

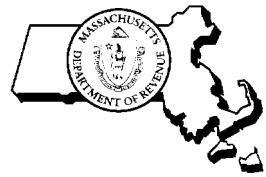
Town of Ludlow

Financial Management Review

Municipal Data Management and Technical Assistance Bureau

August 2004





Introduction

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

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 Municipal Data Management & Technical Assistance Bureau. During these visits and by telephone, the team interviewed and received information from the members of the board of selectmen and the finance committee, the town administrator, town accountant, treasurer, collector, assistant assessor, as well as other staff members, as available, in each office. Various consultants to the town were also contacted.

DLS staff examined such documents as the tax recapitulation sheet, warrants, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness and town by-laws as well as other assorted financial records. In addition, internal records and other materials were provided to us by the town.

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 and capital planning processes; (3) the degree of coordination and communication that exists between and among boards, officials 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.

Executive Summary

In the request for this financial management review, the Ludlow board of selectmen cited the inability of financial officers to reconcile town accounts as a major issue. The board also sought guidance in the development of policies and procedures to assist the daily operation of financial departments.

Looking back over time, this is not the first occasion that the town's financial management practices, reconciliations, or its government structure have been explained or analyzed. A charter commission, formed in the 1970s, did not result in the town's first charter, but it was during this period that the executive secretary position was created. A 1985 DOR financial management review touched on a few of the same areas of concern as we do today. A town government study committee met between 1990 to 1992 without major consequence. The town has heard strong criticism, in the form of "reportable conditions," from its outside auditor on financial practices in each of the last three years, particularly in regard to perpetual deficiencies in its cash reconciliations. Reportable conditions refer to deficiencies in internal controls that adversely effect the town's ability to present accurate financial statements. They reflect on the reliability of accounting procedures and should raise concerns that important checks and balances are in doubt. Each year, the town responds to the auditor's report with an outline of corrective steps, but in the absence of follow-up, there has been little improvement in financial operations.

More recently, MMA Consulting Group (Boston, MA), in a 2001 report, advocated a more centralized management system, conversion of numerous elected offices to appointed positions, better coordination of the budget process and improvements in communication. Based on the recommendations of a blue ribbon panel formed to review the MMA report, town meeting adopted a new town administrator position, reduced the size of the finance committee from 15 to 9 members, and created a budget advisory committee. However, most other recommendations were rejected. Then, only six months after creating a strong town administrator, town meeting on recommendation of the selectmen, reversed itself in October 2003 and voted to remove, not all, but significant appointing authority from the position.

Now, the town has once again asked DOR to focus on reconciliation issues and to otherwise offer counsel in the form of a financial management review. In many respects, our conclusions and recommendations mirror those already presented to the town in prior reports. They continue into this report because town leaders have not always demonstrated the political will to implement change. Looking ahead, we are not confident that town meeting, or perhaps town voters, sufficiently understand the level of grid-lock that now exists in government to prompt meaningful, structural modifications.

If the town seeks to improve municipal operations, the selectmen, as the chief executives of the town, must reconfirm their position and make a clear, public statement underscoring the need

for accountability in local government. They must put residents on notice as to the long-standing, serious nature of the problem and support strong central management as the necessary solution.

Even though the step has been taken to create a town administrator position, Ludlow has made less than a full commitment to centralized government. The town administrator is granted greater responsibilities than the prior executive secretary, but his authority is founded in easily amended by-laws, rather than entrenched more firmly in charter provisions. As already illustrated by town meeting action to rescind important appointing authority, the town administrator stands on shifting ground. Whether for this reason or because he is a new office holder, the current town administrator is navigating cautiously forward.

However, his prospects for long-term success are undermined by a disjointed mix of appointed and elected finance officers, of part-time elected boards and the department heads they appoint, together with managers appointed by the board of selectmen. The town administrator's limited authority to appoint certain board and commission members, does little to challenge the conclusion that the overall government structure creates divergent lines of authority and runs counter to any uniform system of accountability.

In this environment, the primary problem facing town government is not the inability of the treasurer and accountant to reconcile the town's cash balances. The more fundamental problem is the absence of a fully empowered, central authority who can demand that the job get done. It is not enough that a capable town administrator is in place. If he is not given basic and essential management tools from the voters, as well as support from the board of selectmen, the town will not right its fiscal practices.

Therefore, our primary recommendations are directed toward consolidating management authority and establishing uniform accountability in town hall. Toward that end, we recommend that the treasurer and the collector be made appointed offices. We recommend that appointing authority over finance officers and all department heads, now dispersed among elected boards and the selectmen, be reinstated to the town administrator. Where the town does not now have one, we recommend that the town ultimately adopt a charter, and that these become charter, rather than by-law, provisions.

We do not recommend the whole-sale conversion of elected boards to appointed offices. Even with expanded duties for the town administrator, elected and part-time boards can continue to have a role in screening department head candidates, in recommending policy, and in providing general guidance to managers. However, on a day-to-day basis, full-time employees need to report to and know they are accountable to a full-time, professional manager. For similar reasons, we do not support the creation of a finance director. To inject another layer of bureaucracy into an environment which is already devoid of line authority will only exacerbate the problems in the current town organizational structure.

Through powers and duties already granted to him in by-laws, it is the town administrator's role to initiate and manage the budget process. He should be allowed to carry-out this responsibility. A well formulated budget document should be built on consensus among policy makers, presented to the finance committee for its review and delivered to town meeting members in time with sufficient revenue and expenditure detail. We recommend that the town administrator, under personnel related powers granted in the town's by-laws, devise and implement a program for annual employee performance evaluations, and seek a way to further consolidate personnel and benefits administration. If not already, the town should consider creating a human resource position.

In brief, because he is responsible for the operation of government, we encourage the town administrator to place greater demands on department managers whether they are elected or appointed. We encourage him to take a more pro-active role to foster coordination and cooperation among town departments and to follow-through on decisions that are needed to implement positive change.

Empowering the town administrator does not, however, relieve finance officers from fulfilling their requisite responsibilities. In the case of the collector's office and the assessors' office, it is our observation that they are well-managed operations. The delineation of tasks between the department head and staff are clearly defined and effectively carried out. Even with the recent retirement of the assistant assessor/appraiser, our recommendations for these departments tend to be process-related and seek to gain efficiencies rather than critique staff performance which is at a high level. We do, nonetheless, admonish the collector to be more persistent in seeking out the accountant to regularly reconcile receivables.

Our reaction is that the treasurer and the accountant should focus more on the fiduciary responsibilities of their offices. In one instance, the accountant seems unnecessarily involved in peripheral matters, while in the other, the treasurer seems to be doing too little in fundamental areas. The accountant's staff of two are fully occupied and a critical part of the operation, while the treasurer's staff of three may be better utilized. Our recommendations for these offices are specific, but collectively underscore a need to clarify expectations and establish priorities.

In particular, recommendations addressed to the treasurer are many. Some speak to her failure to adequately fulfill legal responsibilities, like maintaining a cash book. Others call on the treasurer to develop better procedures in areas that can have a direct dollar impact on town finances, such as a plan to complete reconciliations with the accountant and a program to reduce tax titles. To improve efficiencies, the treasurer must move from manual to electronic record keeping and otherwise take advantage of available technology. Overall, however, the treasurer needs to attain a better grasp of the fiduciary responsibilities of the office. She needs to determine what the important tasks are and how best they are to be accomplished. Toward this end, she needs to better understand the capabilities of her staff and be a more effective and active manager.

Finally, we address technology issues. As advances are made in electronic communications and in the exchange of information with and between governments, communities must keep pace. However, rather than expand its technology capability, invest in staff proficiency and enhance support resources, Ludlow seems to be cutting back. We view this as a miscalculation. Looking forward, the town should explore ways to maintain the equivalent of full-time technology support. That person or persons should report to the town administrator who has a global view of town government and is better positioned to oversee a balanced technology program.

Conclusion - Those in government who manage the financial affairs of the town and protect community assets have to know with certainty that they will be held accountable for the performance of their fiduciary duties on a day-to-day basis. This management role is not one the voters can fill. Nor is it a role a town administrator can fill if line authority does not exist, if personnel evaluations are lacking, and when there is no accountability in town hall.

Although the current focus in Ludlow is on cash variances, a broader view reveals little coordination of departmental activity or implementation of town-wide goals. Adoption of a town administrator government is a positive step toward filling the management, and leadership, gap that has existed. However, absent full empowerment for the position, the system and the structure is set up to fail. To avoid this outcome, the selectmen must press the point with residents that Ludlow is no longer a small town, and that issues are no longer simple. To achieve effective, responsive government in an increasingly complex world, the town needs to give its town administrator all the management tools necessary to do the job for which he was hired.

Summary of Report Recommendations

Overall Financial Management (page 8)

- 1) *Empower town administrator with appointing authority*
- 2) *Convert the treasurer and collector from elected to appointed offices*
- 3) *Implement a performance review program*
- 4) *Monitor reconciliations of cash and receivables*
- 5) *Assign personnel administration responsibilities*
- 6) *Address ambulance collections*
- 7) *Modify the budget process*
- 8) *Adopt formal debt and reserve policies*
- 9) *Disband the budget advisory committee*
- 10) *Establish an audit committee*
- 11) *Adopt a town charter*

Computers and Technology (page 18)

- 12) *Establish a full-time technology position*
- 13) *Shift technology accountability to town administrator*
- 14) *Explore ways to enhance training*

Treasurer (page 21)

- 15) *Commit to monthly cash reconciliations with accountant*
- 16) *Adopt an electronic cash book*
- 17) *Discontinue manual receipts log and post from turnover sheets*
- 18) *Discontinue posting payroll withholdings as receipts*
- 19) *Create debt and debt service schedule*
- 20) *Develop a tax title program*
- 21) *Program MUNIS to annually adjust for step increases*
- 22) *Cease returning timesheets to department heads*
- 23) *Review delineation of staff responsibilities*

Accountant (page 27)

- 24) *Define accountant's role in budget process*
- 25) *Schedule reconciliations of cash and receivables*
- 26) *Complete balance sheet earlier in fiscal year*
- 27) *Cease verification of treasurer's manual receipts log*
- 28) *Modify payroll warrant information*

Collector (page 30)

- 29) *Reconcile receivables with accountant*
- 30) *Abandon manual records*
- 31) *Explore use of scanning wands*

Assessors (page 32)

- 32) *Plan for interim year adjustments*
- 33) *Consider office structure*
- 34) *Focus on personal property data*

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 of 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).

In response to the selectmen's primary concern, we address variances in the cash reconciliations in this section, as well as in the treasurer and accountant sections of this report. We also speak to receivable reconciliations in the collector section. Briefly stated, the accountant and the treasurer are not meeting monthly to reconcile cash, and the accountant and the collector are not meeting regularly to reconcile receivables. It is not enough that each reconciles his or her own records. Checks and balances during the year do not exist unless the treasurer's and the collector's records match those of the accountant. In the past, the periodic exchange of hardcopy reports has not produced intended results.

The reconciliation issue is one of many that collectively highlight the lack of a central authority in town government who can compel action. The creation of a town administrator position with empowerments beyond the executive secretary offers the potential for stronger management. However, the system retains finance department heads who are elected and other department heads who are appointed by part-time boards, or the board of selectmen. A certain level of cooperation exists in town hall, but the town administrator cannot unilaterally initiate action to improve town-wide operations. For instance, he can work to improve communications through financial management team meetings. He can address issues that impact multiple departments, such as ambulance billing and collections, but he cannot mandate an employee performance review program or consolidation of personnel responsibilities.

The town administrator does have responsibility in the budget process and can be an originator of financial policies for the selectmen and finance committee to review and approve. Accordingly, we recommend that he take control of the early stages of budget preparation, focus on building a consensus among policy makers and produce a comprehensive document for finance committee review. We recommend that he develop financial policies that formalize the town's view toward desirable balances and the use of free cash, stabilization funds, and other one-time revenues. Finally, we recommend that the town secure its organizational structure within the provisions of a town charter.

Conclusion - Characterized by a collection of independent, part-time boards, elected department heads and widely dispersed appointing authority, the success of town operations is tenuously dependent on peoples' willingness to communicate, cooperate and make things work. While most fundamental day-to-day tasks and procedures are getting done, broader management issues persist and important periodic responsibilities are neglected or only casually pursued.

Our recommendations would create a more centralized government, identify areas that justify immediate action and advocate adoption of a charter to ensure long-term stability.

RECOMMENDATION 1: EMPOWER THE TOWN ADMINISTRATOR WITH APPOINTING AUTHORITY

We recommend that the town administrator be empowered to appoint department heads. When the selectmen recommended and town meeting removed a significant portion of the town administrator's power to make appointments, it stripped away an important management tool. Now missing is the essential ability of one person to coordinate the execution of town goals, as set by policy makers, and effect initiatives to improve operations through line authority over all those responsible for the day-to-day administration of town business.

Consolidation of appointing authority in the town administrator makes all employees equally accountable for the performance of their requisite responsibilities. Under this structure, part-time boards and commissions can have input on appointments and can, in any event, continue to provide expert guidance, make customary decisions, and formulate policy. However, the responsibility to oversee town government will be more squarely placed in the hands of a full-time professional hired for that purpose.

RECOMMENDATION 2: CONVERT TREASURER AND COLLECTOR TO APPOINTED OFFICES

We recommend that the town convert the office of the treasurer and collector to appointed positions. A clear trend has emerged among Massachusetts communities in favor of appointed positions. Most act under a prevailing theory of government practice that policy makers should be elected, but operational positions, where a certain skill set is required, such as the treasurer, collector, accountant, assistant assessor, etc., should be appointed.

Looking long-term, the town interests are best served by expanding the pool from which a prospective candidate for a finance officer position is likely to emerge. Toward this end, wide-based advertising, background checks, and candidate interviews associated with an appointment process are more likely to attract a person with the strongest credentials and/or most relevant professional experience.

As appointed positions in town hall, the treasurer and collector would be placed on equal footing with other finance officers and department managers who have similar level responsibilities.

Each would be accountable and report to a town administrator and would be subject to annual performance reviews.

Under the provisions of MGL Ch. 41 §1B, the treasurer and collector can be made appointed positions by majority vote of town meeting and subsequent acceptance by the voters at a town election. By statute, the selectmen have the power of appointment, but the then current, elected office holder would serve to the end of his term. By by-law or charter provision, the appointing authority can be delegated to the town administrator.

RECOMMENDATION 3: IMPLEMENT A PERFORMANCE EVALUATION PROGRAM

We recommend the town develop and implement an employee performance evaluation program. The town by-laws set out no systematic process for an annual performance review for the town administrator or for department heads and staff. Missing, therefore, is the opportunity to reinforce the hierarchy of government and a chance to clarify job expectations for employees with the message that their performance will be measured annually. If implemented in a methodical, even-handed way, regular job performance evaluations elevate employee morale and build resident confidence in government.

Because of the absence of a single appointing authority, the board of selectmen would evaluate the town administrator and he would evaluate the managers of all departments over which the board has jurisdiction. Other boards would evaluate their respective department heads, while staff evaluations would be completed by department heads. Elected department heads would not be evaluated. Under a system where the town administrator has broad appointing responsibility, the selectmen would evaluate him and he would evaluate all department managers.

Performance evaluation guidelines need to be developed that identify procedures for reviewing an employee's work responsibilities, previously established goals and job expectations. They should lead to agreement on priorities and new goals for the ensuing evaluation period. We note, however, that implementation of a performance evaluation program will require collective bargaining.

RECOMMENDATION 4: MONITOR RECONCILIATIONS OF CASH AND RECEIVABLES

We recommend that the town administrator monitor monthly reconciliations of cash and receivables. Deficiencies in cash reconciliation procedures have been a recurring problem since 2000, when the current treasurer was elected. Each year, DOR and the town's outside auditor have attempted to impress on the town the critical function of reconciliations, with only marginal success. In the past year, the town did engage the services of two CPAs on separate occasions to identify the source of cash variances. While progress was made, the heart of the problem remains.

For whatever reason, the treasurer and the accountant choose not to meet each month to compare cash records. Each appears to be reconciling internally, that is, comparing record information with source documents. However, this necessary second part of the process is being ignored. Neither is the accountant meeting with the collector to reconcile receivables. The result is a cloud of uncertainty surrounding the town's financial statements and a series of annual audit reports citing reportable conditions.

So, here again, in the most severe terms, we call upon the accountant to seek out the treasurer and take the steps necessary to complete cash reconciliations each month. These should include reconciliations of the town's primary accounts, and reconciliations on a less frequent basis of trust funds, debt service funds, the cemetery perpetual care fund, etc. Similarly, the accountant should pursue meetings with the collector to reconcile receivable balances each month.

Because reconciliations are an important check and balance in the protection of town assets, and the failure to reconcile has the potential to deny cash to the town and affect its credit rating, we believe the town through the town administrator has a legitimate interest in knowing that they are getting done on a regular monthly basis. Under preferred circumstances, the town administrator would direct the accountant and the treasurer to provide evidence of reconciliations. Under existing circumstances, he can and should direct the accountant to make reconciliations a priority, but he can only request the same of the treasurer.

RECOMMENDATION 5: ASSIGN PERSONNEL ADMINISTRATION RESPONSIBILITIES

Assign personnel policy administration and benefits coordination. The town should take the steps necessary to improve personnel and benefits administration which is currently divided between the accountant's and treasurer's offices. It should consolidate the responsibilities in one person who would shepherd new hires through the system as well as maintain and update personnel records. This person would track salary classifications and update job descriptions and otherwise carry-out many of the town's personnel by-law requirements.

Given the size of municipal government, justification exists to explore whether to expand this role to include the functions of a full-time, human resource person. Additional responsibilities might include planning and directing a municipal personnel program; the preparation of a personnel handbook; the recruitment, hiring, training of new employees; classification, salary and wage determinations; advising officials during collective bargaining, and department heads in regard to personnel practices and policies. An HR person might also monitor, evaluate and make recommendations concerning changes in municipal policies, practices, rules and regulations affecting the personnel, and benefits program.

RECOMMENDATION 6: ADDRESS AMBULANCE COLLECTIONS

We recommend the town administrator bring parties together on the subject of ambulance billing and collections. Discussions with clerks in the collector's office and fire department make it clear that an extraordinary amount of time is devoted to ambulance billing and collections. Although partial automation is achieved through the AIM software in the fire department, an apparent lack of training prevents full utilization of the software in the collector's office. We are not certain what the answer is here. However, we see a need for the town administrator to initiate a meeting with those involved to better understand the issues and together, to chart a plan of action designed to fully automate the billing and collection process. Additional training on AIM would seem necessary. Possible integration of AIM with MUNIS should be explored. Data storage and transfer issues should be reviewed. If information gathering or the quality of necessary information is deficient, responsibilities should be clarified and the problems corrected. Finally, the privacy requirements of patient information must be understood and followed.

RECOMMENDATION 7: MODIFY THE BUDGET PROCESS

Although formulation of the budget in the last year involved greater consensus building than in the past, as a process it lacks clear definition and formality. Therefore, we recommend below a blueprint for the annual budget process. First, however, we recommend that whatever process is adopted be formally accepted by the board of selectmen and finance committee as a town policy. Later, the process should be incorporated into the town's by-laws or, ideally, into charter language.

We recommend that the town administrator initiate the budget process. As enumerated in the town by-laws, the town administrator has the responsibility "to prepare and submit an annual operating budget and capital program." We interpret this to mean that the document which incorporates the annual appropriation request for all town departments originates with the town administrator.

As a full-time professional hired to manage town government, the town administrator should be responsible for developing the town's annual budget. By his experience, knowledge and day-to-day presence in town hall, he is best equipped to know and understand the budgetary needs and priorities of town departments.

We recommend that the town administrator begin the budget process with revenue projections. Massachusetts municipal budgets are revenue driven and, therefore, the budget process should begin with a projection of revenues. This process should be completed by early October.

Projections should be in a format that mirrors the Tax Recap sheet. If the town accountant produces periodic revenue reports in the same format, clear trends will emerge and form a

sound basis for estimating future revenue levels. Otherwise, projections should be conservative. Tax revenue can be accurately predicted by the assessor. Policies should dictate how much, or what percent, of free cash, stabilization or other one-time revenues will be used. The same type of policy would determine escalation levels, if any, in local receipts from prior years. Initial state aid projections should be initially based on current year amounts and adjusted for economic trends and the fiscal environment on Beacon Hill.

By the end of January, a single round of adjustments can be made. The accountant's report showing prior year and six months of current year-to-date revenues can serve as a guide. State aid projections should be adjusted to reflect the recommendation presented in the Governor's budget. Other adjustments can always be made to account for anticipated changes, spikes or aberrations in revenue sources.

However, once the warrant including the town's budget goes to print, no further changes can be made unless by town meeting amendment. Nor should the passage of the town budget be delayed while in wait for the final state budget. If less state aid than projected results, then budget reductions can be made in a fall town meeting. If more aid than anticipated results, the town should resist increasing expenditures at a fall town meeting and, instead, appropriate the excess to stabilization or allow it to close to free cash.

We recommend that the town administrator present revenue projections to a joint meeting of the board of selectmen, finance committee and school committee. With the completion of revenue estimates early in the budget year by the town administrator, the opportunity exists to meet jointly with the selectmen, school committee and finance committee. The goal of the meeting is to review projections, and to reach consensus on overall expenditure levels, the use of reserves, and the allocation of resources in general. Once agreed upon, these and other policy decisions can be distributed as budget guidelines for department managers as they begin to prepare their appropriation requests.

We recommend the town administrator develop the budget request. Upon receipt of appropriation requests from all town departments, the accountant should prepare a working budget document in MUNIS for the town administrator. A copy should be given to finance committee members as well. The town administrator should then meet with department heads to discuss budget parameters and arrive at proposed expenditure levels for the upcoming year. The draft budget for all town departments would be presented to the selectmen for approval, and then forwarded to the finance committee.

The finance committee can choose to conduct hearings with departments, make further investigations during the budget process and effect changes before presenting its final budget recommendations to town meeting.

Under state law and local by-laws, once presented to the finance committee, no further changes in revenue or expenditures can be made without finance committee approval. We would expect communication between the town administrator and the finance committee to be on-going which would encourage the discussion of changed circumstances and potential budget modifications. However, the finance committee controls the budget at this point and has the last say in what goes to town meeting. Neither the selectmen, town administrator nor accountant have the authority to unilaterally reallocate revenues, impose expenditure adjustments or otherwise make budget changes in the absence of or contrary to finance committee decisions.

We recommend that budget detail be included with the warrant when mailed to town meeting members. It is our understanding that, in the past, town meeting members have received the proposed annual budget for the first time at town meeting. The budget is provided in summary form with line items for salaries and expenses, but no back-up detail is provided.

Town meeting is the community's legislative body and final decision maker on the allocation of community resources. In the absence of advanced budget information and in the total absence of detail, town meeting cannot possibly fulfill its responsibility to make reasoned, intelligent decisions. At the same time, it is incumbent upon town policy makers to finalize budget decisions in sufficient time to allow them to be included in the warrant when printed and made available to town meeting members. We recommend strongly that the line-item budget be incorporated into the warrant itself and that budget revenue and expenditure detail be included as an appendix to the warrant.

We recommend that the town formalize its budget calendar to reflect changes in the process. The budget process for FY05 began earlier than in prior years and, based on our interviews, the change was viewed as an improvement. We recommend that a similar schedule for the development of future budgets become formal, accepted practice. For a typical town, the process should begin in October and end on the date of the annual town meeting. The process might be agreed upon as a joint policy of the finance committee and the board of selectmen, but ultimately, should be incorporated into a town "budget process" by-law, or as a charter provision.

Beginning with the likely annual town meeting date in May and tracking backwards, the town can establish a budget schedule similar to the example below.

| | |
|-------------|---|
| October 15 | Town administrator (TA) presents revenue projections to a joint meeting of the selectmen, finance committee and school committee. |
| November 1 | TA distributes budget guidelines and requests to departments. |
| January 1 | Department deadline to submit appropriation request. |
| February 1 | TA completes hearings and creates draft budget. |
| February 15 | Selectmen approve budget and submit to finance committee. |
| April 15 | Finance committee completes hearings and creates final budget; |

At this point, revenue projections are locked; warrant subsequently goes to print and is distributed to town meeting members.

May 8+/- Town meeting votes on finance committee budget recommendations.

RECOMMENDATION 8: ADOPT FORMAL DEBT AND RESERVE POLICIES

We recommend that the board of selectmen and finance committee formalize a policy that establishes guidelines for funding and maintaining reserves. The town has done well in maintaining its stabilization fund and free cash levels. To help establish and ensure the continuation of sound practices, the selectmen and finance committee should formalize reserve policies. These same policies can also help the town improve its credit rating. Among other things, policies should:

- 1) Identify target levels for the stabilization fund, free cash and other reserves in a total dollar amount or as a percentage of the total annual budget.
- 2) Direct the use of excess free cash, that is, the amount that exceeds the free cash target level, as a funding source for stabilization or one-time capital projects.
- 3) Restrict the use of unexpected, non-recurring revenues to non-recurring expenditures;
- 4) Restrict the use of the stabilization fund to non-recurring expenditures and in an amount above a certain dollar threshold. Set similar guidelines on use of free cash.
- 5) Set limits on the debt service payments as a percent of operating revenues (less debt exclusions, enterprise fund revenues, free cash, grants, transfers and non-recurring revenues).

RECOMMENDATION 9: DISBAND THE BUDGET ADVISORY COMMITTEE; COMMIT TO FINANCIAL MANAGEMENT TEAM MEETINGS

We recommend the town disband the budget advisory committee. When the selectmen, finance committee and school committee meet with the town administrator at the start of the budget process as proposed in this report, the goal is to arrive at a consensus on the application of adopted financial policies to the upcoming budget. As the town's primary policy making boards, it is an appropriate role.

The accountant, collector, treasurer and assistant assessor are managers of individual departments, who to some extent are competing for money with each other as well as every other town department. As finance officers, their input as information providers is valuable, but their role does not include setting town-wide budgetary policy.

We recommend that the town administrator commit to regular financial management team meetings. Whether elected or appointed, all finance officers should have an interest in an

efficient, well prepared government operation. Regular financial management team meetings called and chaired by the town administrator would advance this purpose.

The financial management team would function as a resource to the board of selectmen, finance committee and school committee as each formulates policy. It would periodically review comprehensive financial data, conduct cash flow analyses and analyze the financial impact of future events. It would identify critical junctures and offer early strategies to deal with anticipated areas of concern. Financial management team meetings are also a time when managers can plan ahead in order to meet upcoming deadlines. In general, meetings of finance officers are intended to open formal channels of communication and contribute to the successful coordination of the town's fiscal management.

RECOMMENDATION 10: ESTABLISH AN AUDIT COMMITTEE

We recommend that the board of selectmen create and appoint an audit committee. An audit committee is a group of people who can help determine in advance the requirements and objectives of the town's outside audit. Its members can then be involved in the selection of the auditor. It can also review the town's annual audit report and monitor progress in resolving audit issues.

The town administrator, working with finance officers, would formulate a corrective action plan to address issues raised in the auditor's management letter. He would also be primarily responsible for the execution of the plan. A committee of three or five might include selectmen, finance committee members, the town administrator as well as residents. Given the substance of an audit report, the town may not want finance officers serving as members in order to avoid potential conflicts of interest.

The problem in Ludlow is that audit recommendations, even when they involved serious "reportable conditions," appear to be ignored. There is no follow-up to ensure that issues are resolved. Therefore, more than anything else, we view an audit committee in Ludlow to function as an enforcement device.

RECOMMENDATION 11: ADOPT A TOWN CHARTER

We recommend that the town begin work toward the adoption of a charter. Town action to strip certain appointing powers from the town administrator position less than six months after granting them is a strong argument in favor of a town charter. The reversal of opinion demonstrates how an untested process of government created in by-law can be susceptible to premature or arbitrary change.

As an alternative, cities and towns have created greater stability for their organizational structure, established relationships among officials, boards and commissions and more clearly

defined financial procedures through the work of charter commissions or home rule petitions. Ludlow has reached a point where it should give serious consideration to adoption of a charter.

Charter provisions can address issues of elected versus appointed officers and boards. The budget process, capital planning steps, the elements of employee performance evaluations, as well as the responsibilities of town officials are often set out in charter provisions. We would also recommend the town reconsider provisions that name local officials and town employees as voting town meeting members. This is a rare provision which places officials and department heads in the awkward position of voting their own compensation packages, and their own operating budgets.

The townspeople can elect a charter commission as the start of a two-year process, or a home rule petition can be submitted to the State Legislature. Both procedures are outlined in MGL Ch. 43B and would involve a process for community input into the development of charter language. In either event, we suggest that a town committee research each path to charter creation, and also provide a framework of charter issues. Its members or a separate study committee can be established to formulate and present a new charter to town meeting and the voters.

Computers and Technology

Dating at least back to 1985, the town accountant has been assigned the responsibility of providing town hall with some level of technology support. Today, with the title of Systems Administrator, the present accountant responds to MUNIS issues. The town receives additional vendor support from MUNIS and Paul Kapinos & Associates when more complex software problems arise, and has contracted with an outside consulting firm (PC Service, Ludlow, MA) for general computer support.

In this regard, PC Service has in past years provided the town with MUNIS support, assistance with software and hardware upgrades, with acquisitions and installations, budget and long term planning, and server maintenance. However, in the last year, the town decision to reduce the number of PC Service hours from 15 to 11 per week has resulted in a corresponding reduction in services.

As an ex-officio member of the computer advisory committee, a principle of PC Service has been involved in the development of a technology program for the town. It is our understanding that he monitors server capacity, has developed and currently maintains an inventory of town hardware and oversees an annual expenditure (\$21,000 in FY04) for a computer replacement program. In other areas, PC Service has contributed to the installation of the town hall network, and created email and internet access, which is available to all employees, but only authorized for some.

More recently, principles of PC Service have expended the bulk of their limited time at Ludlow on MUNIS support. PC Service has also identified individuals in different sectors of town government to receive training to provide basic support service. Collectively, this group handles the vast majority of routine departmental needs. Overall, however, the level of computer proficiency is low among staff and the opportunity for training has declined.

The town's computer advisory committee is appointed by the selectmen, meets regularly and works to set goals and objectives for the town. According to its scope of responsibility, the committee also "reviews matters of computer technology as referred to it...and makes recommendations to the board of selectmen." In addition, its charge specifies that all computer technology needs be coordinated through the system administrator with input from the advisory committee. In practice, the advisory committee works closely with PC Services.

Conclusion - Despite the valuable contributions of many, the current structure for technology management in Ludlow is likely to evolve into an increasingly dysfunctional system. In particular, the town's decision to reduce the number of PC Service hours is of concern. As an immediate effect, the accountant seems to more frequently devote time to day-to-day computer issues in other departments. A pre-existing leadership void is worsened and a source of coordination of town-wide initiatives is lost. Notwithstanding the efforts of the computer advisory

committee, there is an absence of a single person in local government responsible for implementation of town-wide technology goals, which leaves departments to act individually and outside an accepted long-term plan.

RECOMMENDATION 12: ESTABLISH A FULL-TIME TECHNOLOGY POSITION

We recommend that the town establish a single position with full-time technology responsibilities. Whether the town has the opportunity to expand its relationship with its outside consultant, chooses to create a new position, or settles on some combination of the two, it should recognize the need to devote the equivalent of full-time attention to computer and technology support. This approach can retain the involvement of selectively trained town hall employees who provide basic support, but should abandon the long-standing practice of assigning support responsibilities to the town accountant. This would allow her to concentrate on the management of town accounts and the timely completion of required tasks.

With a single person dedicating full-time to computers and technology, day-to-day operations and the long term needs of the town can be monitored. Problems can receive immediate attention and an organized program can be more uniformly implemented. Under the present circumstances, it is our understanding that because servers have reached full capacity, the process of printing bills dramatically slows the system and disrupts the work of other offices. Back-ups are not uniformly conducted, and upgrades are often unannounced.

It has been suggested that the town would benefit from a full-time, \$10-15 per hour (about \$31,000 annually) junior level person in town hall. We presume this would supplement 11 hours of current contracted services for which the town pays \$30,000 per year. This represents one alternative, while a second option would be to combine both amounts into a single, higher level full-time position.

RECOMMENDATION 13: SHIFT TECHNOLOGY ACCOUNTABILITY TO THE TOWN ADMINISTRATOR

We recommend that the person responsible for technology report to the town administrator. Many computer issues and potential technology advances can cross over or impact multiple town departments. Oftentimes, decisions are necessary to assign priority to competing expenditure needs. Therefore, in whatever manner the town chooses to expand its technology personnel, the person assigned the day-to-day technology responsibility should report to the town administrator.

A technology person can monitor systems' performance and evaluate the capability of hardware and software in departments. He or she can identify and prioritize the need for upgrades, and recommend the adoption of new technologies. A technology person can advise the town on the tendencies, strengths or limitations of hardware or financial management software when changes to policy, procedures or practices are being considered. Everyday accessibility to a

technology person can encourage dialogue on how increased computer use can ease office tasks. He or she can formulate guidelines on internet and email use and can serve as a point person for contact with vendors. He or she can survey staff on computer usage, and set-up responsive training programs to increase overall computer proficiency in town hall.

Moving forward, we encourage the person with technology responsibilities to continue working with and receive guidance from the town's computer advisory committee. Together, they would present recommendations to the town administrator for centralized purchasing and development of a long term capital plan for upgrades.

RECOMMENDATION 14: EXPLORE WAYS TO ENHANCE TRAINING

We recommend that the computer advisory committee survey town hall employees to measure computer proficiency. Even in the absence of a full-time technology person, an initiative can be taken to evaluate computer proficiency and create training opportunities for staff. Goals might be established to explore how technology can eliminate manual data entry and reduce paper records and redundancies through interviews with various office staff. In the long run, the town might look to develop an on-going training program which encourages computer usage and helps maintain proficiency levels among users.

Treasurer

The treasurer was first elected to office in the 2000 town election and was re-elected in 2003. Her prior town hall experience included 29 years of service in the Ludlow building inspector's office. She manages an experienced staff of three, including an administrative assistant, assistant treasurer and office assistant with 17, 7 and 15 years in the office, respectively.

In general, the administrative assistant processes the school payroll, generates various reports, maintains a check register, and enters departmental turnovers into the MUNIS software. She is also involved with personnel issues for new hires and maintains unemployment records. The assistant treasurer receives time sheets and processes the town payroll, including the calculation of withholdings. She processes vendor checks, debt service payments and makes wire transfers when the treasurer is absent. She serves as benefits coordinator and also handles retiree questions by telephone and at the counter. The office assistant maintains personnel and other files. She bursts, stuffs and mails vendor and payroll checks.

Our review of the treasurer's office begins with comments on the matter of cash reconciliations. As repeatedly documented, cash balance variances between the treasurer's records and the accountant's general ledger have been persistent over the course of years. Through the work of outside consultants, progress has been made to reduce the variances, but we are not satisfied that reconciliations are being completed, except when compelled at year-end. Lacking is the necessary commitment to sound record keeping procedures and to the needed level of communication between finance officers to ensure that the task gets done.

In relation to other primary responsibilities, our recommendations are directed toward improvements in operations which is sub par in multiple respects. Although departmental receipts turned over to the treasurer are deposited, current procedures and record keeping practices contribute to delays in posting the information to the MUNIS software. As a result, actual cash balances are not reflected in town records. The treasurer should establish and maintain an independent debt schedule and debt service schedules, rather than rely on the annual report generated by Lane & Co. She should reconcile her debt record with those of the accountant every six months.

Unnecessary steps are taken relative to manual records, time sheets, the treatment of salary withholdings, and the updating of employee records for salary step increases. There appears to be no program to reduce tax titles. A minimal program would target potential high yielding properties. An on-going program would update records, and involve a series of letters to owners warning them of pending action to foreclose on their property.

Finally, we stress that the treasurer needs to be a more effective and active manager of her staff. There should be an on-going process of evaluating whether essential office tasks are

being completed in the most efficient manner and in a way that most effectively utilizes staff capabilities.

Conclusion - With three full-time positions, in addition to the treasurer, the treasurer's office is well staffed and should have little difficulty fulfilling requisite responsibilities in a timely fashion. However, the treasurer needs to do a better job at setting office priorities, committing to process (and reconciliations in particular) and generally managing staff. Our recommendations address these and other issues.

RECOMMENDATION 15: COMMIT TO MONTHLY CASH RECONCILIATIONS WITH ACCOUNTANT

We recommend that the treasurer commit to meeting with the accountant to reconcile cash. It is not entirely clear why the treasurer and the accountant choose not to meet monthly to reconcile the town's cash. What is clear is that the treasurer has not met with the accountant to reconcile cash balances in the town's accounts for months.

Reconciliations reflect an important check and balance and are a fundamental responsibility for each. Even though the source of an on-going cash variance does not appear identifiable, if the treasurer and accountant can at least reconcile accurately to the same variance for six-to-eight consecutive months, other options to clear the books arise. In contrast, the source of variances are far more difficult to find when reconciliations are done only once at year-end. This practice delays the ability of the town to close its books and produce its balance sheet, delays the start of the town's annual audit, and prevents the certification of free cash.

When the treasurer first reconciles internally, monthly bank statements for each of the town's accounts are adjusted for deposits not recorded, checks not cleared as well as for interest, returned checks, or bank charges and fees. The reconciled account balances are then compared to the indicated balance in the cash book for the account (see below for cash book discussion). This total reflects a beginning monthly balance adjusted for receipts (reflected by turnovers, wire transfers etc), and disbursements (reflected by payroll and vender warrants). If the totals do not match, the treasurer should search through source documents to ensure that cash book entries were correct.

When reconciling externally with the accountant, the treasurer should be armed with the month's worth of departmental turnover sheets, the treasurer's schedule of receipts to the accountant, executed warrants and bank statements. She should also have a list of uncleared checks and source documents for other adjustments. If her totals do not match the accountant's totals for each account, she and the accountant should compare source documents and the entries made. Through this step-by-step process the variance can be discovered and corrected.

RECOMMENDATION 16: ADOPT AN ELECTRONIC CASH BOOK

We recommend that the treasurer adopt an electronic cash book. Although the treasurer maintains a receipts log, lacking is a single cash book that incorporates town receipts and disbursements in one document to facilitate regular reconciliations. The town's outside auditor provided the treasurer with an Excel spreadsheet which is set-up as an electronic receipts log. It includes a list of departmental turnovers by date and corresponding bank deposit amounts by date. Entries are then made in columns extending to the right which show the activity in each of the town's bank accounts. This format can be expanded to function as a cash book with the addition of a column to list disbursements, by date, as reflected by payroll and vendor warrants. The entry would be carried over and recorded as a transfer into or out of the appropriate bank account column. (Under separate cover we provide a sample Excel cash book in hardcopy and on floppy disk).

It is our understanding that the town's CPA consultant has provided the treasurer with a variety of spreadsheets, including a cash book, to encourage better record keeping. Whatever decision is made, to be effective, the treasurer must commit to use and maintain the formats provided.

RECOMMENDATION 17: DISCONTINUE MANUAL RECEIPTS LOG AND POST FROM TURNOVER SHEETS

We recommend that the treasurer discontinue a manual receipts log and post departmental turnovers to MUNIS from turnover sheets. Currently, the treasurer keeps a manual record of all departmental turnovers which are delivered to the office. She hand-writes the turnover date, department of origin, a source code, amount and amount subtotals. Once complete, the treasurer gives her hand-written log of receipts to a clerk who then re-enters the same information into the MUNIS cash receipts module. There is often a delay of a week up to a month before the process is complete.

We recommend instead that one clerk be responsible to receive and process all departmental turnovers, and in particular, to post to MUNIS from the actual turnover sheets on a daily basis. A treasurer's clerk should count and verify the amount delivered, and provide a written receipt for each departmental turnover. She should prepare turnovers for deposit (when necessary) and then reconcile the deposit slip tape to a MUNIS generated report of the same batch. If amounts do not match, the problem can be easily found by re-examining turnover sheets. If amounts match, the funds can be deposited. Under any circumstance, the responsibility lies with the treasurer to ensure that processing is timely and accurate.

By keying directly into MUNIS and with the adoption of an electronic cash book, maintenance of a manual log represents an unnecessary duplication of work and should be discontinued.

RECOMMENDATION 18: DISCONTINUE POSTING PAYROLL WITHHOLDINGS AS RECEIPTS

We recommend that the treasurer discontinue posting payroll withholdings as receipts. In addition to salary amounts due individual employees, the payroll warrant identifies the gross amount for employees' federal tax, state tax as well as for other withholding categories. With approval of the payroll warrant by the selectmen, the treasurer cuts salary checks for employees, but holds withholding payments until the amounts are approved for release through a vender warrant. To fund the withholdings expenditures on the vender warrant, the treasurer makes a bookkeeping entry that records the withholding amounts as receipts. This unnecessary procedure overstates receipts and expenditures.

With approval of the payroll warrant where totals are listed for withholding categories, the treasurer is already authorized to dispense withholding amounts. Payments due on a weekly basis can be distributed. Amounts due at the end of the month can be transferred to and accumulate in an agency account until ready to be paid. At that time the treasurer needs no further authorization to issue a check. Because the MUNIS software has already made the correct debit and credit entries, no further bookkeeping adjustments are necessary.

RECOMMENDATION 19: CREATE DEBT AND DEBT SERVICE SCHEDULE

We recommend the treasurer create and maintain a debt record and debt service schedules on Excel spreadsheets. The treasurer has statutory obligations to report annually to the town accountant and periodically to the State Bureau of Accounts (BOA) information relative to the issuance and payment of debt. Currently, the treasurer obtains debt information from reports provided by Lane & Company on request or at year's end. She should, however, create and maintain her own schedules in accordance with the following guidelines:

- 1) Debt Service/Long Term - A projection of principle and interest payments, carried to the longest term outstanding, should be maintained and updated annually. This chart should identify the date of issue, the purpose of the bonds and whether or not payments are self-supporting (covered by rates or by taxes). As the chart extends left-to-right into the future, it would display overall principle and interest obligations by year, and when debt service begins and ends for individual projects.
- 2) Debt Service/Monthly - The treasurer should maintain a similar chart of debt service obligations on a per month basis for the current fiscal year. Used in tandem with monthly revenue and expenditure estimates, this information is important to forecasting the cash flow needs of the town through the course of the year.
- 3) Debt Schedule (also referred to as the "Statement of Indebtedness")- The debt schedule would be a list of long term debt by project inside the debt limit, the same for outside the limit and of short term debt (by type and project). For each project listed, the chart would show the amount outstanding as of July 1,

additional amounts issued during the fiscal year, amounts retired, outstanding balance as of June 30, and the total interest paid during the fiscal year. A final chart entitled "Authorized and Unissued Debt" would include the date of the authorizing vote, the town meeting article number, purpose, amount authorized, amounts issued or retired, and the remaining unissued amount as of June 30.

Although the town clerk has a statutory obligation to certify to the assessors and the accountant any town meeting order or vote appropriating money (MGL Ch. 41, §15A), the treasurer should take the initiative to meet with the clerk as well. She should also communicate with department heads to learn when capital projects are likely to begin (i.e., to learn when she will need to provide financing). She should review her file of notes outstanding and look to the town's most recent prospectus for additional information. Finally, the treasurer should reconcile her debt records with the accountant to ensure that their debt statements agree.

RECOMMENDATION 20: DEVELOP A TAX TITLE PROGRAM

We recommend that the treasurer initiate a program to reduce tax title accounts. As of June 30, 2003, tax title accounts numbered 81 properties with a total outstanding balance due the town of \$490,639. Of that total, ten properties and eight owners account for \$277,815 in taxes due, including interest and charges.

To begin, the treasurer should assign the responsibility to maintain updated tax title files to a staff member. When preparing her budget, she should request an appropriation for the legal costs to move properties through Land Court. Alternatively, she must report the amount needed to the assessors so that it can be raised through the Tax Recap Sheet. (See DLS Bulletin, Budgeting for Expense of Tax Title and Foreclosure, January 1999 at www.dls.state.ma.us). As part of a tax title program, she should communicate with taxpayers prior to important dates. For instance, letters should be sent informing delinquent owners of her intent to file a petition for foreclosure in Land Court which leads to selling the property at auction to recover back taxes.

The initial thrust of the program should target the ten accounts that represent \$277,815 in taxes due. The remaining accounts should be organized into groupings based on land of low value, parcels under single ownership, accounts with bad addresses and deceased property owners, existing partial payment agreements and all remaining accounts. She should then tailor a program to pursue each group by the most efficient means available. Once delinquent property owners have evidence of the town's seriousness to pursue back taxes, collections will improve. The treasurer must oversee and direct the process, but can delegate responsibility to maintain files and deadlines to staff.

RECOMMENDATION 21: PROGRAM MUNIS TO ANNUALLY ADJUST FOR STEP INCREASES

We recommend that the treasurer seek support from MUNIS to program the personnel software to automatically adjust employee salaries for annual step raises. Each year, the treasurer's

clerk makes manual entries into MUNIS to adjust for the annual salary step change for approximately 300 town employees. With entry of the proper underlying data, MUNIS will make this annual adjustment automatically.

RECOMMENDATION 22: CEASE RETURNING TIMESHEETS TO DEPARTMENT HEADS

We recommend that once submitted to the treasurer's office, time sheets not be returned to department heads for verification. When time sheets for town employees are received from department heads by the treasurer's office, the information is keyed into MUNIS. A report is printed and the timesheet information is returned to the department head for verification. It is then sent again to the treasurer's office, where a clerk records any corrections before the payroll warrant process continues.

Department heads are statutorily required to submit payroll schedules that, at a minimum, include the full name; title or position; salary, wages or other form of compensation; and the time worked during the particular pay period for each employee. As a matter of good practice, sick and vacation time should also be indicated. This information must be sworn to as accurate and true by evidence of the department head's signature.

Once submitted, it is an unnecessary step to return time sheets to department heads for verification. The treasurer's office should be able to rely on the information submitted by the department head who, in turn, is correct in expecting that employee hours will be accurately processed. As a matter of good practice, however, department heads should review monthly expenditure reports to ensure that salary accounts and, especially, overtime accounts have been properly charged.

RECOMMENDATION 23: REVIEW DELINEATION OF STAFF RESPONSIBILITIES

We recommend the treasurer meet with her staff to determine whether office responsibilities can be more efficiently divided. The treasurer is solely responsible and accountable for the operation of the office. She is also a manager with an obligation to maximize resources in a way that ensures office tasks are completed accurately, effectively and in a timely fashion.

In this regard, the treasurer should develop and prioritize a list of all office functions. At the very least, the list should include, in no specific order: payroll and vendor warrant processing, posting of departmental turnovers, record keeping, cash management practices in general and reconciliations in particular, debt management, tax title program, benefits administration, time sheet processing, and organizational issues, such as general file maintenance. Independently and with staff, she should evaluate current practices and the current delineation of responsibilities among staff. She should explore improvements and changes that create efficiencies and better utilize staff capabilities. She should in particular look to adopt procedures that ensure that all data and information leaving the office is accurate and correctly recorded.

Accountant

The present accountant entered the Ludlow position over five years ago after previously serving as the treasurer and finance officer in a Connecticut town of 12,500. Staff includes a full-time assistant accountant, who has 16 years of experience in town hall, including eight years in the accountant's office. An office assistant has served in the accountant's office for one year following five years in Ludlow town government.

Each staff member has specific areas of responsibility. The assistant accountant processes the town and school payrolls, maintains attendance records including tracking employees' sick leave and vacation time, and responds to contract issues. The office assistant receives all departmental turnovers, reviews the treasurer's schedule of receipts. She completes the invoice verification process and prepares vendor warrants for the town and school department.

The accountant manages staff and maintains the general ledger, but also serves in a technology advisory capacity. Although she estimates that MUNIS issues consume 10-15 hours of her time each week, on an ad-hoc basis, we would expect this to be disruptive to her accountant activities. It is our understanding that as a former treasurer, she at one point expended time working with and advising the Ludlow treasurer on office procedures.

Another area of major involvement for the accountant is during the budget process. The office receives departmental budget requests and enters the data into the MUNIS budget module. Normally, a working budget would then be produced for the town administrator with a copy to the finance committee. The accountant would act on requests for information, analysis, or to incorporate authorized changes. However, last year, when the town was operating under an executive secretary, the accountant's involvement was in a substantive, policy making way. She made decisions that altered revenue projections, budget funding sources, and expenditure levels right up to the night of town meeting.

Finally, on the issue of reconciliations, the accountant has shared responsibilities. Our impression was that periodic meetings occurred with the collector to reconcile receivables, but that no meetings to reconcile cash had taken place with the treasurer for months, if not the entire fiscal year.

Conclusion - Accountant's office staff are capable of carrying out well-defined responsibilities. As we note in our recommendations, they may be doing more than required unnecessarily. It is also our observation that while the office functions well, the accountant has expended a fair amount of time on peripheral issues in the past. To some extent, this may reflect an intent to fill a legitimate need or a perceived leadership gap. Now, with the presence of a town administrator, the accountant needs to focus on more immediate matters.

RECOMMENDATION 24: DEFINE ACCOUNTANT'S ROLE IN BUDGET PROCESS

We recommend the board of selectmen, town administrator and finance committee define the role of the accountant in the budget process. It is common for those formulating the budget to confer with the accountant. However, the accountant is not a policy making position. The accountant's role is typically limited to providing financial data and analysis on request, and to otherwise make changes to revenue projections or expenditures at the direction of the town administrator or finance committee. Now, with a new town administrator who has direct budget responsibilities and recognizing that, under law, the finance committee makes final decisions before the budget is printed and goes to town meeting, it is an appropriate time to review and come to an understanding about the different roles in the process.

RECOMMENDATION 25: SCHEDULE RECONCILIATIONS OF CASH AND RECEIVABLES WITH TREASURER AND COLLECTOR

We strongly recommend that the accountant schedule a day each month with the collector and the treasurer for reconciliations of receivables and cash. The failure to reconcile has been a "reportable condition" in the town's annual audit since 2000. Reportable conditions raise concerns about the town's financial statements, and reflect poorly on the accountant. Although a shared responsibility with the treasurer and collector, there is strong reason for the initiative to reconcile the town's cash and receivables to originate with the accountant.

Individual, internal reconciliations by the collector and treasurer do not satisfy DOR requirements unless and until they are measured against the accountant's general ledger and adjusted for variances, if necessary. Toward this end, the accountant should speak separately with the collector and treasurer, as soon as practical, to agree on a specific day each month when they will meet to complete reconciliations. Each should complete an internal reconciliation in advance of the monthly meetings.

RECOMMENDATION 26: COMPLETE BALANCE SHEET EARLIER IN FISCAL YEAR

We recommend that the accountant complete preparation of the balance sheet earlier in the fiscal year. When the balance sheet is delayed, so is the town's certification of free cash by DOR and the outside auditor is precluded from beginning the annual audit of the town's books. Without a clean audit for review by credit rating agencies and other financial institutions, the town's ability to borrow is hampered. If, as we have recommended in this report, the budget process begins in the fall with revenue projections, the reliability and accuracy of those projections will increase if free cash is certain. Above all, it is just good practice to close the town's books and submit a balance sheet no later than September 15, which is consistent with DOR recommendations.

In the last four years, the accountant has submitted the year-end balance sheet to the town's outside auditor in January or February following the end of the reporting year. DOR did not

receive balance sheets until April or May. In at least one of those years, free cash was certified only one day before town meeting, where it was appropriated. For the fiscal year ending June 30, 2003, a late balance sheet has delayed completion of the draft audit until August 2004. The accountant must identify what prevents completion of the balance sheet and act to resolve issues.

RECOMMENDATION 27: CEASE VERIFICATION OF TREASURER'S MANUAL RECEIPTS LOG

We recommend the accountant's clerk no longer verify entries on the treasurer's receipts log. In the past, the accountant has received the treasurer's schedule of receipts together with a copy of the treasurer's manual receipts log. The accountant's clerk then compares the treasurer's manual entries to the MUNIS entries made by the treasurer's staff which are electronically transferred and viewable at the accountant's office. If necessary she makes corrections on the treasurer's manual log. She also checks the manual entries and the MUNIS entries against her copies of departmental turnover sheets. Following this process, the accountant's clerk is essentially reviewing the treasurer's manual log for errors by comparing it to MUNIS entries which are based on the same manual log.

We recommend that the accountant's clerk ignore the treasurer's manual log, and only reconcile her copies of the departmental turnover sheets against the treasurer's entries into the MUNIS system.

RECOMMENDATION 28: MODIFY PAYROLL WARRANT INFORMATION

We recommend that the accountant include employee net salaries, but eliminate employee withholding information from the payroll warrant. In order for the selectmen to fulfill their legal obligation to review the payroll warrant, and in order to provide necessary detail for checks to be issued by the treasurer, warrant information must include net salary amounts due each employee. This information can be combined with gross salary amounts on the warrant itself, or can be separately listed as an attachment to the warrant.

Under no circumstance should warrant information include each employee's withholding details. This information should be securely retained in the town's personnel files and should only be available to legally authorized individuals. However, the payroll warrant should include a list of withholding categories and the total amount due to each for the payment period.

Collector

The town collector is an elected position which has been continuously occupied for 20 years by its current office holder. He is assisted by two, full-time staff members, one of whom has served 35 years in the office, while the other has worked in the office for eight years. Each has specifically defined duties, and is sufficiently cross-trained to support and cover the responsibilities of the other.

The collector's staff utilize a currently updated version of MUNIS financial management software for accounts receivable and to process municipal lien certificates. It appears easy to navigate and satisfies, for the most part, office needs. Staff also have access to Microsoft Excel, but lack of training appears to be a barrier to wide use of the software. The collector maintains both an electronic, and a duplicate, hand-written receivable control, which is a required record. He reconciles receivables internally each month, but reconciliations with the accountant have not occurred on a regular basis. Other spreadsheet data are manually maintained as well.

As a town collector, the office receives payments for approximately 8,000 real estate tax bills and 500-600 personnel property bills each quarter. In addition, it receives excise payments for 22,000 motor vehicle and 200 boat accounts annually, together with approximately 4,100 water bills. In each instance, printing, stuffing and mailing of bills is completed in-house.

Payments received over-the-counter and by mail are processed in accordance with a set procedure. The cash draw and sorted mail receipts are reconciled daily, and revenue is deposited into the municipal bank account. Payment information for a growing number of real estate tax bills is received on disk from third party institutional payers and electronically posted, but all other receipts are posted to the MUNIS software manually. Collector turnovers are made to the treasurer on a regular basis. Credit reports are routinely run and possible tax overpayments are researched and resolved. Municipal lien certificates are processed timely using MUNIS. Demand notices to delinquent taxpayers are sent and properties are efficiently moved along the tax title process.

The office also receives payments associated with cemetery charges, nursing service fees, mobile home fees, PILOTS, certain license fees and ambulance service. Typically, departments deliver hard copy lists of charges and fees imposed to the collector's office who then creates a manual record against which to post payments. The collector treats the charges as receivables and follows-up on delinquent accounts.

In the case of ambulance payments, the amount of work imposed on the collector's office is frequently significant because the AIM software, purchased for ambulance billings and collections, is neither fully utilized nor understood. Although more proficient with the AIM software, the fire department administrative assistant who processes ambulance charges also expends an inordinate amount of time on billing.

Conclusion - In all respects, the collector's office functions well. The collector and staff understand their respective responsibilities and carry them out in an effective and timely fashion. However, while the collector is diligent in reconciling his own receivable accounts, the first of our recommendations underscores importance of seeking out the accountant's receivable balances to reconcile against on a monthly basis. Otherwise, our recommendations encourage the increased use of technology to gain efficiencies in the processing and maintenance of payment records.

RECOMMENDATION 29: RECONCILE RECEIVABLES WITH ACCOUNTANT

We recommend that the collector reconcile receivables with the accountant on a regular basis. While the collector is diligent in reconciling his receivable accounts, it is imperative that he also compare his monthly balances with those of the accountant. The collector and the accountant should agree on a day each month when they will meet, with source documents, to compare receivable balances. If variances occur, source documents should be reviewed. Reconciliations should not be limited to real estate receivables, but should include personal property, motor vehicle, ambulance and trust fund balances as well.

RECOMMENDATION 30: ABANDON MANUAL RECORDS

We recommend that the collector consider discontinuing manual records. Through long-term practice, the collector maintains various sets of manual records. At least in the instance of a receivable control, his hand-written effort duplicates an electronic version already maintained. As the collector becomes more comfortable with the MUNIS software, we encourage him to discontinue maintaining his manual records. With greater understanding and reliance on the software, he can free up time to devote to other important tasks and analyses.

RECOMMENDATION 31: EXPLORE USE OF SCANNING WANDS

We recommend that the collector explore the use of scanning wands to post receivables. The present version of MUNIS allows for the use of scanning wands to post tax and other payments received over-the-counter or by mail in the collector's office. Although limited to instances where the payment exactly matches the amount due, scanning removes the inherent risk of error associated with the manual keying of data. At the same time, scanning has progressed to the point of high accuracy. In addition to the selection of a scanning device, the town will also have to decide between bar code or alpha-numeric technology, and which bills to encode. Consultation with MUNIS or the town's technology consultant would be prudent.

Assessors

The assessors' office is responsible for valuing all the town's real and personal property, assigning tax payments to owners and for generating the tax commitment authorizing the collector to collect tax payments. The office also commits motor vehicle and boat excises based on information provided by the state. To ensure that residents are taxed equitably and accurately, the office maintains and updates property records through mailings, on-site inspections of sale properties, inspections of properties subject to building permits and as part of an on-going measure and list program. Upon resident application, assessors act on and track exemptions and abatements. The assessors estimate new growth, recommend the annual overlay, and provide other assessed value information for use in the Recap Sheet which is submitted to DOR to receive approval of the local tax rate.

Under the Ludlow By-Laws, three members are elected to the board of assessors, for staggered, three-year terms. As a part-time board, members review abatement applications, including property inspections, and provide policy guidance to the assessing office. The office is staffed by experienced personnel including two, full-time employees and a 25-hour office assistant. Although staff have worked together long enough to understand each others jobs, there appears be a strong delineation, and little, if any, overlap of responsibilities. This becomes a transition consideration due to the recent retirement of the full-time assistant assessor/appraiser, who served as department head and focused on inspections. The full-time associate assessor functions as an office manager. Both are appointed by the board.

The assessing department has had a long-standing relationship with Paul Kapinos and has, since 1999, relied on his appraisal software for property record maintenance and valuation analysis. Under the contract with the town, Paul Kapinos and Associates complete building permit inspections of commercial/industrial properties and multi-family residences of greater than four units, and inspections of similar properties as part of the cyclical measure and list program. Town personnel key new property data into the software, but Kapinos completes the data analysis and develops new values. In general, Kapinos also serves as technology consultant to the department. Residential property inspections, as well as sale inspections were completed by the recently retired assistant assessor/appraiser.

Conclusion - The assessing office functions well. With the retirement of the assistant assessor/appraiser, a greater burden in the short term will be placed on the remaining staff, particularly in the face of an revaluation. However, we are persuaded that the office manager and clerk possess the necessary skills and knowledge to maintain service levels. Staying current with a property inspection schedule represents the immediate challenge. In this context, our recommendations are few.

RECOMMENDATION 32: PLAN FOR INTERIM YEAR ADJUSTMENTS

We recommend the assessors establish a plan to meet new reporting requirements for interim year property value adjustments. All city and town assessors must complete annual sales analysis to determine if changes in market conditions warrant corresponding adjustments to property values to reflect full and fair cash value as of January 1.

Under a new requirement, beginning in FY05 all assessors must report the results of their analysis (whether or not an adjustment was necessary) of all real property to the State Bureau of Local Assessment (BLA) on the form entitled "Adjustment of Valuations Between Certification." The form is available to communities as part of the package of electronic forms accompanying the annual Tax Recapitulation Sheet. It must be received by BLA before, or with, the Form LA-4. In addition, assessors are required to retain documentary back-up and other evidence of their analysis whether or not property adjustments were made.

For more information, we refer the assessors to the BLA publication Guidelines for Development of a Minimum Reassessment Program. (Also see www.dls.state.ma.us/bla/pdfs/minguide.pdf).

RECOMMENDATION 33: CONSIDER OFFICE STRUCTURE

We recommend that the town carefully consider the most effective structure for the assessing office. With the departure of the full-time assessor/appraiser, the town has the opportunity to consider whether the office might function more effectively under a different structure. We suggest the town work to evaluate the strengths of current personnel and analyze financial resources available to support operations. It should look to other Massachusetts towns for trends in hiring professional staff in assessing departments, and in the reporting relationship between the department head and a town administrator. Under the present government structure, we would expect this to be an area where the board of assessors would take a dominant role. However, because town personnel issues are involved and all department budgets must be approved by the town administrator, we encourage the assessors to work with the town administrator as it looks to make decisions.

RECOMMENDATION 34: FOCUS ON PERSONAL PROPERTY DATA

We recommend that the assessor's office focus on collecting personal property data from unresponsive property owners. It is our understanding that "forms of list" are sent-out annually, but that the return rate from business and seasonal home owners is low. Therefore, we encourage the assessing department to devise and implement a program to follow-up the annual mailing of the forms of lists to improve the return rate. Such a program might involve additional letters, telephone calls and periodic site visits. The effort is justified because, as with real property, accurate personal property descriptions and records are the most effective means to assure that the tax burden is equally spread among taxpayers.

Acknowledgements

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