FINANCIAL MANAGEMENT REVIEW

TOWN OF NATICK

FEBRUARY 2023

DLS
DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

PREPARED BY:

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February 10, 2023

Select Board
Town Hall
13 E Central Street
Natick, MA 01760

Dear Board Members,

I am pleased to present the enclosed financial management review report for the Town of Natick. It is my hope that our guidance provides direction and serves as a resource for local officials as we work together to build better government for our citizens.

If you have any questions regarding this report, please contact Zack Blake, Financial Management Resources Bureau Chief, at 617-626-2358 or blakez@dor.state.ma.us.

Sincerely,

Sean R. Cronin
Senior Deputy Commissioner

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INTRODUCTION

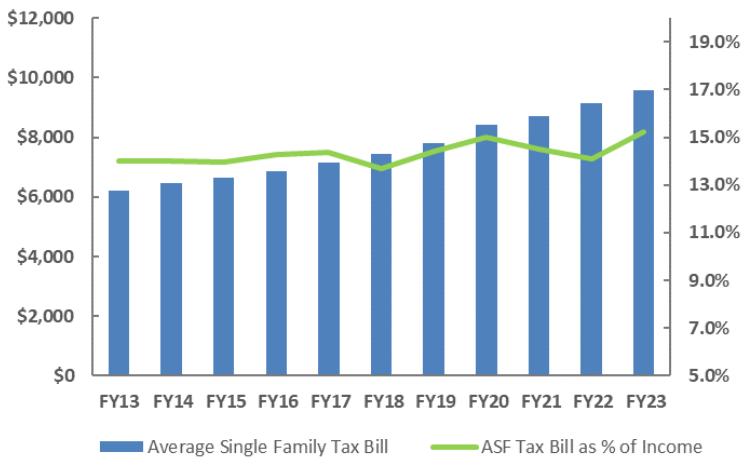
At the request of the select board, the Division of Local Services (DLS) Financial Management Resource Bureau completed this financial management review for the Town of Natick.

Our review focused on the town's organizational structure, financial practices, and operations. We interviewed elected and appointed officials, department heads, and office staff. We examined town documents and financial data, including the town charter, general bylaws, warrant articles, annual budgets, tax recapitulations, debt service schedules, revenues and expenditures, and independent audit reports. We believe this report will support Natick's efforts to improve communication, streamline internal procedures, and strengthen town finances through policy and best practices. Opportunities for expanded or enhanced use of technology are echoed throughout the report. We also comment on the effectiveness of internal communications and financial oversight.

COMMUNITY PROFILE

Incorporated in 1781, Natick is a suburban community located in the Metro West region of Middlesex County with a 2020 census population of 37,006. Running through the town's 14.96 square miles is a network of major roadways, including I-90 and Routes 9, 16, 27, and 135. The town also has a commuter rail stop along the Framingham/Worcester line for easy access to Boston. A popular retail presence in town is the Natick Mall which anchors the Route 9 commercial district. Natick's prime location coupled with its diverse local economy make for a uniquely blended community with both residential and commercial appeal. Natick continually strives for a balance between economic development and preservation of natural and historic attractions. This is demonstrated by the town center, where residents can enjoy beautiful town commons, independently owned shops and restaurants, art installments, and monuments commemorating veteran history.

The town's per capita income of $63K is 31% higher than the state's at $48K. Natick's EQV per capita of $257K ranks as the 77th highest within Massachusetts. The town's 4.3% poverty rate is lower than Middlesex County's (7.7%) and the Commonwealth's (10.4%). Single family property values continue to rise, increasing over 75% in the last decade. The average single family tax bill has grown to $9.6K, equivalent to 15.2% of per capita income as of FY2023.



Administrative Structure

The organization of town operations are defined through a combination of a home rule charter, locally adopted bylaws, and state statutes. Natick is governed by a representative town meeting and an elected five-member select board. The select board serves as the chief policymaking body for the town. The finance committee, consisting of fifteen members appointed by the moderator, functions as the town's fiscal watchdog and publishes a comprehensive recommendation book providing information and opinions on all warrant articles. Natick holds two town meetings per year, one in the spring and one in the fall. The spring annual town meeting is primarily centered on the annual operating budget, as well as capital equipment and improvements. Fall town meeting typically

focuses on non-budgetary matters, although they periodically appear in these sessions, including additional capital articles.

The select board appoints the town administrator, who is defined through charter as the town's chief administrative officer and is charged with the supervision of departments and day-to-day operations. Natick's town administrator was appointed in 2021 after having previously served as the director of community and economic development and then as its deputy town administrator of operations.

The town administrator is supported by two deputy town administrators with one overseeing town operations and the other serving as the finance director. The current deputy for operations was promoted into the role after it was vacated by the now town administrator and previously worked as the director of parks and recreation for Natick. The finance deputy, who was appointed in 2016, leads Natick's finance operations that include the assessing, comptroller, and collector/treasurer offices.

Natick's charter outlines the town administrator duties and responsibilities, many of which mirror the authorities usually vested in a town manager. These include the power to appoint and supervise department heads, negotiation of collective bargaining agreements, and preparation and submission of the annual budget and capital planning. Massachusetts General Law lacks a fixed definition distinguishing a town administrator from a town manager; however, a manger is generally thought of as functioning more like a chief executive than an administrator. This is reflected in tasks related to planning and implementing long-range goals, and financial management responsibilities including the coordination and submission of the operating budget, managing procurement, holding department heads accountable, and keeping the select board informed.

In 2022, Natick's select board formed a town governance study committee to review the efficiency of Natick's organizational structure, bylaws, and form of government. We understand that as part of their broad organizational study, the town governance study committee will address the topic of elevating the title of Natick's town administrator to town manager. At the most recent town meeting, the town voted to establish a charter and bylaw review committee (CBRC) providing the town many opportunities to study its operations.

We offer the following list of communities we consider comparable to Natick. Based on population, budget, and potion of tax levy attributable to real estate, the comparable group is a mix of cities and towns.

Natick Comparable Communities

Municipality	County	City/ Town	Form of Government	CEO	Population	Single Family Tax Bill	DOR Income Per Capita	EQV Per Capita	Total Budget	R/O % of Total Value	CIP % of Total Value	Tax Rate
Andover	ESSEX	T	Open Town Meeting	Manager	36,569	11,734	87,282	279,435	228,469,299	70.9%	29.1%	Split
Arlington	MIDDLESEX	T	Representative Town Meeting	Manager	46,308	10,228	65,927	296,713	229,911,145	94.5%	5.5%	Single
Beverly	ESSEX	C	Council	Mayor	42,670	7,693	50,335	211,352	179,859,383	78.1%	21.9%	Split
Billerica	MIDDLESEX	T	Representative Town Meeting	Manager	42,119	6,520	42,563	218,234	214,120,587	61.0%	39.0%	Split
Braintree	NORFOLK	C	Council	Mayor	39,143	5,992	44,498	229,892	184,092,281	64.5%	35.5%	Split
Burlington	MIDDLESEX	T	Representative Town Meeting	Administrator	26,377	6,197	53,983	346,629	179,914,109	37.5%	62.5%	Split
Chelmsford	MIDDLESEX	T	Representative Town Meeting	Manager	36,392	8,235	56,760	200,214	164,381,136	81.4%	18.6%	Split
Dedham	NORFOLK	T	Representative Town Meeting	Manager	25,364	8,581	60,879	261,246	136,771,745	70.3%	29.7%	Split
Framingham	MIDDLESEX	C	Council	Mayor	72,362	7,113	38,375	177,369	386,989,581	64.6%	35.4%	Split
Franklin	NORFOLK	T	Council	Administrator	33,261	7,470	54,471	204,003	161,971,951	81.2%	18.8%	Single
Marlborough	MIDDLESEX	C	Council	Mayor	41,793	5,856	36,482	182,318	206,728,874	95.2%	4.8%	Split
Natick	**MIDDLESEX**	**T**	**Representative Town Meeting**	**Administrator**	**37,006**	**9,597**	**62,985**	**288,698**	**199,526,436**	**81.5%**	**18.5%**	**Single**
Norwood	NORFOLK	T	Representative Town Meeting	Manager	31,611	6,223	43,885	224,612	176,593,610	57.5%	42.5%	Split
Shrewsbury	WORCESTER	T	Representative Town Meeting	Manager	38,325	7,797	59,686	185,007	167,715,339	88.9%	11.1%	Single
Stoughton	NORFOLK	T	Representative Town Meeting	Manager	29,281	6,430	35,657	178,071	144,900,055	71.6%	28.4%	Split
Tewksbury	MIDDLESEX	T	Open Town Meeting	Manager	31,342	779	43,650	202,408	162,552,115	74.5%	25.5%	Split
Watertown	MIDDLESEX	C	Council	Manager	35,329	7,528	53,770	316,734	212,706,355	61.0%	39.0%	Split
Woburn	MIDDLESEX	C	Council	Mayor	40,876	5,320	44,751	247,361	204,536,156	52.4%	47.6%	Split

Finance Department

The finance department is overseen by the deputy town administrator and finance director, who has served in this combined role since 2016. Additionally, there are three fulltime staff that support the finance department, which include an assistant finance director, a budget analyst, and an executive assistant. The primary functions of the finance department include financial reporting, budget preparation and analysis, debt management, and attending various committee and board meetings. Recent changes to the department's staffing include an expansion from two to four staff members in 2020. There has also been some recent turnover. While we were conducting our financial management review, both the assistant finance director and the budget analyst left Natick to accept other employment opportunities.

Natick uses multiple software systems and online applications for financial operations and community engagement. For example, the town uses the Tyler Technologies Munis Enterprise ERP (Munis) for their financial management software, which includes modules for accounts payable and receivables, cash management, general ledger, purchase orders, tax billing and collections, and payroll. A recent effort to integrate operations into Munis includes converting the utility billing from Point software to Munis. Further improvements are pending, such as upgrading to a cloud-based Munis server. Many departments use additional applications for recordkeeping, resident information resources, and electronic payment processing. Digitizing paper-based operations is a priority along with the ongoing endeavor to streamline Natick's multiple software systems.

Assessors

The assessing office is responsible for valuing all real and personal property in town and generating the commitments authorizing the collector/treasurer to collect real estate taxes, betterments, and motor vehicle and boat excises. Subject to the approval of the board of assessors, assessing staff set the annual overlay amount, provide information and analysis for tax classification hearings and the tax recap, and make recommendations on all abatement applications and property tax exemptions. Other duties of the assessors' office include updating tax maps and deed transfer information and responding to public inquiries.

Natick's assessing office is directed by an elected three-member board of assessors. Day-to-day operations are managed by a full-time director of assessing, who supervises four fulltime staff, including an assistant director of assessing, two assistant assessors, and an executive assistant. The director, assistant director, and one assistant assessor are fully certified as Massachusetts Accredited Assessors (MAA) by the Massachusetts Association of Assessing Officers (MAAO), and the other assistant assessor is currently pursuing certification. Natick is fortunate to have a knowledgeable and well-trained staff that perform a variety of in-house operations, including data collection, sales analysis, real estate valuation, exemption and abatements processing, and supplemental billing. Personal property data collection is done in-house, but Patriot Properties is contracted for revaluation services.

The assessing office should be commended for their incorporation of technology into daily operations. The Tyler Technology software, IAS World System, is a CAMA system for real estate valuation, which is integrated with the town's online GIS mapping system, AppGeo. Patriot Properties' AssessPro is the CAMA system used for personal property valuation. Staff use technology resources for data collection efforts including NearMap, a drone-based technology company, for aerial imagery and property inspections. The office also collaborates with the building department to use OpenGov software for permitting. These additional technologies support the impressive office operations for in-house valuations and supplemental billing.

Comptroller & Payroll

The office of the comptroller has a legal obligation for all accounting records and procedures. These include, but are not limited to, maintaining a general ledger, drafting payroll and vendor payment warrants, revenue and expense reporting, and payroll processing. In doing so, the department plays a critical role in the system of internal controls and statutory checks and balances established to

safeguard local assets through the maintenance of independent records and by following well-defined procedures.

Natick's comptroller was appointed by the select board in June 2021. She brings several years of municipal accounting experience and is certified by the Massachusetts Municipal Auditors and Accountants Association (MMAAA). She oversees a fulltime staff of an assistant comptroller, two staff accountants, and a payroll manager, all of whom have multi-year backgrounds in accounting and municipal finances.

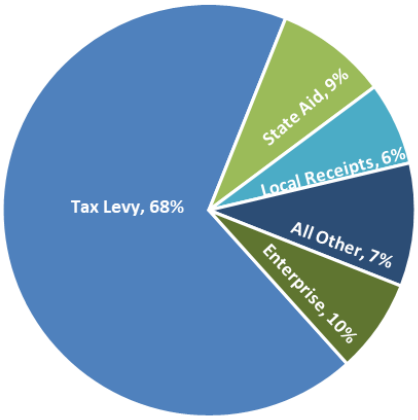
Collector/Treasurer

Natick has a combined collector/treasurer office. The collector's primary role is to issue bills for real estate, personal property and excise taxes, as well as betterments, and to make certain that other collections are properly received, counted, and posted to payer accounts. The collector maintains a receivable control that should be reconciled regularly with the accountant's general ledger. The treasurer serves as the town's cash manager, and as such has custody of all municipal funds and investments, manages issued debt, posts and deposits town receipts into appropriate bank accounts, and monitors balances to ensure that funds are available to cover obligations. Natick's collector/treasurer is appointed by the town administrator and has been with the town for over twenty years, beginning as the assistant collector/treasurer before moving to her current role in July 2019. The collector/treasurer supervises five fulltime employees with varying levels of experience, including an assistant collector/treasurer, an executive assistant, and three administrative assistants.

Despite a great deal of care and passion for the job, the overall scale of Natick's financial operations results in a high volume of work for the collector/treasurer office that is heavily impacted by redundancies and other procedural inefficiencies. Our recommendations focus on several opportunities for efficiency, which in turn support additional recommendations regarding financial reconciliation and management to reduce these bottlenecks.

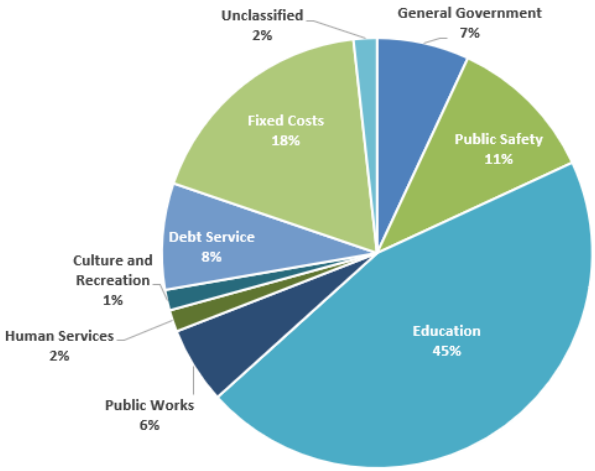
Financial Condition

FY2023 Revenues



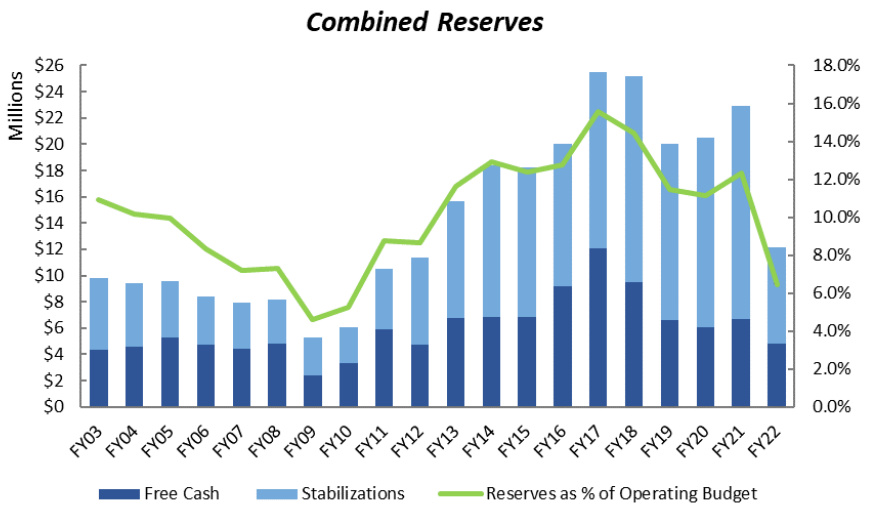
Natick's FY2023 total operating budget is $199,526,436. At $135M, or 68%, the tax levy is the largest source of revenue. The other sources include $17.5M from state aid, $13M from local receipts, $19.2M from enterprise funds, and $14.7M from all other funds, which includes Federal American Rescue Plan Act (ARPA) funds and other reserves and reappopriation of unexpended capital funds. Of Natick's tax levy, 81.5% comes from the residential property class. Commercial, industrial, and personal property classes (CIP), account for the remaining 18.5%. The select board continues to maintain a single tax rate, meaning all Natick's property holders share equally in the tax burden based on the property's value.

FY2023 General Fund Expenditures
(excludes Enterprise Funds)

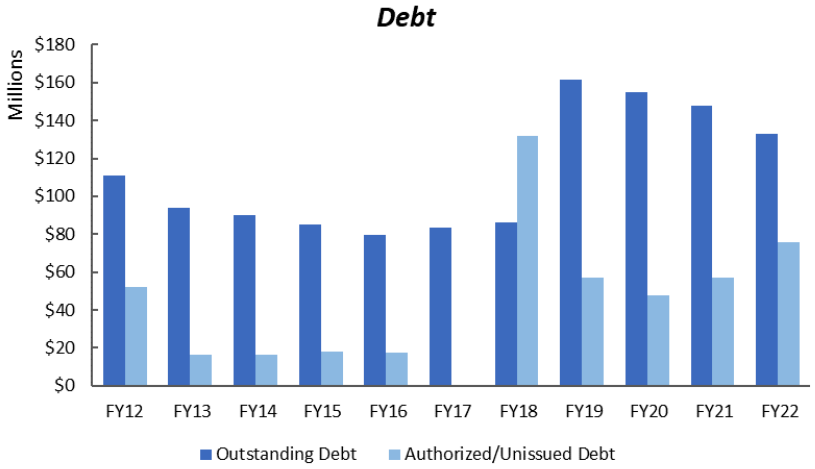


Customary to its size, Natick's operating budget funds an extensive range of services including fulltime public safety departments, a large Pre-K – 12th grade public school system, library, senior and veteran services, and active volunteer boards and committees. Natick appropriated $178.2M in general fund expenditures, exclusive of the self-supporting water/sewer, golf, and public access cable operations. Public education, an area of resident priority and investment, represents the single largest portion of the budget at $80.6M or 45%, followed by shared/fixed costs (e.g., employee benefits and insurance) at $32.1M, then debt service at $14.3M and public safety at $19.9M. The remaining $31.3M is split between administrative support services, public works, health, culture, and recreation, and assessments. The annual capital plan was funded with a combination of new debt authorizations and $3.7M in approriations.

Combined with free cash, Natick's reserves include a general, operational, and a capital stabilization fund. Natick's reserves reached a peak in FY2017 of $25M, or 15.6% of operational costs, but have since been in a general decline. However, the town's reserves remained within the recommended level of 10-13% of the operating budget until just recently.



Natick has maintained a relatively consistent level of debt to fund capital improvement and equipment. The most significant increase in the town's debt obligation occurred in FY2019 after voters authorized $105M in borrowing for the construction of the John F. Kennedy Middle School at a 2018 Special Town Meeting. The town maintains the AAA bond rating it received from Standard & Poor's in 2008.



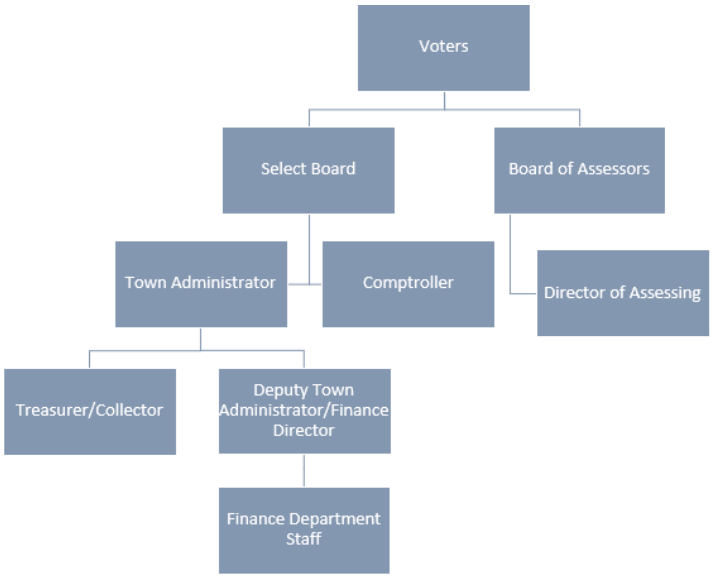
The report that follows details our observations, analyses, and best practices behind the recommendations we offer to the town. These recommendations are divided into three sections: structure and organization, financial mangement, and financial operations—which is further segmented by individual financial offices. Many of our recommendations align with the needs and objectives expressed by staff and town policymakers. Natick's size and operational scale necessitates productive communication and collaboration within town operations. Our report emphasizes policy-driven decisions, consistency in implementation, and effective financial management.

A. Structure & Organization

A.1. Review the Consolidated Finance Department Structure and Reassess Responsibilities

We recommend that Natick review the reporting structure of its consolidated finance department. At the 2012 Spring Annual Town Meeting, the town authorized a reorganization of the assessing, comptroller, and collector/treasurer offices under one consolidated finance department. To a degree, Natick operates under this structure, with the finance director managing the assessing, comptroller, and collector/treasurer offices, as well as a stand-alone finance department of three staff. However, the finance department organization has not been codified through town bylaws or charter, leaving inconsistencies between recorded structure and actual operations. Additionally, to the outside observer, the combination of a named finance department operating within a consolidated finance department is confusing.

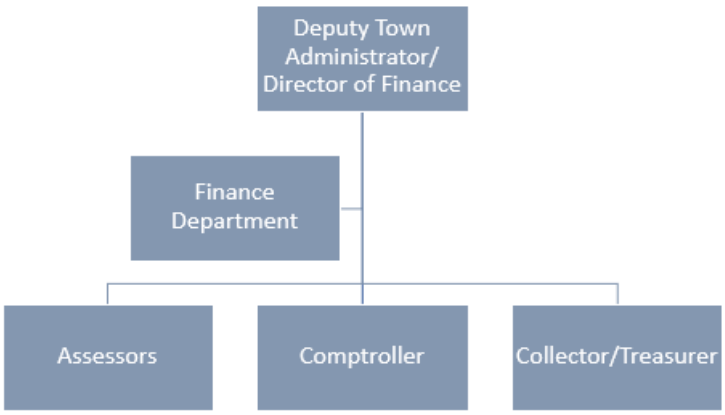
The following diagram outlines the current structure based on the community's governing documents:



Town bylaws and charter do not define the finance director position or its managerial responsibilities to the financial offices. They are also contradictory to the desired structure. The point of a consolidated finance department is to concentrate responsibility, management, and execution of the town's interconnected financial activities and to streamline communications between and among the town administration and the assessing, comptroller, and collector/treasurer offices.

Additionally, it was through our discussions with staff members and our review of current job descriptions, that we found the finance department to be siloed with an emphasis on external meetings, presentations, and future fiscal planning, while integration with the other finance offices and attention to current operations is lacking. This was echoed in staff job descriptions that list redundant responsibilities, reframe similar tasks as separate duties, and lack supervisory responsibilities over the financial offices. Additionally, we found procedural inconsistencies that should have been identified as part of routine oversight and quickly resolved by the finance director. Once such example is prior year high-risk audit findings not being addressed, with offices continuing to currently use some of the same practices that created these findings.

Natick should therefore review its bylaws and charter and make revisions that formally define and codify the department and clarifies appointing and supervising authorities for each of the financial officials to create a true consolidated finance department as proposed in the diagram below:



As part of this structural assessment, the town should review job descriptions and current assignments, identify areas of overlapping responsibilities and redundant workflows, and separate duties by staff positions in order to reassess finance department staff responsibilities. The current vacancies in the finance department give Natick the opportunity to reevaluate the four offices in the consolidated department to appropriately optimize resources. Finally, as part of this, the town should create policies outlining expectations for timely financial reconciliations, reporting financial condition to town administration, and communication frequency within the consolidated finance department.

A.2. Create a Business Applications Manager Position

We recommend that Natick create a new business applications manager position. The town continues to expand the use of its Munis financial software application, including plans to take advantage of a pending system upgrade to further streamline paper-based processes. Additionally, both the town and school departments have implemented several new software applications for financial reporting, human resources, and online license and fee payments.

While we applaud Natick's effort to explore technology solutions, the town lacks a centralized person or process dedicated to this aspect of town operations. There is little coordination regarding the selection, setup, or management of these various applications and systems, leaving departments to choose program vendors at their own discretion. This has resulted in disjointed communication between departments, inconsistencies in data formats and reporting, and convoluted financial reconciliations.

A business applications manager can provide consistency to Natick's technology operations, data processes, and interdepartmental communications. Among others, this position would be chiefly responsible for the following:

- Creating standardized processes for implementation, administration, and maintenance for all town software and applications
- Managing the integration of new platforms into existing technologies and town operations
- Controlling maintenance and upgrade of town technologies and software
- Serving as the liaison between departments and software vendors
- Developing and coordinating software training for employees
- Working with department officials to identify technological areas of need or improvement
- Researching software for improved capabilities and application to town operations

By centralizing these responsibilities through one person, the town may be able to reduce the number of separate applications being used by focusing on expanding and integrating a select few of the current applications. For example, if a department communicates a need for an online payment system, the business applications manager can review the systems already being used by other departments and identify the platform that is best suited to the request. Moreover, when new software applications are implemented, this individual can ensure that the platform is supported and set up consistent with town policies. This can include appropriate user permissions, accurate report generations, convenience fee structures, etc. Based on our discussions with town administration and

staff, we view this position as reporting directly to the town administrator directly to facilitate engagement across all town departments.

A.3. Convert to an Appointed Board of Assessors

We recommend that Natick convert its elected board of assessors to appointed. A clear trend has emerged among Massachusetts communities in favor of appointed positions. Most act under a prevailing theory of government practice that policymaker should be elected, while operational positions like the assessors, where certain skill sets are required, should be appointed. Natick is fortunate to have experienced board members; however, the elected nature of the positions risks future members not having the same level of expertise needed to support current office operations.

A suggested structure is one that several comparably sized municipalities have adopted in which the assessing staff, principal and assistant assessors, serve as board members. We believe Natick could benefit from similar reorganization where two board positions are held by the director of assessing and an assistant assessor, with the third board position be appointed by the select board. During our interviews, assessing staff were supportive of such a board structure. If the town wishes to make the board appointed, it could do so through town meeting acceptance of M.G.L. c. 41, §25 followed by a subsequently approved town-wide referendum.

A.4. Begin Succession Planning for Assessing Staff

We recommend that the town develop a long-term strategy to address anticipated retirements of its assessing personnel. Natick's assessing department relies on the dedication and skills of staff that perform a number of valuation services inhouse. Assessing, like other areas of municipal finance, is facing a shortage of qualified personnel. While no one in the office has mentioned any immediate plans to leave, when the time comes, the town may experience trouble attracting qualified and experienced candidates. With so much of the department's required activities handled by internal personnel, inadequate succession planning could severely impact office operations.

A.5. Establish Employee Trainings and Professional Development

We recommend that the town encourage employee trainings and professional development. By investing time, energy and funds into employee development, the town can streamline customer service, create efficiencies through appropriate task delegation, and support cross-training within departments. Town administration should work with department heads to identify any skill gaps in

departmental operations and individual employee knowledge. This analysis can then be used as a roadmap for organizing and prioritizing professional development opportunities.

Natick should include a particular focus on software training as part of its professional development effort. For example, last year, the town converted its collections and receivables software from Point to Munis. This was a difficult process as staff were unfamiliar with the new software and received minimal training before the conversion. An internal training program will prepare employees for changes and prevent similar issues from arising in the future.

A.6. Conduct a Workflow Analysis and Create a Procedures Manual

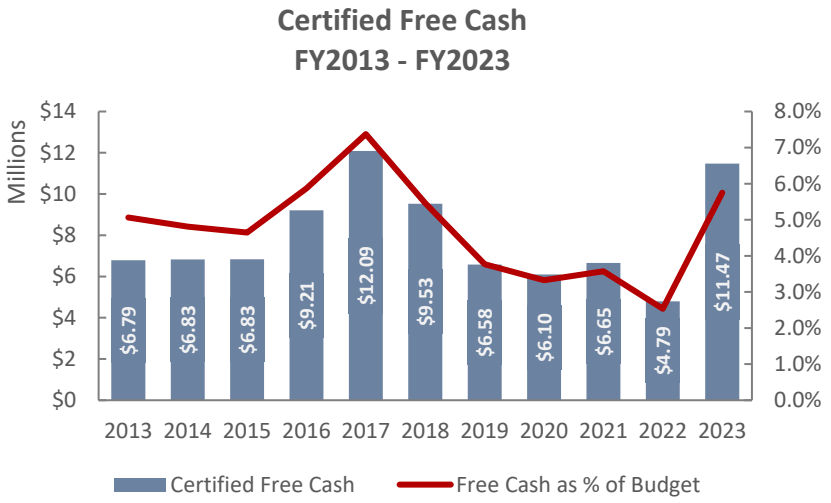
In conjunction with our recommendation for employee training, we suggest that the finance director work with the finance department heads to conduct a workflow analysis of all finance department procedures. With a focus on leveraging available technology to maximize efficiencies and reduce duplicative tasks, this process would serve as the basis for creating a procedure manual. Such a manual would in turn unearth previously unknown redundant controls and inform new risk assessment decisions based on the cost of sustaining particular controls or adding new ones. The manual should explicitly highlight internal controls and their function. These controls, which can be preventative or detective, include segregation of duties, approvals, authorizations, verifications, physical asset security, reconciliations, inventories, as well as policies and procedures themselves.

A well-conceived procedures manual provides guidance to financial management activities, serves as a reliable reference tool for staff, helps maintain services when there are employee absences, facilitates employee time-off, and supports the training of new hires. The manual should contain a combination of pertinent policies, statements of objectives, step-by-step instructions, and related software application screenshots. Once developed, these manuals should be stored electronically on shared drives for easy access so that procedures are consistent across departments for shared operations such as turnovers and purchasing. Tasks specifically referencing Munis should be reviewed and revised by the responsible department with each Munis update.

B. Financial Management

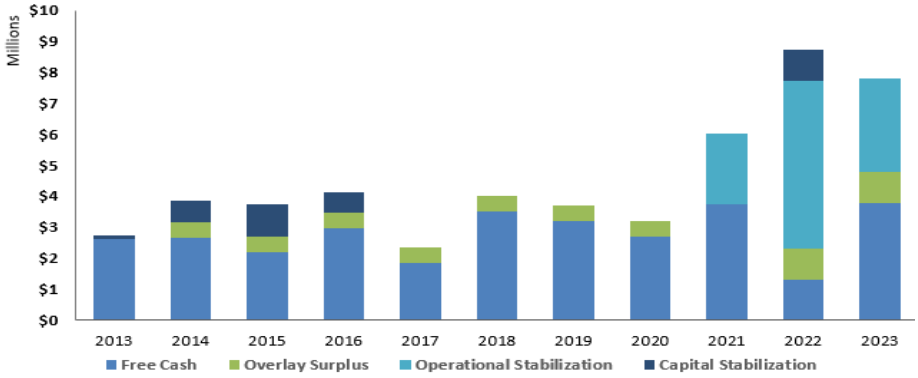
B.1. Reduce Reliance on One-Time Revenue for Operational Funding

We recommend the town reduce its reliance on one-time revenues to fund ongoing operational-related cost. Natick's historical reliance on non-recurring revenues to support operations creates a structural deficit that risks the town's ability to fund its omnibus budget without cuts to costs or services at some point in the future. These financial risks are echoed in the town administrator's FY2023 budget message, which acknowledges the reliance on one-time revenues for a balanced budget and the impending discussions of potential solutions, such as an operational override. We encourage the town to actively engage in these financial discussions and formulate a corrective plan to reduce, and eventually eliminate, its operational dependency on one-time revenue sources.



Non-recurring revenue sources, like overlay surplus, stabilization funds, and free cash should only be used to cover unanticipated costs, building reserves, or funding one-time expenditures. The chart below shows the history of these appropriations from FY2013 through FY2023, as reported on the annual tax recapitulation.

One-Time Revenues Appropriated for Operational Cost FY2013 – FY2023



While these one-time revenues include sources like overlay surplus, stabilization funds, and ARPA monies in FY2023, free cash continues to be the largest source appropriated to the operating budget. As free cash apportionment to operating costs increases, the amount of certified free cash has been trending downward with a peak balance of $12.09M in FY2017 reaching a ten-year low of $4.79M in FY2022. Due to conservative budgeting and unexpectedly high local receipts in motor vehicle, meals, and room taxes, FY2023 resulted in the first significant increase of certified free cash in the last seven years. With $11.5M available, the town should seize this recent opportunity for non-operational free cash uses such as capital expenditures or building reserve fund balances.

B.2. Incorporate Financial Policies into the Budget Process

We recommend that Natick incorporate financial policies into the budget process. Several years ago, the town adopted a three-page document on financial management principles that provide a broad framework for financial planning, capital budgeting, debt issuance, and investment and reserve funds maintenance. More recently, the financial team drafted a comprehensive set of financial planning and operational policies, but it has yet to be reviewed by the select board for approval. Once the financial policy manual is adopted, the town should ensure that the applicable policies are included in budget discussions and used to support prudent decision-making on funding and expenditures.

Financial policies can provide guidance during budget planning and fiscal decision-making. However, these policies must be adhered to in order to maintain consistent financial management and proper internal controls. A comprehensive policy manual should be detailed enough to provide specific guidance, such as target debt service or reserve fund levels, while also being easily understood by internal and external stakeholders alike. The town administrator, deputy town administrator for finance, and select board should periodically review the town's financial policies for compliance, clarity, and progress on and appropriateness of target objectives, and make updates as necessary.

B.3. Standardize Fee Structures for Third-Party Credit Card Processing

We recommend that the finance director review its relationships with third-party credit card processors in order to standardize the fee structures. Ideally, the town should structure all third-party vendor engagements so that the convenience fee absorption is a cost to the payee, not the town.

Many of Natick's departments accept credit card payments through vendor services, which charge convenience fees for processing. In many ways, this arrangement creates efficiencies for the customer, department, and treasury. However, our review of different vendor engagements found inconsistencies in the cost absorption of the fees thereby creating a new set of processing problems.

In some cases, the convenience fee is an additional cost to the payee, with the town receiving the total amount of service or item being sold.

For example, if the cost of a license is $50 and the convenience fee is an additional $1.50, the payee is charged $51.50 with the town receiving the full $50 cost of the license and the processing fee being retained by the vendor. In other instances, departments only charge the payee the cost of the service or item, which forces the town to absorb the convenience fee, thus reducing the town's portion of revenue.

The town's payment of these fees varies from paying an invoice amount to a net deposit in the bank account. Structuring vendor convenience fees as a cost to the payee will ensure the town receives the full revenue it is due and standardize revenue processing and reconciliation for the financial offices.

B.4. Implement Corrective Action Plan Following Annual Audit

We recommend that the town develop and implement a corrective action plan following the annual independent audit. Our review of Natick's recent management letters found multiple recurring findings. Management responses state the corrective actions or policies that will be implemented. However, the annual reappearance of identical findings makes it clear that these issues have not been resolved. To avoid repeat findings and recommendations, town administration should formulate an action plan to address the weaknesses, findings, and recommendations identified within the independent auditor's management letter. Further, a corrective action plan should be implemented with a sense of urgency anytime high-level issues in departmental operations are identified. In July 2021, CliftonLarsonAllen issued a memo detailing issues in cashbook methodology and reconciliations, which we also address in this report.

An effective corrective plan indicates what remedial steps will be taken, who will be responsible for them, and when the action will be completed. The finance director should be responsible for managing the action plan, and periodically report his progress to the town administrator and audit advisory committee. The audit advisory committee, in accordance with its charge, can review independent audit reports and make recommendations to the scope and prioritization of corrective actions.

B.5. Procure New Auditing Services

Independent audits are critical to sound financial management by providing a measure of assurance that town assets are safe and handled responsibly. Natick contracted with Sullivan, Rogers, & Co. to examine its financial statements for FY2008. This firm folded into CliftonLarsonAllen (CLA) in FY2013 and continues to conduct Natick's annual audits. Periodically, putting this service out for competitive bidding is a sound procedural control to mitigate the risk of complacency that can develop with such a long engagement. It is good practice for municipalities to seek a fresh look at the town's bookkeeping and financial procedures by qualified outside experts.

Therefore, we echo the Government Finance Officers Association (GFOA) and Massachusetts Office of Inspector General[1] recommendation that municipalities change external auditing firms every five to eight years. At the direction of the select board, the town administrator should engage in a full competitive selection process to provide fresh perspective on bookkeeping and financial procedures and mitigate the risk of complacency.

[1] For guidance, see the Inspector General publication A Local Official's Guide to Procuring and Administering Audit Services

C. Financial Operations

C.1. Hold Monthly Financial Team Meetings

We recommend the finance director hold regularly scheduled team meetings with the department heads from the consolidated finance department. Current finance department meetings are inconsistently scheduled, are prone to cancellation, and do not include key finance department personnel.

Led by the finance director, financial management team meetings institute oversight by providing the opportunity to discuss the town's fiscal issues and review progress toward financial goals and objectives. For example, meetings would be an opportunity to review upcoming deadlines and responsibilities surrounding town meetings, financial forecasting, revenue and expenditure monitoring and adjustments, capital financing, free cash certification, and year-end closing. These meetings enhance lines of communication and provide a forum to raise and resolve interdepartmental issues while underscoring how each office is dependent on the performance of the others. They would also bring the four units of the consolidated department together to function as one, rather than the current three on one current condition.

Meeting participants should include the assistant finance director, comptroller, collector/treasurer, director of assessing, and a representative from the school business office. Occasions may arise in which additional managerial, analytical, or administrative support is necessary and might include the town administrator, chief technology officer, or other department heads as needed. Scheduled meetings provide for streamlined dialog, thereby reducing miscommunications and unnecessary back-and-forth exchanges. Meetings should be held on a regular, at least monthly, basis with additional meetings scheduled as needed. They should have a set agenda and supporting materials sent in advance to all participants.

C.2. Involve Finance Team in Capital Planning

Natick prepares and publishes a comprehensive capital improvement program and annual capital budget. The deputy town administrator of operations is responsible for soliciting and compiling capital requests, planning, and creating the plan, with the finance director involved only in the funding discussions. Although logical because of finance staff turnover and the operations deputy's expertise, current oversight of capital planning does not involve the finance team.

Moving forward, we recommend that the town devise a capital planning process that includes the finance director, comptroller, director of assessing, and collector/treasurer. Co-led by the finance director and operations deputy, this team is better equipped to discuss project timing and funding requirements beyond available funds, such as borrowing and grants. Natick's FY2022 statement of indebtedness lists $9.3 million of unissued debt that was authorized by town meeting in October 2020. Some of these projects started prior to securing proper funding. Without effective communication and collaboration, the town may incur capital expenses before project funds are borrowed, which not only risks a capital projects budget deficit that will directly impact free cash, but also asks the comptroller to potentially expend funds in violation of state statute.

C.3. Overhaul Departmental Turnover Processes

We recommend the town overhaul its departmental turnover processes. Our review of sample turnovers found inconsistencies in formatting, financial reconciliations, submission methods, and a lack of signatures. Turnovers with electronic payments were particularly confusing as they often lacked clear supporting documentation. The irregularities within departmental turnovers, coupled with Natick's large volume of financial activity, has resulted in a convoluted reconciliation process that overburdens the financial offices. Going forward, town administration should ensure all departments follow protocol and are appropriately trained on new procedures. This will strengthen the internal reconciliations of the user department as well as streamline reconciliation and reporting inefficiencies that overburden the treasurer's office. We identified the following improvements that should be made to current internal procedures.

Reinforce Departmental Responsibilities for Turnovers – Departments need to institute an appropriate turnover submission process that includes proper documentation, verification, and reconciliation, prior to delivering the funds to the collector/treasurer. Departments with electronic deposits are responsible for timely turnover submissions detailing the transactions with appropriate supporting documentation. Treasury responsibilities for turnovers revolve around the review, certification, and deposit of reported funds. Inconsistencies in turnover procedures have shifted internal recordkeeping of other departments receipts onto the collector/treasurer's office, including creating turnovers, gathering supporting documentation, and notifying departments of negative fund transactions like returned checks.

Standardize Turnover Submissions - The town should standardize the data entry and submission of turnovers by departments directly using Munis. By shifting responsibility for data entry from the treasurer/collector's office to one shared across all departments, the town will strengthen financial controls and enable independent verification. Treasury staff would match departments electronic

submissions against the revenue and submitted back-up documentation before accepting the turnover. The comptroller would then verify the information from the treasurer before posting to the general ledger.

The town can reduce data entry and paper by having department staff (1) enter revenue information in turnover batches, (2) scan any applicable payment receipt or supporting documentation, and (3) electronically sign and transmit the turnover batch to the collector/treasurer's office. This increases efficiency by reducing two points of data entry to one and eliminating the department's need to create and file paper.

Allow Dual Access for Online Reports - Some of the confusion around electronic payments stems from department officials' inability to view financial transactions. To eliminate this issue, all online payment systems should be set up to provide transactional report access to both the treasurer and user departments so they can view fund activity and submit system reports as supporting documentation with the turnovers. Conversely, treasury staff will have access to the same reports to research and reconcile any variances.

Use Separate Turnover Forms for Electronic Payments - Current departmental turnovers include cash, check, and electronic payment sources on a single form. While cash and check payments can be deposited the same day the funds are received, electronic payments such as credit cards and e-checks can take multiple days to settle to a bank account. Submitting cash, check, and electronic payments on the same turnover poses a reconciliation issue, because treasury staff cannot verify all deposits the day the turnover is received. We recommend all departments enter payments separately by type: cash/check and electronic payments. Further, turnovers for electronic funds should be submitted according to the bank settlement date, rather than the date of payment transaction.

C.4. Assign Internal Audit Responsibilities for Digitized Procedures

With Natick's embrace of technology, it is imperative to redesign traditional internal control points to be compatible with computerized procedures. Therefore, we recommend the town assign internal audit responsibilities for digitized departmental processes. As the town considers a paperless invoice process that would involve departments electronically submitting their vouchers, it would be sensible to assign finance personnel to do quarterly, randomized inspections of departments' original invoices and compare them to the electronically submitted counterparts. This would provide a necessary level of internal control for electronic submission procedures. This control procedure could also be employed for other digitized operation such as payroll and turnover submissions.

C.5. Reinstate Legal Services for Assessing Operations

We recommend that the town reinstate legal services specializing in assessment valuation and appeals for property abatements appealed through the appellate tax board (ATB). While the current staff have the knowledge and technical skill to support their valuations, preparing for and attending a single appellate hearing involves a tremendous amount of time. With the majority of Natick's assessing operations performed inhouse, including the supplemental billing, diverting staff away from their daily responsibilities impacts operations. Likewise, not being able to fully prepare for the ATB leaves the town at a disadvantage when faced with appellate hearings. A recent valuation of a commercial property was appealed and settled at the cost of $120,000. Engaging the services of outside legal counsel allows the town to contest abatement appeals, potentially resulting in a better financial outcome than settling, without significant impacts to assessing operations.

C.6. Process Tax Work-Off Program Abatements Through Payroll

Natick offers a tax work-off program to eligible senior and veteran property owners who volunteer in exchange for an abatement on their real estate tax bill. The assessing office currently processes these abatements by applying the gross amount earned directly to the real estate bill. However, IRS regulations deem these as wages subject to federal taxation. Therefore, the hours worked must be submitted through payroll, so tax withholdings can be appropriate applied in in compliance with IRS guidelines. The net pay is applied to the taxpayer's actual real estate tax bill as an abatement, while the withholdings are remitted to the appropriate agency by the town. Participants in the work-off program receive a Form W-2 for the earned wages at year end. For additional guidance on tax work-off abatement processing, please refer to Informational Guideline Release (IGR) No 2021-20.

C.7. Abate Uncollectible Excise and Personal Property Tax

We recommend that the assessing office work with the collector/treasurer to examine outstanding excise and personal property taxes to determine if they are uncollectible and therefore eligible for abatement. On the FY2022 balance sheet, levy years prior to 2019 account for 74.5% of the total outstanding personal property taxes and 35.6% of outstanding motor vehicle excise. While the $3,788 of outstanding boat excise seems too small for significance, this amount is equivalent to 98.2% of the total $3,859 boat excise committed for 2022.

Abating older charges will reduce the town's receivables on its balance sheet and serve to clean up outstanding amounts that would otherwise remain uncollected. At the 2022 Fall Annual Town Meeting, the town adopted a small personal property exemption setting the minimum fair cash value

for personal property taxation at less than $10K. This exemption will reduce the work needed to assess and collect on insignificant personal property tax values. Additional information on abating uncollectible excises can be found in Informational Guideline Release (IGR) No. 04-209. Additional information on abating uncollectible personal property tax can be found in Informational Guideline Release (IGR) No. 2020-10.

C.8. Assign Additional Staff to Payroll

Natick processes town and school payroll on an alternating bi-weekly cycle. Although the school department is responsible for entering and balancing their payroll, the payroll manager is ultimately responsible for preparing and reconciling payroll. With Natick's nearly two thousand full- and part-time employees[2], the dependency on one staff person to complete the payroll process puts the town at risk. Therefore, we recommend that town formally assign additional staff to payroll. Other comptroller staff have assisted in payroll processing when needed. However, there is no trained assistant or backup assigned to payroll responsibilities.

Additional payroll staff would also support long-term project goals. The current payroll system has over three hundred computer codes for insurance deductions, most of them redundant or no longer in use. Position and pay tables in Munis also need reorganization and updating. While the payroll manager expressed a desire to resolve these issues, there is no staff to whom she can delegate the payroll processing in order to complete these time-consuming tasks.

C.9. Take Full Advantage of Munis Payroll Module

We recommend that Natick centralize payroll processing through Munis. Inconsistencies in the Munis setup requires manual data entry and correction for the majority of payroll to be processed. Departmental payroll submissions vary in method and format, from paper forms to excel spreadsheets to software generated reports. This lack of uniformity is cumbersome, slows down the process, and risks errors as information must be gathered and transposed from different sources. For example, department heads submit spreadsheets detailing pay adjustments (i.e., parttime employee wages, overtime, stipends, etc.) that force redundant, inefficient data entry that puts additional work on the one-person payroll staff. Additional areas to review include Munis roles workflow, audit and update of deduction codes, streamlining salary tables, use of personnel actions, and coordination of Employee Self Service with human resources.

[2] FY2021 Annual Report

Various software for payroll and employee information is used through the operations, such as TalentEd in the school department. As the town expands its use of the Munis system, it may find some software systems redundant in their capabilities. Regardless, if departments chose to use additional or ancillary software, the town should ensure the program is properly integrated with Munis and does not change or create additional payroll procedures.

C.10. Modify Cashbook and Correct Methodology Errors

The treasurer's cashbook is a log of original entry for recording all receipts, deposits, transfers, and disbursements necessary for tracking the total cash position of the town. The cashbook is legally considered a permanent record and is a critical component of financial management. The absence of a complete and accurate cashbook and timely cash reconciliations creates a serious and immediate risk to the community with potentially dire consequences.

The treasurer currently maintains an Excel cashbook that meets basic requirements for recording activity, but it is difficult to read, confusing in how it is organized, and ineffectively formatted. We therefore recommend that the collector/treasurer convert the cashbook to a format that is easily updated, verifiable, and regularly reconciled. We have identified the following changes necessary to ensure accurate recordkeeping:

- Record all electronic payments and wire transfers
- Record issued, cleared, outstanding, reissued, and voided checks
- Record bounced checks with negative turnovers
- Match interest amounts to bank statements and list in cashbook
- Identify and label all adjustments listed in the cashbook
- Process credit card fee payments through a warrant

Although this commentary was reflected in the cashbook memo issued by CliftonLarsonAllen in July 2021, we are unaware of any plan by either the collector/treasurer or the finance director to rectify these issues. Town administration should coordinate with the finance department to implement a corrective plan and provide any staff training or outside services necessary to permanently resolve this matter.

C.11. Reconcile Cashbook and Receivables Monthly

We recommend that the collector/treasurer reconcile the cashbook and receivables with the comptroller monthly. The final reconciliation of the FY2019 and FY2020 cashbooks was delayed until

2021 and required assistance from a consulting service. At the time of our review in the fall, the FY2022 cashbook and general ledger were not reconciled through the end of the fiscal year[3]. We further recommend implementing policies and procedures to provide for formalized reconciliation of outstanding receivable balances between balances maintained by the collector/treasurer and other departments as may be applicable (e.g., police details and ambulance receipts) on a monthly basis. Frequent reconciliations are essential to financial controls and mandatory reporting. As such, bank transactions should be reconciled on a daily basis and reconciliations to the collector's control book should occur weekly at minimum.

At the conclusion of its work, the consulting service found the FY2020 cashbook to be $6.7 million less than the FY2020 general ledger balance[4]. The multitude and variety of errors contributing to this discrepancy make it clear that reconciliations were not being performed in a timely manner. Regular reconciliation of the cashbook will ensure variances are promptly identified and resolved. Monthly reconciliations between the collector/treasurer and the comptroller should be formally documented, attested to by both officials, and maintained on file. As the head of the consolidated finance department, the finance director should be responsible for ensuring this process is completed each month.

C.12. Consolidate Responsibilities within Office Staff

We recommend the collector/treasurer consolidate office staff responsibilities. Currently, collector/treasurer staff are not permitted to execute certain tasks from start to finish without a supervisor intervening in part of the process as a form of internal control. These oversight procedures are redundant to the point of delaying completion. Because staff are not permitted to take total ownership of daily responsibilities, they have a limited understanding of overall financial operations.

The summary below details the current process for payments at the customer counter:

- A cash and a check payment are accepted and input into Munis by an administrative assistant (copies, baskets, etc.)
- At business day-end, the administrative assistant prints a Munis payment report, and gives the report, cash drawer, check, and bill stubs to the collector/treasurer.
- The collector/treasurer counts the cash drawer, verifies cash and check payment against the Munis report, and enters payment information into an additional, separate excel spreadsheet.

[3] FY2022 books were closed in October with free cash certified on November 9, 2022
[4] This was caused by cashbook methodology errors. See recommendation C.10.

- If payments and report match, the payment batch is released, the collector/treasurer writes the cash deposit slip, checks are given to a second administrative assistant to scan into bank.
- Proof of completed payment batch is given to the assistant collector/treasurer, who inputs the payment batch into the cashbook and transmits a summary copy to the comptroller office.

Current procedures involve a minimum of four office staff to process a single bill payment. While our example highlights one internal workflow, we found the majority of daily office tasks to be similarly convoluted. The office can maintain strong internal controls when clerical responsibilities are fully completed by individual administrative staff, then shifted to higher-level staff for recordkeeping and monthly reconciliation.

Another inefficiency is administrative assistants not being allowed to count their own cash drawers at the close of business each day. Instead, supervising staff are tasked to count the drawer and identify and resolve discrepancies. This extreme division in responsibilities does not provide any additional internal control and rather inhibits the financial education and cross-training of support staff while disproportionally impacting the workload of supervising staff members. The collector/treasurer has become overly burdened with low-level administrative tasks, to the point where personal time away from the office is either not achieved or taken at the expense of delays in day-to-day office tasks.

Consolidating routine tasks and appropriately delegating responsibilities will support expanded staff capability, improve cumbersome workflows, and relieve the collector/treasurer of unnecessary administrative burdens. This recommendation can be supported by providing additional training to office staff and encouraging attendance to educational conferences when possible.

C.13. Make Disbursement After Approval of the Warrant

We recommend that the collector/treasurer disburse funds only after approval of the accounts payable or payroll warrants in compliance with M.G.L c.41 §56. This statue prohibits the treasurer from disbursing funds until authorized by the select board. As noted in the cashbook memo by Clifton Larson Associates, multiple instances have been identified of wire disbursements occurring without or before the approval of a warrant. Additionally, payment on town credit cards is routinely made outside of the warrant process. Payment outside of the approved warrant process is a serious breach of internal controls and puts the town's finances at risk.

C.14. Shift Responsibility for Water Billing to Water Department

We recommend that the town shift the full responsibility for water billing to the water department. Currently, the water department is responsible for collecting and importing usage data into Munis. The remaining steps in the process are completed in the collector/treasurer office, including entering rate information, verifying data, and generating and printing bills. The collector/treasurer's office is also responsible for producing final bills for property transfers. Billing inquiries are directed to the collector/treasurer office, necessitating back-and-forth communication between the collector/treasurer staff and the water department that delays the process and often extends the task over multiple days.

Furthermore, the separation of billing and collection responsibilities is a fundamental practice that supports internal controls between departments. For example, the assessing office generates the real estate tax commitment, which is then transmitted to the collector/treasurer office for payment collections. Water billing should be managed similarly. The water department should be responsible for (1) importing meter data into Munis, (2) reconciling data and generating the bill commitment, (3) transferring the final commitment to the collector/treasurer's office, (4) providing the commitment warrant to the comptroller and collector/treasurer. By shifting billing responsibilities to the water department, this will create operational efficiencies and support segregation of duties between departments.

C.15. Move Responsibility for Police Detail Billing to the Police Department

We recommend that the police department manage detail billing through Munis. The police department currently remits detail slips to an administrative assistant in the collector/treasurer office, who generates the bills, collects payment, and marks bills paid in QuickBooks. Any billing inquiries are directed to the police department for assistance. Moving billing responsibilities to the police department will reinforce procedural checks and balances by separating invoice generation from billing collection. Additionally, the town should consider using Munis to streamline the billing, collecting, and reporting of police details instead of QuickBooks.

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The following individuals were interviewed in preparation for this review.

Paul Joseph, Select Board Chair
Linda Wollschlager, Finance Committee Chair
Carol Gloff, Town Governance Study Committee Chair
Jonathan Freedman, (Former) Audit Advisory Committee Chair
James Errickson, Town Administrator
Jon Marshall, Deputy Town Administrator of Operations
John Townsend, Deputy Town Administrator/ Finance Director
Dorothy Blondiet, Human Resources Director
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