



Town of Lenox

Financial Management Review

Municipal Data Management and Technical Assistance Bureau

January 2006

Introduction

At the request of the Board of Selectmen, the Department of Revenue's Division of Local Services (DLS) has completed a financial management review for the Town of Lenox.

We have based our findings and recommendations on site visits by a Technical Assistance team consisting of staff from the Division's Bureau of Accounts, Bureau of Local Assessment, and Technical Assistance Section. During these visits and by telephone, the team interviewed and received information from the members of the board of selectmen, assessors and finance committee, the town manager, town accountant, treasurer, collector, information technology person, as well as other staff members, as available, in each office.

DLS staff examined such documents as the tax recapitulation sheet, town meeting warrants, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness, the town by-laws as well as other assorted financial records.

In reviewing the town's financial management practices, we have focused on: (1) town government structure in the context of the duties and responsibilities of financial officers; (2) the town's budget, warrant approval and capital planning processes; (3) the degree of coordination and communication that exists between and among boards, officials, departments and staff involved in the financial management function; and 4) the general efficiency of financial operations measured by the town's success in maximizing resources and minimizing costs.

We encourage the members of the board and others, when formulating overall strategies for improving the town's financial management, to consider the observations, analyses and recommendations contained in this report. These are recommendations only and can be implemented, at the town's option, provided there is sufficient cooperation among the various town boards, committees and officials.

Overview

The Division of Local Services typically conducts financial management reviews in instances where help is sought to resolve a particular problem, or where an overall evaluation of government operations is desired. Although the board of selectmen, in its request for a review, cited staffing levels and town-school collaboration as areas of interest, our report addresses a wider subject-matter range.

At the outset, it is our observation that Lenox is a well run community. It benefits from a centralized structure of government where a capable town manager oversees operations under the authority of a 1991 Special Act. There is longevity among experienced department heads. Tested procedures are in place to carry-out the responsibilities of government, informal policies guide decision making, and strategy groups have been formed to seek out ways to function more effectively in the future.

The last 10 years reflect a period of economic growth and stability for Lenox. For example, the town's equalized valuation, a measure of community wealth based on property values, rose 106.8 percent between 1996 and 2004, compared to an average increase of 46.4 percent among 11 other Berkshire County communities of more than 2,000 people. The state-wide average increase was 105.4 percent. The town's average assessed value for a single family home increased 137.1 percent since 1996, compared to an average of 87.8 percent among Berkshire communities and was only slightly above the 125.9 percent state-wide increase. The average single family tax bill rose 63.7 percent in Lenox and was reasonably consistent with the 61.2 percent rise among the 11 Berkshire cities and towns, and the 57.9 percent state-wide average.

The town deviates from the state-wide averages in other important ways. Total city and town budgetary spending increased 53.9 percent between FY96 and FY05, but in Lenox the increase was only 38.8 percent. On average over ten years, free cash and stabilization balance as a percentage of total municipal budgets were 3.2 percent and 2.0 percent, respectively. For Lenox, annual free cash has averaged 16.9 percent of its budget and stabilization has averaged 10.5 percent. In dollars, Lenox free cash has averaged \$2.5 million annually. Stabilization has averaged \$1.5 million a year, but the fund balance has declined in each of the last eight years.

These resources together with the realization of new revenue through the liquidation of excess levy capacity have effectively shielded Lenox from the kind of financial constraints faced by other towns. However, circumstances changed in FY04 following a DOR decision, unfavorable to Lenox, on the application of the hotel/motel tax, and due to a shift in general economic conditions. The town now confronts financial hurdles:

-In FY00, property tax revenue was \$1.74 million below the town's legal levy limit. Current remaining excess capacity of \$563,389 is being gradually absorbed into the tax levy and, as such, provides additional annual revenue to offset the increasing costs of operations. By FY10, the town projects that it will have no remaining excess levy

capacity. Thereafter, this property tax revenue will not increase beyond the normal limits of Proposition 2½.

-Since FY00, the town's stabilization balance has declined from \$1,928,934 to \$311,188. In FY05 and FY06, \$320,000 and \$250,000 have been used to pay debt service on school bonds. Under the current plan, the remaining balance would be stretched over two years and depleted in FY08.

-Free cash continues to be strong, fueled in part by excess revenue realized when actual local receipts exceed conservative estimates made during the budget process. At the same time, when local receipt estimates for the upcoming year are increased over the prior year's estimate, a revenue boost results for budgeting purposes. However, this trend has shifted. The lowering of local receipt estimates in each of the last three fiscal years has functioned as a revenue reduction. If this downward trend continues, and reserves are depleted, budget cuts will be necessary unless alternative funding sources are found.

-As a matter of policy, free cash in an amount equal to 10 percent of the annual budget has been retained as a reserve. For FY06, the retained amount was \$1.3 million. The balance of free cash funds capital improvements. With the hotel-motel tax decision, local receipts declined dramatically (by \$843,528 or 45 percent in FY04, and an additional \$195,547 or 19 percent in FY05), and free cash was initially used to bridge the gap. Now, funds available for capital projects have shrunk to approximately \$400,000 per year.

-Based on the town's most recent Tax Recap sheet submitted to DOR and the FY06 town budget, the ratio of debt service costs to general revenues (excluding enterprise and free cash, and accounting for school cost reimbursements) is 12.1. This is higher than the 5-to-10 percent debt ratio range recommended by municipal credit rating agencies. The town must decide whether it can sustain this level of debt.

These circumstances may spawn a new dynamic in government driven either by a cooperative effort to systematically allocate resources, or a competitive environment to amass them. Success may depend on how realistic and forward-looking the town can be in its analysis of future events, the shape of its fiscal response, as well as its ability to effectively communicate and gain acceptance of its plan by those who must approve or execute it. To the credit of local leaders, we believe this process is already underway.

Overall Financial Management

A review of the town's overall financial management practices focuses on the procedures in place to accomplish tasks that typically cross over various municipal departments, as well as those that tend to impact town government on a global basis. Accordingly, we examined the budget process and the payroll and vendor warrant processes. We looked at long-term planning, financial monitoring practices and financial policies, as well as the effect of the town's organizational structure on the operation of government. We examined the purchasing system and personnel administration. We considered the roles and relationships among individuals together with the level of communication and cooperation that exists among offices. 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 the State Department of Revenue (DOR).

We have expressed our opinion earlier in this report that Lenox government functions well, but still here offer recommendations that are intended to foster forward looking perspectives. We emphasize the importance of new approaches to financial policies and suggest the adoption of a quarterly property tax billing system. We discuss how the capital improvement committee might be more effective and with financial constraints in the future. For related reasons, we recommend a more comprehensive budget presentation to town meeting. With more information, townspeople are likely to better understand decisions and be more receptive to any requests that might be necessary. Eliminating stipends and health care benefits to part-time, elected board members should be among the potential cost-saving measures under consideration. We speak to staffing, the allocation of responsibilities and back-up plans in the instance of a prolonged employee absence.

Other recommendations are intended to enhance communication and convey a message confirming the important role of staff in achieving good government. We recommend regularly scheduled financial team meetings and believe the product of these meetings would improve if a representative from the school department and the information technology person participated. We point to areas where collaboration between the town and school administration could occur. In this regard, we understand the local imperative to address school-town relations, but are also mindful of the statutorily granted independent nature of school districts. A good foundation already exists leading us to believe that interaction can improve without violating the deep-rooted rules of autonomy. Finally, the benefits of an employee performance evaluation program are largely self-evident, but its value as a mechanism for two-way communication also makes it worth pursuing. We advise that the selected program be well-thought out in terms of how it will work in the context of Lenox government.

Finally, our review of its overall financial management practices produces some recommendations that are clearly intended to “fix” problems, whether regarded as minor or significant. To address delays in the approval of warrants, we encourage the town to implement

what is already part of local law, i.e., that the town manager sign warrants. Greater detail should be provided in capital expenditure articles and in town meeting minutes. Departments should be held to rules for securing money. The town hall telephone system needs serious attention.

Conclusion - The experience of most towns is that, over time, demand on services increase, together with the expectation that town hall will be a responsive and professional operation. Because Lenox has experienced in recent years a degree of fiscal stability that has eluded other towns, it may not yet feel this type of pressure. However, now as the decision makers look to maintain service levels with diminishing resources, a commitment to establishing priorities and sound procedures should become an imperative. Multiple fronts will command attention, but a willingness to enhance communication and openly exchange information can be instrumental to gaining consensus on the difficult issues that lay ahead and the means to solve them.

Summary of Report Recommendations

- 1) Review Financial Policies
- 2) Consider Adopting Quarterly Tax Billing
- 3) Refocus the Capital Improvements Committee
- 4) Improve Annual Budget Presentation
- 5) Reconsider Health Care Benefits for Part-Time Boards
- 6) Formulate a Plan to Sustain Town Hall Operations
- 7) Expand Financial Management Team Meetings
- 8) Expand Areas of Collaboration between Town and School Administration
- 9) Implement Employee Performance Evaluations
- 10) Permit Warrant Approvals by Town Manager
- 11) Invest in New Town Hall Telephone System;
Assign Email Address to Each Employee
- 12) Include Greater Detail to Capital Expenditure Article
- 13) Include Budget Detail in Town Meeting Minutes
- 14) Establish Guidelines for Securing Money
- 15) Create a Budget Line Item for Technology
- 16) Create a Monthly Cash Flow Budget

Summary by Department

Computers and Technology - Technology is present throughout town hall primarily in the form of desktop computers and software applications. Offices also have internet and email capacity which allows more effective communications and interaction with the rest of the world where reliance on technology increases daily. Having reached an arrangement with the school department where its information technology (IT) director will devote, even limited, time to town hall issues is a major step forward. It establishes a valuable communications link between town and school operations, and better positions the town to evaluate its systems and to plan for upgrades and improvements.

The technology status of the town is complicated by the variety of software applications in use. Nonetheless, the IT director already has within his focus securing the town hall network, increasing server capacity, upgrading computer hardware, as well as establishing maintenance plans and expanding training programs. We see other areas where the technology person can have an immediate impact.

The IT director should be included in regular financial management team meetings called by the town manager. He should oversee the expenditure of appropriations for technology purposes in accordance with a long-term plan. This would include an evaluation of the telephone system. He should work with the school business office and town accountant to explore and develop a means to electronically transfer information now exchanged in hardcopy. With knowledge of school and town operations and computer needs, he can help the school department address and maximize compatibility between systems as it moves toward the purchase of new software. He can help department heads produce procedural manuals, and can establish consistent, town-wide email and internet policies.

It is not our expectation that four hours per week is sufficient time for an IT person to accomplish all which is noted above. Priorities must be established. At the same time, it is important to recognize that technology will inevitably become an area of growing interest and increasing demand for support.

Accountant - The accountant has served full-time, as a single person office, for the past 12 years. She effectively fulfills her legal obligation to oversee all town financial activity. She maintains independent records and follows well-defined procedures that document the flow of money into and out of municipal accounts. She prepares warrants, maintains a general ledger where receipts, expenditures and all other town financial activity are recorded. She regularly reconciles cash with the treasurer and receivables with the collector and produces a monthly expenditure report. The accountant has functioned as the de facto technology person in town hall, oversees the purchase order system and is instrumental in the annual budget process.

The accountant is always timely in submitting the town's annual Schedule A by October 31 and its year-end Balance Sheet (for Free Cash certification). She works effectively with the assessors and town clerk in the preparation of the town's Tax Recap Sheet and the town was the first among 351 communities to receive tax rate approval for FY06.

We cite only one major concern relative to the accountant's office. There is no person who can fulfill critical responsibilities were the accountant to be absent for a prolonged period of time. Otherwise, areas of internal concern seem to center on the exchange of information with the school business office, personnel records and some aspects of the payroll process. Ensuring that the accountant has copies of all school department contracts and grants is essential among them. We believe these operational issues can be resolved through the town manager and by cooperation among finance-related staff. Involvement of the IT person would also be useful.

Treasurer - The treasurer is a community's cash manager and, as such, has custody of all municipal money. Pursuant to these responsibilities, the Lenox treasurer is appropriately quick to deposit into town accounts money collected by other town departments and turned over to her. She invests town funds, monitors cash flow needs, and pays town obligations on presentation of a signed warrant by the selectmen.

To help in this regard, and in particular, to avoid short term borrowing, we recommend the treasurer develop a cash flow budget which would provide a month-by-month forecast of major disbursements and collections. We also suggest that she issue a policy on proper security for funds held by all departments when money collected is retained overnight.

Otherwise, the DOR Bureau of Accounts is satisfied that electronic cash records together with manual backup create essential checks and balances. Her records accurately log and track balances for grants, trusts and revolving funds as well as other special revenue funds. As a further financial control, the treasurer reconciles cash balances, internally, and then with the accountant on a regular basis. She is also organized in the management of tax title accounts.

The treasurer has been in office for 20 years and serves simultaneously as the town clerk, head registrar of voters, and health agent. She has some human resources responsibilities and has served as the town's web master. The new assistant treasurer, also functions as the assistant collector, assistant town clerk, and parking clerk. She previously served five years as assistant collector in a neighboring town.

In the treasurer's dual capacity as town clerk, we recommend that more detail be provided in minutes of town meeting action.

Collector - A municipality's tax collector possesses the authority to collect real and personal property taxes, excises, betterments and certain other charges added to and committed as taxes. As a town collector, the office receives other payments as well. In either case, collections need to be counted, posted to taxpayer accounts, and either turned-over to the treasurer or deposited daily. Delinquent accounts need to be pursued and then moved efficiently into the treasurer's tax title accounts. To be successful, a collector must maintain an up-to-date receivable control that is reconciled internally and then externally with the accountant monthly. Credit reports should be run as appropriate and research needs to be completed to confirm legitimate refunds due to residents. In accordance with state law, the office should respond to requests for municipal lien certificates within ten days. In most communities, the collector manages the contractual agreement with the Deputy Collector.

The current collector was appointed in September 2005 after serving as the part-time assistant collector for five years. As noted, she shares an assistant with the treasurer/clerk.

At the time of our interviews, the collector was in office for only six weeks. We are satisfied that she understands the requirements of the job, and see her benefiting from an experienced assistant, but a learning curve, however small, is inevitable. Consequently, we are disinclined to judge her performance with so little service as a department manager. At the same time, we see no reason that the office would not function effectively and efficiently. In the meantime, we would encourage the collector to keep an open mind to different approaches and to take advantage of educational opportunities as they become available.

Assessors - The assessors' office ensures that residents are taxed equitably and accurately. Toward this end, it is responsible for maintaining up-to-date property information, valuing all the town's real and personal property, assigning tax payments to owners, and generating the commitment authorizing the collector to collect real estate tax and motor vehicle excise payments.

In Lenox, the assessing function is overseen by an experienced three member, part-time, elected board and a full-time administrative assistant with 23 years in the position. The volume of work in the Lenox assessing department involves approximately 2,570 total real estate parcels and an additional 275 personal property accounts, billed on a semi-annual basis. Over the course of one year, motor vehicle commitments total about 7,000 accounts. Typically, the office conducts around 24 residential abatement hearings a year.

For ten years, the town has contracted with Paul Kapinos, an outside consultant, to complete data collection, valuation analyses as well as other necessary tasks. The office relies heavily on Kapinos, but according the Bureau of Local Assessment (BLA), it functions well and the work product has consistently met applicable standards. In critical areas, sale inspections are conducted as part of the interim year value adjustment analysis. Building permit inspections are regularly conducted and provide a basis for the annual new growth estimate. The cyclical re-collection of real and personal property information is on schedule. Assessors contribute to the completion of the Tax Recap sheet and are diligent in making commitments to the collector. As a result, we offer no recommendation for the assessors office.

Recommendations

Recommendation 1: Review Financial Policies

We recommend that the town revisit, revise and expand its financial policies. To its credit, town decision makers have allocated financial resources according to a plan. Formal and informal policies have guided the use of free cash, created reserves, provided funding for capital improvements from excess free cash, and managed the town's excess levy capacity and stabilization balance. Now, however, with the depletion of those resources in view, changes in approach are advisable.

In developing a plan for the future, we encourage the town to rethink past practice where reliance has been entirely on the annual certification of free cash as a funding source for reserves. Currently, free cash equal to 10 percent of the annual budget is retained, unexpended, as the town's reserve. The balance funds capital improvements each year. From a municipal finance perspective, free cash is a non-recurring revenue which is subject to change from year to year. Because that change can sometimes be volatile, its use should be carefully orchestrated.

We would also note that the current use of stabilization to cover debt service costs violates a fundamental principle that non-recurring revenues should not be expended on recurring costs. Regarding the fund in general, the stabilization balance was 15 percent of the budget in FY99 and is today down almost \$2 million, leaving a current balance of \$311,000.

We encourage a balance between the annual generation of free cash and stabilization as has existed in the past. The combination of the two reserves should roughly equal 10 percent of the annual operating budget. Any greater amount is excessive and diverts cash from other needs. At the same time, a ten percent reserve will be viewed favorably by credit agencies and will protect the town's credit rating.

Therefore, we recommend the following:

-We recommend that a set dollar amount or percentage of free cash be diverted annually to stabilization and that the money held in reserve be a combination of free cash and stabilization. In the short term, the total reserve balance will remain unchanged, but free cash will enter a declining trend. Eventually, however, the stabilization balance will increase and reliance on free cash as a reserve source will decrease. Certified free cash will grow once again and more of it will be available for other budget purposes.

Stabilization is also preferred as a reserve because of the more difficult, two-thirds vote required to appropriate the funds. The existing stabilization balance (about \$311,000) should remain as a beginning point to build-up the reserve. The town will have to identify an alternative funding source for debt service.

-A debt policy should dove-tail with a credible, long-term capital plan where priorities are established through an objective ranking system. Guided by the nature of the proposed expenditure and by agreed upon cost thresholds, a policy should dictate when

capital improvements are to be funded by a direct dollar outlay, a town-wide capital exclusion vote, or borrowing.

-A financial policy should set a limit on debt service as a percentage of general fund revenues. While variations exist, a frequent calculation is annual debt service costs (excluding enterprise funds and offset by reimbursements) divided by general fund revenues (including tax revenue, local receipts, state aid and other sources, but excluding free cash). We recommend that the town initiate a policy and plan to reduce its FY06 ratio of 0.12 to no higher than 0.10. Thereafter, it should seek to sustain a debt service-to-general revenue ratio of between 0.5-to-0.10.

-In general, guidelines should dictate the acceptable use of free cash, stabilization or other one-time revenue. Often, the resources are expended on one-time costs, no less than a certain amount. However, it is also common practice to allow a certain, limited percentage of free cash to be used as a revenue source for operations.

Finally, in formulating financial policies, notice should be taken of factors that can influence the town's credit rating and are within control of town management and policy makers. Moody's, Standard & Poor's, Fitch Investment Services all look positively on the following:

- 1) Revenue forecasting and a community's ability to anticipate future events;
- 2) Interim financial reporting and monitoring;
- 3) Contingency planning policies (reserves);
- 4) Policies on the use of non-recurring revenues;
- 5) Debt management policies; and
- 6) Long-term capital planning.

Recommendation 2: Consider Adoption of Quarterly Tax Billing

We recommend the town consider converting to a quarterly tax billing cycle. Quarterly tax billing was created to provide communities with the means to achieve more evenly distributed revenue collections during the year, to increase investment income potential and to reduce, or eliminate, tax anticipation borrowing costs. During times of financial constraints, quarterly billing also serves as another tool for managing money and stabilizing fiscal circumstances.

As additional benefits, a town is given until December to approve its tax rate and homeowner's can budget for smaller, though more frequent payment amounts. A preliminary bill based on the prior year tax rate is mailed July 1 and an actual bill, adjusted to the newly approved tax rate, is mailed by December 31. Quarterly payment due dates are August 1, November 1, February 1 and May 1.

The assessors' office would be required by a new July 1 deadline each year to record real estate transfers and lot splits about four months earlier than under the semi-annual billing system. Processing payments during two additional periods increases the workload of the collector's office. In this regard, we suggest the town explore the use of scanning wands or the use of a

lock-box service to receive and post payments. Otherwise, efficiencies can be gained by including two quarterly tax bills in mailings in July and December.

The experience of most communities is that the interest income and cash flow benefits of quarterly billing out-weigh additional program costs, and that scanning wands or a lock-box service lessens the anticipated workload increase in the collector's office.

Recommendation 3: Refocus the Capital Improvements Committee

We recommend that the town consider changes to the make-up and responsibilities of the capital improvement committee (CIC). The town has a capital improvement by-law that establishes qualifications for nine CIC members appointed by the selectmen and lists committee responsibilities. The CIC works in concert with a separate infrastructure committee which anticipates and initiates major road, pipeline and sidewalk construction proposals. Otherwise, the CIC must inventory all capital assets, develop and rank capital needs, generate and update a five year plan and funding schedule, monitor the execution of projects, as well as explain and defend capital expenditures at town meeting.

It is our understanding that the CIC meets during the budget process, reviews requests and makes capital expenditure recommendations. It has a five-year plan which, in the face of diminished funding, has not been updated. In FY06, a \$437,997 capital improvement article was approved compared to appropriations of approximately \$1.3 million in earlier years. Free cash is the primary funding source.

Given the limitations on peoples' time and energy, we recommend that, among its responsibilities, the CIC focus on developing a formal ranking system for all department capital requests. Through a ranking process, each capital request is measured against the same series of criteria. Under a scoring system, each request will fall into an order that reflects town-wide policies and priorities. An objective basis for grading capital projects is particularly useful as funding ebbs and flows.

Inventories, five year plans, project monitoring and town meeting presentations can easily become shared responsibilities with the town manager, selectmen, finance committee and infrastructure committee.

Long-term, if recruiting and retaining members of the committee becomes more difficult, the town might consider reducing the committee size from nine to seven members and by eliminating the requirements that members have special knowledge or backgrounds. While member qualifications can seem attractive, the requirements restrict the pool of potential candidates. These types of changes might be considered at a time when the town determines it appropriate for a complete by-law review.

Recommendation 4: Improve Annual Budget Presentation

We recommend that the town elevate the sophistication of its budget presentation to town meeting. Typical of well-run towns, the annual budget process in Lenox follows a deliberate

path which involves the town manager, selectmen and finance committee in decision making roles. Early on, the town manager (with assistance of the accountant and assistant to the town manager) produces a comprehensive budget workbook with statistics and narrative descriptions of revenue expectations and underlying budget assumptions for the upcoming year. It provides a summary and detail of historical expenditures by department, together with current requests. Following meetings with department heads to discuss available funds, town goals and objectives, the town manager's recommendations are entered into the workbook. Consensus is reached among decision makers and budget recommendations are made to town meeting.

It appears, however, that other than the town manager's budget presentation and any response to questions (which are admittedly few) little, if any, of this detail finds its way to town meeting. Historically, the Lenox town meeting views and approves a total dollar amount only for each department individually, meaning that no information shows what portion goes toward departmental salaries, expenses or other purposes. That town meeting would appropriate funds using minimal line-items reflects a legitimate management decision. As a matter of policy, it grants managers the flexibility to shift funds between salary, expense and other departmental accounts without having to return to town meeting for line-item transfer approval. Because Lenox has capable managers, granting this type of control works.

However, although there is no statutory requirement that town budgets be presented in any particular format, there is good reason to provide detail to town meeting. As long as town meeting understands how it is approving the budget, i.e., by department, that detail can be presented merely as back-up documentation and management flexibility will be retained.

In the first instance, town meeting is the final arbiter on municipal spending through approval of the budget. Whether or not past evidence suggests interest exists, it is the obligation of leadership to make data available so that informed decisions can be made by town meeting and ultimately the voters. Second, with impending pressure on town finances, divergent views will emerge on the role of local government and competing interests will spur debate on how money should be spent. Debate will be more vocal and heated. With clearly presented information in advance, or at the time of decision, the chances of reaching consensus are greater.

We recommend that appropriate back-up documentation be drawn from the budget workbook compiled by the town manager and staff.

Recommendation 5: Reconsider Health Care Benefits for Part-Time Boards

We recommend that the town consider re-evaluating the policy to cover the cost of health care benefits for members of part-time boards and committees. Under MGL Ch. 32B Sec. 2 (d), an employee must work a minimum of 20 hours a week to qualify for health benefits. However, the clause also states that an elected official, regardless of the number of hours of service, who receives compensation (in any amount) is eligible to receive benefits under a municipality's health care plan. In Lenox, the town's contribution is 75 percent of that cost. With the accumulation of ten calendar years of credited service (i.e., participation in the retirement

system), even in a part-time capacity, officials qualify for health care coverage upon retirement under the municipality's plan. The town's contribution is 50 percent of that cost.

The five-members of the board of selectmen and three members of the board of assessors receive stipends and health care benefits that total \$80,994 in FY06. Broken down, the impact for a community is three fold:

- 1) FY06 stipends are a \$24,325 annual operating cost to the town;
- 2) FY06 health care costs are an additional \$56,363 annually;
- 3) On retirement, and if vested, officials can continue to receive health benefits, of which cost 50 percent would be paid by the town (under the current agreement).

As communities throughout Massachusetts grapple with on-going budget constraints, discussions have inevitably focused on steps to combine and increase workloads, to limit town hall hours or eliminate positions and generally reduce services. Debates on how to save money have also expanded naturally to include reconsideration of stipends and health care benefits for part-time members of volunteer boards and committees.

Regardless of the outcome, the town of Lenox should enter the same analysis to determine whether these are benefits it wishes to provide and are reasonable expenses, or whether they are legitimate areas of cost reduction.

In particular, the benefits to be paid on retirement are a future and, in most instances, an unknown municipal liability which has drawn the attention of the Government Accounting Standards Board (GASB). As a result, new standards under GASB 43 and GASB 45 require state and local governments to include a footnote in their financial statements as to the actuarial accrued liabilities associated with post employment benefits (OPEB). To date, no funding requirement is imposed on communities in the way that pensions liabilities are funded. However, once the total liability, including the amount that is unfunded, is known, taxpayers, government employees, and municipal credit rating agencies will begin to take notice. For more information on OPEBs, go to the DLS Technical Assistance website and to the Best Practices link.

Recommendation 6: Formulate a Plan to Sustain Town Hall Operations

We recommend that the town formulate a plan to ensure continuation of essential financial functions and basic town hall services during periods of prolonged employee absences. Whether as a matter of policy or attrition, many in town hall hold more than one position or perform multiple tasks. For instance, the assistant to the town manager also fulfills personnel functions and coordinates procurement. The town treasurer also serves as town clerk, voter registrar, health agent, is the webmaster and has human resource duties. One person serves as assistant treasurer, assistant collector, assistant town clerk and parking clerk. The assistant assessor is also receptionist for the building department, and though it is not formally part of collector's responsibility, she often covers for the assistant assessor across the hall.

Consolidating municipal services in fewer town hall employees is viewed by some as a money saving tact, and a course that ought to be pursued in the future. In our view, town hall staffing is adequate, but lean, and should not be viewed as a convertible resource that can be diverted to support other parts of government. It is true that, in some instances, the current staffing alignment allows for a certain amount of cross training and may generate a modest cost savings. However, we would express caution.

Circumstances now exist where the temporary or prolonged absence of one person could impact operations in multiple offices. Although the town recently attracted a qualified person to serve in the multiple assistant positions for the treasurer/clerk and collector, it may not always be as fortunate. In the future, finding a person with the skills and temperament to fill more than one position, or report to more than one manager may be difficult. From another perspective, the potential for problems is acute where, for example, the town accountant is a single person office. No person is trained or assigned as a qualified back-up in the event of the accountant's prolonged absence.

These circumstances have the potential to affect the efficiency of operations, and the town's ability to attract and retain high quality, competent workers. In this context, we offer the following recommendations:

-Implement a performance evaluation process - See Recommendation 9.

-Provide for a back-up town accountant - We do not advocate hiring a full or part-time assistant accountant. In the unexpected absence of the accountant, the town needs a person to temporarily step-in and complete important functions, i.e., payroll warrant preparation. Based on our conversations, the assistant to the town manager or the school accounting clerk might be able to fulfill this function. Note that, by law, treasurers or collectors cannot simultaneously serve as town accountant.

-Create procedural manuals. Each finance office should produce a procedural manual which would provide guidance to the completion of primary office responsibilities when a key staff person is absent. It should describe where critical information is located. It should identify tasks, and outline step-by-step keystrokes on office software necessary to complete primary, or time sensitive functions. Toward this end, staff should work with the IT director to establish a standard format for the manuals.

Recommendation 7: Expand Financial Management Team Meetings

We recommend that the town manager schedule financial management team meetings on a regular basis and expand participation to information technology, the assessing department and the school department. Due in part to the proximity of offices, the town manager routinely speaks with the accountant, treasurer or collector on immediate finance-related matters. Periodically, when circumstances warrant, he meets together with two, or all three. He meets with the all town department heads on an as-needed basis during the budget cycle and throughout the year and, in general, has an open door policy to make himself accessible to town employees.

Even so, we encourage the town manager to meet routinely with a financial management team which would include the accountant, treasurer and collector, together with the school/town IT director, and someone from the assessing department and the school business office. In the case of Lenox, we would also suggest the assistant to the town manager attend.

Clearly, financial management team meetings provide an opportunity for discussion of the town's fiscal issues as well as for review of progress toward financial goals and objectives. A wider group is better able to give full analysis to proposed procedures or policies, and to formulate strategies to avert potential problems. Meetings enhance lines of communication, and provide a forum to raise and resolve interdepartmental issues. They underscore how each office is dependent on the performance of the others. The financial management team is not intended, however, to function as a policy making body, nor as one that would encroach on the duties or decision making responsibilities of the town manager who reports to the selectmen.

Not so obvious and not to be underestimated are intangible benefits. All involved receive the same message or new information at the same time. Each person can have confidence that a regularly scheduled forum exists to raise issues of concern, and that he or she will have equal input into any subject matter raised. By providing access, meetings will give greater meaning to the town manager's open door policy. In short, by creating a financial management team role and identity, understanding and cooperation will naturally increase, and morale in town hall can more easily be sustained at a high level.

Recommendation 8: Expand Areas of Collaboration between Town and School Administration

We recommend that the town and school department administrations consider additional ways for collaboration. To its credit, a certain level of communication exists in Lenox between the town and school administrations which places the town ahead of many others where no spirit of cooperation exists. In those towns, the principle of school autonomy is often mistakenly interpreted to mean a right to operate in isolation. On the contrary, no town department has any such absolute right. All town departments are interdependent and subject to overlapping procedures and approvals. For town government to operate most efficiently, cooperative relationships must exist.

Most recently in Lenox, agreement has been reached where the school's information technology director will devote a portion of his time in service to the town. Below, we suggest other areas of potential collaboration.

-We have already recommended in this report that a financial management team, chaired and directed by the town manager, meet regularly and include a representative from the school department.

-We now recommend that the IT director meet with the town accountant and the school accounting clerk to determine how school-related information, now transferred in

hardcopy to the town accountant, can be converted to an electronic format for more efficient transfer and easy sorting.

-We recommend that the town accountant and school accounting clerk meet annually, or as necessary, to ensure that the town accountant has copies of all grants and contracts against which expenses are to be charged in the current fiscal year, as required by statute.

-As the school department begins to explore and nears a decision on new software, we recommend that the IT director meet with town accountant and school accounting clerk, to better understand where compatibility between each's software would improve the exchange of information and to avoid potential and unnecessary compatibility issues.

Recommendation 9: Implement Employee Performance Evaluations

We recommend that the town follow-through on plans to implement an employee performance evaluation program. Currently under consideration in Lenox is an employee performance review program that has drawn mixed opinions from town officials and employees. Questioned, in particular, is whether a system where employees compete for merit-based raises is appropriate for the size and structure of the town hall work force.

From our perspective, a well-thought out annual performance review program provides the opportunity to reinforce the hierarchy of government and a chance to clarify job expectations for employees. A performance evaluation program should include guidelines that identify step-by-step procedures for reviewing an employee's work responsibilities, previously established goals and job expectations. There should be agreement on priorities and new goals for the ensuing evaluation period. If implemented in a methodical, even-handed way, regular job performance evaluations elevate employee morale and build resident confidence in government.

At the same time, an evaluation program works best when it is recognized as a two-way process. Employee performance is an obvious focus, but employee opinion and comment during the process can also provide valuable insight to management. Ultimately, the evaluation process can evolve into a collaborative effort leading to improvements in job performance, the operation of government and in work place conditions.

We note, however, that implementation of a performance evaluation program will require collective bargaining.

Recommendation 10: Permit Warrant Approval by Town Manager

We recommend that the selectmen cease to sign payroll and vender warrants and that the responsibility be carried out by the town manager as directed in special legislation. We found that while warrants for payment are prepared in a timely manner, the board of selectmen, who meet bi-weekly, are sometimes unable to promptly sign their approval. As a result, disbursement of payroll checks and vender payments risk being delayed or illegally paid before approval. Furthermore, the uncertainty of when the selectmen will be available to sign creates difficulty in predicting when payments will be made.

The special act that created the town manager position in Lenox explicitly delegates the authority to sign warrants to the town manager. We recommend that this responsibility be put into practice immediately. As a full time presence in town hall, the town manager will be available to review and approve warrants with minimal delay. As the town's chief financial officer, the town manager will be equally acquainted with the details of the warrants, and therefore ensure that intended checks and balance exist.

Finally, transferring this responsibility to the town manager might help address an issue raised in the 2004 independent auditor's report. Namely, debt payments have been completed by the treasurer, but not included on a warrant until a later date.

Recommendation 11: Invest in New Town Hall Telephone System; Assign Email Address to Each Employee

We recommend that the town invest in a new telephone system for town hall. Incoming telephone calls are diverted to messages even when the number called is not in use. Messages are accessible in voice mail days after they are actually left. Telephones do not ring when calls are incoming. Phone lines go dead when answered. These are frequent complaints about the town hall telephones from the vast majority of employees to whom we spoke, as well as from a few who routinely call in.

Telephone contact is often the first interaction a resident, or anyone having business with the town, has with local government. It is when opinions are formed about town hall professionalism, and when impressions are made about how well tax dollars are being spent. Dysfunctional telephones can frustrate staff as well as those seeking to communicate with town hall. They can severely diminish individual productivity and amplify deficiencies in general operations.

While there is mild debate whether the telephones are a problem, from our perspective, complaints are too many and too wide spread to be disregarded. We recommend the town give serious evaluation to its telephone system, and explore alternatives.

We also recommend that each town hall employee be assigned his or her own individual email address. It is our understanding that there are instances in town hall where a staff member's only email access is through a shared office email address. A departmental email address makes sense as it efficiently connects a member of the public with the office most able to respond to his or her need. However, we recommend that each employee have his or her own email address. When all employees have equal access to town hall resources, each can more freely communicate and conduct the town's business when privacy and professionalism matter. At the same time, all employees should be held to standards of behavior and accepted practices as enumerated in a town-wide email policy.

Recommendation 12: Include Greater Detail in Capital Expenditure Article

We recommend that the town meeting article directing capital expenditures specify the purpose of the expenditure. The town's capital improvement article requires, by law, a more detailed statement of purpose than is currently presented to town meeting and documented in the clerk's minutes. A listing of sums simply for "highway department expenditures" or "school department expenditures" or "town buildings expenditures" etc. is unacceptably vague.

Even though detail is provided in the capital request forms submitted by each department and included in the town manager's budget workbook, there is no evidence in the article or minutes that town meeting understands the capital purpose for which funds are appropriated. It raises the question whether the accountant can determine, when presented with an invoice, whether the purpose of the payment is consistent with the purpose approved by town meeting.

The information in a capital improvement article should include the specific purpose of the proposed expenditure, the department authorized to make the expenditure, and the funding source of the proposed expenditure. We generally recommend, unless otherwise required, that all capital requests be listed in a single article. Each is viewed as a separate appropriation and is still subject to amendment or removal.

Recommendation 13: Include Budget Detail in Town Meeting Minutes

We recommend that the town clerk include budget detail as approved in her town meeting minutes. Per our request, we were provided with a copy of the town meeting warrant and the clerk's minutes for the May 5, 2005 annual town meeting. The proposed town budget for FY06 appears as Article 4 in the warrant with recommended appropriations generally by department. In the clerk's minutes, Article 4 is entirely omitted. Whether the omission is merely an oversight, or whether the budget article is typically documented separately, town meeting minutes should be complete and accurate.

Recommendation 14: Establish Guidelines for Securing Money

We recommend that the town manager issue a policy for departments on securing money. A number of departments receive money from the public on behalf of the town for licenses, permits, photocopies and other services. Frequently, when amounts are relatively small, these receipts are kept in the particular department and not turned-over to the treasurer until a larger amount accumulates. For these occasions, a policy should direct, at the least, that receipts be secured in a small lock box and then in a locked file cabinet overnight. Also, if warranted, department managers should be directed to issue written receipts when accepting money and retaining a corresponding copy for office records. Prior to turnover, cash should be reconciled to the written receipts.

Recommendation 15: Create a Budget Line Item for Technology

We recommend that the town manager insert a consolidated budget for technology. Whether or not the town assigns the responsibilities to a full-time individual, technology should be treated in the budget like a department. As such, there might be separate line items for expenses, purchase of services, support contracts and small capital outlays for hardware and software upgrades. Major investments would typically be approved as part of the town's capital improvement program and financed through the issuance of debt. In any event, the budget should combine into one place the technology-related appropriations from all other departments. In this way, an overall technology plan can take shape and total town expenditures toward implementation of that plan will be clear. Also, technology is more likely to receive equal treatment in the process of setting town priorities through the budget.

Recommendation 16: Create a Monthly Cash Flow Budget

We recommend that the treasurer create a monthly cash flow projection budget. It is the responsibility of the treasurer to manage the town's cash and ensure that account balances are sufficient to cover town obligations as they arise. In this regard, a cash flow budget is a useful tool that can help anticipate periods of low cash balances and better manage short-term investment and borrowing.

We suggest that the treasurer determine if her software has cash flow management capability, and to use that application if available. If it is lacking or is deficient in some way, then a simple spreadsheet can be devised in Microsoft Excel to fulfill the same function. By applying past patterns of monthly spending and collections (as evidenced by revenue and expenditure reports) to current year appropriations, and overlaying projected debt service obligations, a reasonable forecast of the town's cash flow will emerge. Through the course of the year, the cash flow forecast can be adjusted for unexpected circumstances, and actual monthly costs or revenues should replace estimates.

Ideally, the revenue and expenditure information would be exported directly from the treasurer's software to Excel, otherwise manual data entry of past monthly totals will be necessary.

Acknowledgements

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