blank fields to fill in dates and signatures. It might also be pre-populated with relevant codes, including the vendor numbers associated with the department in the first column and corresponding account numbers in the second. Departments will enter bill amounts in the third, blank column, which should include a field at the bottom with a sum formula to calculate the total.

The invoice submission process could be further streamlined by allowing departments to directly enter invoice information into VADAR via remote interface. This could be done as a pilot project initially and eventually expanded to all town departments. Remote data entry would reduce the time that the accountant staff spend entering invoice data into VADAR as the first step in processing bills for creation of vendor warrants. Department heads given VADAR data entry rights would have the responsibility to enter their own invoices. They would still need to provide the accountant with hard copies of the invoices, however. Accountant staff would use the invoice documents to verify the accuracy and appropriateness of the expenditures prior to final approval, but apportioning out the data entry duties would free up more of their time for other tasks.

35) Distribute Monthly Reports Electronically

On a monthly basis, the assistant accountant creates and distributes 47 separate reports of revenues, expenditures and other miscellaneous financial data to departments and boards throughout town. He provides the reports in hard copy and disperses them through hand-delivery or interoffice mail. Moving forward, we recommend that these reports be transmitted electronically. This cost-effective method would not only eliminate a paper-driven process but also provide a convenient way for departments to reconcile reports against their records.

To facilitate this electronic exchange of information, it is our understanding that VADAR can export reports into Excel and Adobe PDF formats. The accounting office should determine which format would most compatible for all departments. Although the town accountant expressed a concern about protecting the Excel files from changes, her office would still retain the official data in VADAR and the original email attachments. Dissemination via email would still require the assistant accountant to extract individualized data to create departmental reports. Alternatively, the town could provide departments with read-only access to the accountant's modules in VADAR. In this scenario, the assistant could send reminder emails to department heads each month, instructing them to review the on-line VADAR reports and notify of any needed reconciliation adjustments within a specified time.

36) Discontinue Maintenance of the Manual General Ledger

We recommend that the town accountant discontinue duplicating her accounting records in a manual general ledger. At her previous accountant position for the Town of East Brookfield, she had relied solely on electronic software for maintaining the general ledger. When she began working as the assistant accountant for Leicester in 2005, she adopted the protocol then in use by the existing accountant: manually duplicating the electronic entries into a general ledger book. Since the VADAR system data is backed up nightly by the ClearCom vendor, tradition is not a compelling enough reason to continue this time-consuming practice. ClearCom's disaster recovery procedures provide a stronger control against data loss than the general ledger book, which could be destroyed if a fire were to occur at town hall.

Board of Assessors

The Leicester Board of Assessors consists of three elected members whose primary responsibilities involve reviewing and approving valuations, abatements and exemptions, and signing off on annual overlay and new growth estimates. Day-to-day departmental operations are overseen by a principal assessor, who was appointed to that position by the board 15 years ago. The department also has a part-time assistant assessor to help with office duties.

The assessors' office is responsible for valuing all real and personal property in town and generating the commitments that authorize the treasurer/collector to collect payments for real estate tax, motor vehicle and boat excise, and district liens and betterments. DLS annually reviews town assessments to ensure they reflect full and fair cash value and conducts a certification of values every three years. The principal assessor calculates annual new growth increases in the community's levy limit through June 30th of each year. Subject to the approval of the board of assessors, the principal assessor also sets the annual overlay amount and handles all abatement applications and property tax exemptions.

For FY2012, the parcel volume of work involved 4,630 in residential real estate, 164 in commercial/industrial, 51 in mixed use, and 87 in agricultural, forestry or recreational use. The office also committed 221 personal property accounts. The excise commitment volume was just over 9,000 for motor vehicles and approximately 160 for boats. On an average annual basis, the office issues 172 personal exemptions and approves 22 abatement applications.

All residential valuations and property inspections are done in-house, apart from some occasional per diem contract work. For map updates, Leicester employs the services of Jalbert Engineering. The department maintains the town's real property assessment records and personal property accounts on a Patriot Properties database, which is accessible to the general public via a link on the town's website. Using Patriot, the department compiles analytical data into reports and property tax commitments. To transmit commitments for property and excise tax to the treasurer/collector's office, the assessing department does data bridges from Patriot to VADAR. The principal assessor also uses Patriot data to collaborate with the town accountant for submission of the tax recapitulation sheet to DOR, necessary for approval of the town's annual tax rate. Other duties of the assessors' office include updating tax maps and deed transfer information and responding to public inquiries.

Our recommendations below reflect the positive opinion of DLS that the assessing office fulfills its function, completes requisite tasks, and is in general compliance with the Bureau of Local Assessment's accepted practices and state regulations.

37) Maintain the Cyclical Inspection Program

We recommend that the board of assessors ensure that there are adequate tools and controls in place to secure the progress of its cyclical inspection program. The purpose of the program is to ascertain current and accurate descriptions of all real property through complete interior and exterior inspections of all the town's parcels over a multi-year period, inspecting portions of the whole in each year of the cycle. Leicester's nine-year revaluation cycle will come to a close at the end of FY2013. The department has been operating with a significantly constrained budget for the last few years, leaving only minimal funds to pay for some isolated per diem contract work to assist in meeting department goals. So for the most part, the principal assessor has the sole responsibility to complete all inspections of real, commercial and personal property.

Over the next 15 months, the assessing office should set quarterly benchmark goals for property inspections beyond those that are routinely done in connection with sales, parcel improvements and abatement requests. To secure dependable access to properties, the principal assessor should continue to encourage the fire and other inspectional departments to invite him to their scheduled inspections. In order for the principal assessor to focus his attention on data collection and analysis, the town may also want to consider restoring the work hours of the assessor's assistant to full-time (five additional hours).

The board of assessors should monitor inspection numbers to stay informed on the progress of the project and the possible need for additional resources. Prioritizing the timely completion of cyclical inspections helps ensure that accurate property data is maintained, thereby promoting public confidence in the department.

38) Notify the Treasurer/Collector of Address Changes

We recommend that the assessing office update addresses in VADAR and notify the treasurer/collector of the changes. The assessing office is in the unique position of knowing when sales and associated taxpayer address changes occur. Upon receiving the information, the assistant assessor updates the data in the Patriot system. However, the assessors' office only does data bridge transfers from Patriot to VADAR twice per year. Consequently, the workload of the treasurer/collector may be avoidably increased by bills returned as undeliverable by the post office. This outcome could be mitigated by communicating the address updates when they occur. The assistant assessor has data entry access rights to VADAR. Therefore, we recommend that she update the property owner's address in VADAR as soon as she completes the same in Patriot and then send an email notification of the change to the treasurer/collector.

39) Require Digital Submission of Plans

We recommend the assessing department coordinate with the planning board to require that all plan submissions be in digital format. With the department's move to a Geographical Information System (GIS), all subdivision plans will have to be digitized at the town's cost before they can be incorporated into the mapping software. Since the assessors receive plans from the planning board, and there is sufficient authority in state law for the planning board to specify the format of proposals, requiring digital submissions is feasible and makes sense. This requirement would save the town dollars, and also quicken the implementation of the GIS system and updates to it. Therefore, we encourage discussions between the assessors and the planning board members about this issue.

Acknowledgments

This report was prepared by the
Department of Revenue, Division of Local Services:

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

Frederick E. Kingsley, Bureau Chief,
Municipal Data Management and Technical Assistance Bureau

Joe Markarian, Director, Technical Assistance Section

Tara Lynch, Project Manager, Technical Assistance Section

Zack Blake, Financial Management Analyst, Technical Assistance Section

Andrew Nelson, Field Representative, Bureau of Accounts

Jennifer Silvia, Certification Advisor, Bureau of Local Assessment

In preparing this review,
DLS interviewed and/or received information from the following local officials:

Richard Antanavica, Chair, Board of Selectmen

Douglas Belanger, Vice Chair

Sandra Wilson, 2nd Vice Chair

Dianna Provencher, Selectman

Robert Reed, Town Administrator

David Connolly, Chair, Advisory Committee

Gregory Shambo, Advisory Committee

Donald Cherry, Jr., Moderator

Mark Armington, School Committee Chair

Paul Soojian, School Superintendent

Sandra Buxton, Town Accountant

Christopher Hoey, Assistant Accountant

Deborah Kristoff, Town Treasurer/Collector

Amy Perkins, Assistant Treasurer

Colleen Cooney, Assistant Collector

John Prescott, Principal Assessor

Kathy Asquith, Assistant to the Principal Assessor

Robert Cleary, ClearCom IT Solutions

[Efforts to contact Selectman Thomas Buckley were unsuccessful]