



Town of Newbury

# **Financial Management Assessment**

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Division of Local Services / Technical Assistance Section

July 2008

The Division of Local Services has completed the following limited scope assessment of the town's financial management structure, policies and procedures. We hope that this analysis and the recommendations we offer will guide the Board of Selectmen in its efforts to improve the town's financial management.

## **Introduction**

This assessment of financial offices was preceded by a series of communications between the Department of Revenue's Division of Local Services (DLS) and the town's finance director regarding a variety of municipal finance issues. Also, in numerous emails and telephone conversations dating back to September 2007, town finance officers consulted DLS on a range of topics including, among others, staff roles and responsibilities, budget preparation and collection procedures. As an outgrowth of continued correspondence with DLS, the finance director requested a formal review of the town's financial management structure, policies and practices.

A four-member team from DLS' Technical Assistance Section began its assessment in June 2008 with an analysis of community data followed by a site visit to interview financial staff and town officials. Specifically, the DLS team met with members of the boards of selectmen and assessors as well as the finance director and members of the finance committee. Department heads and staff in the treasurer/collector, accounting and assessing departments also were interviewed. During this process, we developed an understanding of the existing government structure, current financial management practices, the town's recent financial history and the complexity of issues it faces, all of which led to the recommendations contained in this report.

We found that Newbury is working through a number of issues that typically occur during a transition to a new organizational structure and new operational procedures, which were implemented in response to a Government Study Committee report issued in March 2005. Chief among the report's recommendations was the elimination of the separately elected, but already combined, treasurer/collector's position and the creation of a finance department (M.G.L. c. 43C) under the management of an appointed, professional finance director, who would also serve as treasurer/collector or accountant. With the implementation of these changes in 2006, the finance director took on the dual role as treasurer, but he appointed a separate collector. Since then, the consolidation of treasury, collection and accounting functions into a single department and a complete turnover in the staff have enabled the community to redefine the roles and responsibilities of financial officers and to deviate from past practices.

The new staff has been working tirelessly on upgrading computerized systems, implementing a new accounting software application, and getting the town's financial records and procedures in order and up-to-date. The collector, who is also the assistant treasurer, has

been pursuing collection remedies to address over \$3 million in delinquent taxes that date back to 1993, and has been working with an attorney on tax title takings and foreclosures, when necessary. As a result of its collection efforts, financial officials brought in over \$467,000 in sewer betterments alone, which are deposited into a separate fund (Ch. 103 of the Acts of 2003) and used for the payment of the sewer-related debt. Because prior years' sewer debt service was paid out of the general fund, it was reimbursed and the funds were appropriated to the town stabilization fund. That balance is now up over \$639,000 and provides a reserve cushion the community has never before amassed.

Despite its recent accomplishments and financial gains, Newbury continues to operate under a decentralized form of government. The part-time, three-member board of selectmen is responsible for daily management decisions and relies on the cooperation and willingness of independently elected officials to get things done. There continues to be no single person, who oversees and coordinates day-to-day administrative functions, provides direction and supervision, and serves as the focal point for all communication.

Having experienced the benefits of the consolidated finance department, town meeting approved a proposed special state legislative act in May 2008 that would create a town administrator-selectmen form of government. In the proposed model, there is a move from a long-established part-time, working board of selectmen to a full-time professional manager. The town administrator position would be expected to supervise all department heads, even though in some instances, elected boards and the selectmen would retain appointing authority over them. The town administrator would appoint and remove the treasurer, a tax collector, and an accountant, among others, subject to the approval of the selectmen.

In addition, the town administrator would appoint the chief procurement officer and serve as collective bargaining agent for the town, prepare the budget proposal and coordinate the annual budget process. He or she would perform the duties of the finance director and have the authority to sign vendor and payroll warrants. He or she may also reorganize department responsibilities and reassign staff duties with the approval of the selectmen. On paper, the town administrator would be responsible for the decision-making that goes with the day-to-day management of all town operations.

Generally, when a community reviews its governmental organization and seeks management alternatives, DLS encourages the adoption of an administrative structure that increases accountability and cooperation. While the Newbury proposal is good start, we believe the community should consider the following going forward.

First, in the special act proposal, the town administrator has numerous, wide ranging administrative and fiscal responsibilities, and would specifically "perform" the duties of the town's director of municipal finance. However, in discussions with local officials, it appears that they envision the current finance director moving into the town administrator position and that he

would continue to serve as town treasurer. While it is common and expected in smaller towns that a town administrator would also have finance director type responsibilities, a structure that adds treasurer duties to the job creates an enormous workload and is set-up to fail.

The treasurer is a community's cash manager and has custody of all municipal money. Included is the responsibility to make certain that town receipts are deposited into appropriate bank accounts and to monitor balances to ensure that sufficient funds are available to cover town obligations as they become due. The treasurer invests town funds and manages debt to maximize investment income and meet cash flow needs. To fulfill these responsibilities, the treasurer maintains a cashbook, debt schedule, check registers, and various logs to track balances for grants, trusts and revolving funds as well as other special revenue funds. As a financial control, the treasurer is obligated to reconcile cash balances and debt, internally, and then with the accountant on a regular basis. Finally, the treasurer maintains tax title accounts, conducts sales of land, and prepares documents to petition for foreclosure.

These are essential and time consuming functions. There is sufficient overlap with a collector's duties such that communities are increasingly combining the treasurer and collector positions. In fact, Newbury combined the two positions prior to forming its finance department. However, we know of no instance where a town administrator simultaneously serves as a treasurer, nor can we construct a circumstance where we would recommend such a structure.

A second consideration is a matter of checks and balances. Under the proposed legislation, the town administrator would have the authority to approve and sign payroll and vendor warrants. If the town administrator retains the duties of the treasurer, he would then issue and sign checks to make payments. As a matter of financial control and to follow sound practices, there should be a separation of these activities.

Lastly, the current proposal retains a slate of elected positions and boards, which preserves a long-standing decentralized structure of government. Elected officials can, and often do, act independently, which can be counterproductive. Because there is no line accountability or incentive for elected officials to work or cooperate with the selectmen, or with a town administrator, the ability to accomplish town-wide goals or to develop cohesive financial planning is diminished. When advancing community purposes is contingent on a willing attitude of local officials, progress can be slow and frustrating, and government is less effective.

## **Primary Recommendations**

1. ***We recommend that the treasurer be a separate position or combined with the collector position.*** As outlined in the special legislation, the town administrator would appoint and supervise the town treasurer. As suggested to us by local officials, there is discussion about having the town administrator also serve as the treasurer. While seemingly convenient, we

strongly recommend against the town administrator performing treasurer functions. In the first instance, the workload would be overwhelming and would create the strong likelihood that neither job would be done well. Secondly, the ability to ensure that the necessary checks and balances are in place for the protection of the town would be weakened. Instead, a separately appointed person should serve as treasurer or as treasurer/collector.

In either event, the town needs to provide clarity. Under the municipal financial department bylaw, the treasurer and collector positions are combined. However, the director of finance currently serves as treasurer and another employee is the tax collector. Through appointing authority granted to the town administrator, the proposed special legislation suggests that the positions are separate. Therefore, the future role of the treasurer and collector should be made clear. Toward this end, if the town moves forward with its proposed special legislation, local officials might revisit the language in the act which addresses the treasurer and collector.

2. ***We recommend that the town complete a comprehensive bylaw review to establish clarity and consistency.*** The current town administrator proposal correctly seeks to improve coordination and accountability. It also adds to the collection of special acts, local option enabling legislation, and bylaws by which local government operates. However, as described in the Government Study Committee's 2005 report, it is difficult to understand the interrelationships and the lines of responsibility between the various departments. A case in point is the adoption of the municipal finance department. When this new department was established, specific duties were assigned but older bylaws were not revised to reflect the change in responsibilities.

For many communities, a charter provides the means to create a stable and clear general structure under which the town government would operate. And, in the future, charter development may be an appropriate course for Newbury. For now, we suggest that a bylaw review can accomplish the same purpose.

Bylaws establish codes, policy guidelines, and procedures under which the town operates (e.g., personnel rules, zoning regulations, and health codes). They describe specific roles and responsibilities of local officials and multi-member boards, and prescribe procedures for budget development and the capital improvement program. They are also the official records and documents of the town and play an important role in informing and empowering municipal officials and employees as well as residents. Well thought-out language not only creates clarity of purpose, but strengthens confidence in government. Periodic updates, therefore, serve an important public purpose.

## General Recommendations

Once the town adopts a professional management structure as described above, it will be in a better position to address the following recommendations:

3. ***We recommend that the town administrator prepare a multi-year revenue and expenditure forecast and present it to a joint meeting of the selectmen and finance committee at the start of the budget process.*** This forecast should include annual costing of services and reveal the extent to which available resources cover or fall short of anticipated expenses over a three- to five- year period. Costs associated with a multi-year capital plan should also be included. Town officials should use information in the forecast to guide school and town departments as they prepare their appropriation requests. For assistance, we direct town officials to the DLS free electronic [Revenue and Expenditure Forecasting application](#) found on our website.
4. ***We recommend that town officials, in consultation with the town administrator, develop a series of financial policies to help guide decision-making.*** Areas of focus should include the use of free cash and reserves, the issuance of debt, capital improvement planning and budget development. Without formally binding the town through a bylaw, policies serve to establish a framework that will help Newbury achieve its financial goals. Such policies will also provide context for the multi-year forecast recommended above.
5. ***We recommend that the town review its health insurance exposure and compliance requirements.*** Health insurance costs for municipalities throughout the Commonwealth continue to escalate well beyond the annual rate of growth in local revenue. In addition, the new Government Accounting Standards Board (GASB) Statement No. 45 requires communities to quantify, through an actuarial assessment, their long-term healthcare obligations to retired employees. These circumstances provide towns with good reason to reevaluate past practices using data analysis and to explore ways to reduce costs. Available options include:
  - Discontinuing health insurance coverage for elected officials;
  - Adopting local option statute M.G.L. c. 32B, §18 (By doing so, a portion of the town's costs will shift to the Medicare program without a loss of benefits to retirees);
  - Joining the Commonwealth's Group Insurance Commission (GIC);

- Negotiating or mandating higher employee contributions for more expensive insurance plans.
6. ***We recommend the implementation of a requisition/purchase order (PO) system.*** A PO system provides notice to the accountant to encumber, or reserve, funds before a purchase is made. With expenditures accounted for, there is less risk that departments will overspend their appropriations. With up-to-date financial data, the town administrator and other decision-makers will have more reliable information on the fiscal condition of the town at any given time.
  7. ***We recommend that the town process the payroll and vendor warrants on a biweekly schedule.*** Paying warrants biweekly would free-up staff time that would normally be spent compiling hours/rate information and entering data into the payroll and purchasing systems. It would enhance office productivity by enabling staff during non-warrant weeks to focus on other important or previously neglected tasks. To move employees to a biweekly pay period will require collective bargaining with the police union. The process for paying officers for details would not necessarily change.
  8. ***We recommend that the town administrator review, update or prepare job descriptions, institute an employee evaluation process, and develop a new employee orientation program.*** Up-to-date job descriptions are a critical component to effective personnel management. They serve to document clearly the principal duties and responsibilities of employees, as well as the necessary knowledge and skill requirements of a given job. In conjunction, an employee performance evaluation process serves to build accountability through a defined framework that reinforces responsibilities and establishes expectations for the ensuing year. The development of a new employee orientation program, including an employee handbook, helps to inform new staff about the town's organizational structure and describes employee benefits, various policies and procedures.
  9. ***We recommend that officials provide funding for professional development and training.*** Participation in professional organizations offers employees the opportunity to interact with peers, to exchange information and experiences, and to learn of innovations in their respective fields. Attending formal training and refresher courses provides useful information and opportunities to learn about practices in other municipalities. On balance, the town benefits when it encourages professional development, and should budget money for this purpose.

## **Conclusion**

To its credit, Newbury has demonstrated willingness to abandon the status quo in favor of a full-time management presence in town hall. By pursuing this change to its structure of government, the town should see improved management of municipal business and more effective financial operations. However, gains will not be made if, as suggested, the town administrator is to serve as the town treasurer. Unless separate individuals are appointed to the treasurer and collector positions, or one person serves in a combined treasurer/collector role, the advantages of having a town administrator will not be realized.

With a new town administrator position, by clarifying the treasurer and collector roles, by updating its bylaws and by implementing other recommendations we offer, Newbury should be well positioned to move toward more effective and responsive local government. What now remains is follow-through by local leaders on these decisions and with the town's legislative delegation relative to its special act.



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## Acknowledgements

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

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