



Town of North Reading

Financial Management Review

Municipal Data Management and Technical Assistance Bureau

March 2003



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 North Reading.

We have based our findings and recommendations on site visits, telephone interviews and materials reviewed 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, the finance director/town accountant and town clerk, treasurer/collector, assessor, public works director, finance committee members, as well as other staff members, as available, in each office.

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

The town of North Reading operates under the provisions of a charter and by-laws. The charter establishes the powers of an open town meeting, creates a finance committee, and specifies that together with the moderator, the board of selectmen, the school committee and the community planning commission shall be the town's sole elected bodies. Also established are administration functions of government organized into four divisions: finance, public works, public safety and public services. The town administrator has line authority over all four divisions, while the treasurer and other individuals, boards and commissions report to the selectmen. (See town organizational chart at the end of this report section).

Notwithstanding the stability inherent in the government structure, North Reading is, like many communities, experiencing shifts in local demographics. U. S. Census Bureau data indicate that between 1990 and 2000, town population increased 15.3 percent, the supply of housing units grew by 17.8 percent, and the number of households with children 18 or under increased by 723, or 23.6 percent. As a result, where 38 percent of all households had occupants under the age of 18 in 1990, the number increased to 42 percent in 2000. Statewide, 33 percent of households have under 18 occupants. More noticeably, school enrollment increased by 649 students, or 34 percent over the same ten-year period. This rate of increase qualified the town for FY02 Enrollment Aid, which was a new category of Chapter 70 assistance for communities where local enrollment growth between FY94 and FY00 exceeded the state-wide average by more than 10 percent.

Other census data show higher educational levels and economic growth. Sixty percent more North Reading residents, or 1,400 persons, have college degrees now than ten years ago and fewer students are dropping out of high school. Today, the median household income in North Reading is \$76,962 and 46.0 percent higher than in 1990, compared to the state-wide median of \$52,502, which rose 36.7 percent. Fewer than 45 households earned annual incomes greater than \$200,000 in 1990, while 264 earned at least that amount in 2000. The median value of a single family home in North Reading rose 41 percent to \$270,300, compared to the state-wide median of \$185,700 in 2000. Today, there are 229 homes in North Reading valued greater than \$500,000 compared to 10 in 1990. Thirty percent of the homes are valued in excess of \$300,000 compared to 8 percent in 1990.

Some have concluded that as a consequence of these trends, the town priorities have shifted in a direction that favors educational programs. In contrast, others are more critical of the school system, questioning financial reporting methods and what they consider an advantageous revenue allocation that has its roots in a 20+ year old budget policy.

In fact, the town is going through changes, but its fiscal condition is in relatively good health as indicated by generally accepted measurements. The town's overall debt service is consistently

under 10 percent of total annual expenditures. With the exception of two recent years, its free cash has approached the recommended minimum level of 3 percent of annual expenditures. The stabilization balance is slightly low, but not problematic. As a result of these, and other, factors the town has consistently maintained what is described as an upper-medium credit rating (A1).

Where the town might improve its position is in the development of long-term planning strategies. To his credit, the finance director developed this year, for the first time, a three-year revenue and expenditure forecast. However, if expanded to five years, it could be integrated with the five-year capital improvement plan. If a long-term technology plan were developed, it would be incorporated as well. With the adoption of policies on the use of and limits for incurring debt, the use of free cash, stabilization and non-recurring revenues, decision makers could show how these sources might help fund future projects.

In the day-to-day administration of the town's business, the structure of government works well, and, with few exceptions, routine tasks are completed by department heads and staff on a timely basis. At the same time, the town might also benefit if it took a closer look at structure and some of its procedures.

For example, one person serves as both treasurer and collector. However, the treasurer is appointed by the selectmen to a one year term, while the collector is appointed by the town administrator to an indefinite term. As a practical matter, the treasurer/collector reports to the finance director, despite charter language which states that the treasurer is not part of the finance division of government. We recommend the town take action to establish consistency between actual practice and the documents that prescribe how government is to work.

Additionally, we recommend that the information systems department and the systems administrator report to the town administrator rather than to the finance director. Right now, technology in town hall is fragmented and the town's technology condition is in a holding pattern. The IS administrator is effective in keeping hardware and network systems functioning, but beyond that, his responsibilities are not always clear. To the extent possible he addresses software issues, and otherwise encourages direct staff communication with vendor support. However, technology training, policy development and general advocacy for all of town government don't appear to have a place under the current structure. With a global view, the town administrator is in a superior position to oversee, identify needed program initiatives and effect short and long term changes in the use of technology in town hall. We suggest the creation of a technology committee to assist him and the systems administrator in this regard.

Among town finance procedures, the warrant process draws attention. Currently, payroll and vendor warrants are prepared on a weekly basis and signed, most often, individually by selectmen at town hall outside a regular Monday night meeting. Payroll checks in particular are sometimes distributed without approval of the board when a majority are unable to get to town

hall by the Friday payday. This is a violation of state law, but the resolution to the problem usually involves modification to collective bargaining agreements or the willingness of selectmen to change their regular meeting night. Our suggestion is to give the town administrator, who already has wide-ranging responsibilities, the authority to sign warrants. Even with the change, the checks and balances manifested in the accountant's verification process remain in tact.

As a budget policy, we suggest the appropriateness of the so-called 60-40 revenue allocation be reconsidered. The 60-40 policy is at the center of controversy in the town and is cited equally by those who feel schools are over funded and by those who claim schools are under funded to support their respective arguments. Under the 20 year old policy, each year at the start of the budget process, revenues are estimated and then reduced by certain fixed costs, including retirement, debt service, debt exclusions and health insurance premiums. Sixty percent of the remaining revenues are allocated to the school department budget and 40 percent support town department. In effect, the share of costs under these categories attributable to the school department including contributions to retirement funds for non-teachers, the school personnel health costs and debt service on school projects, are paid through the town-side budget.

Because these costs are not in the school budget, some have mistakenly drawn the conclusion that they are omitted from the financial reports school districts are required to file with the Department of Education (DOE) in October of each year. This takes on significance when proponents of education point to North Reading's annual per pupil expenditure and see justification to increase school spending. Opponents view the per pupil expenditure as an artificially low number due to the omission of these fixed costs. In fact, the allocation of indirect costs to the educational program, which include the school department's contributions to retirement funds for non-teachers and the school personnel health costs are required aspects of DOE reporting and cannot be omitted.

Events over time have worked to further antagonize those on each side of the issue. With a change in the make-up of the board of selectmen and with a series of successes at open town meeting, proponents of education claim to have support of the majority. On the other hand, the majority of voters have defeated plans for new schools four times in recent history. Last year's rejection of an \$1.9 million operational override, which was almost entirely prompted by school needs, further fueled emotions in the community, but in this instance, it also created tension between the school and town departments. Having adjusted their budgets, with cuts, to the allocated 40 percent of estimated revenues, town departments did not respond well when asked to absorb an additional \$750,000 so that funding could be transferred to school programs. The funds were to be reinstated if the override passed, but it did not.

Now, at the heart of this matter, among residents and in town government, is an issue of trust.

Addressing this issue begins with open communication and a more effective exchange of information. Positive steps by town and school administrators have been taken in this regard. Rare among communities, the school department has installed the same financial management software presently in use in the finance director/accountant's office. Now, school department accounts payable and payroll information flows seamlessly to the accountant for verification and warrant preparation. Efficiency is increased, but more significantly, the school department has made information relative to their financial activity openly available.

More recently, the school administrators have met with the town administrator and finance director to review town and school expenditures in general, and to identify, in particular, respective shares of the fixed costs which are typically deducted from net revenues as part of the 60-40 allocation process. The primary purpose is to ensure that fiscal activity reported by the school district to DOE includes all required costs associated with the educational program. As part of the budget process, the school department submitted a preliminary budget to the finance director as early as January 2 and is now meeting weekly with selectmen and the town administrator to develop and arrive at unanimity on projections.

These are positive steps, but more can be done to restore confidence in local government. We recommend that the town consider alternatives to the 60-40 policy for revenue allocation between the school department and town departments. (It is our recent understanding that the FY04 budget process has seen change already). Nonetheless, officials can look to other communities where methods vary for funding departments, including the school department. Individual analysis of department needs, overall town goals and unexpected fiscal events all play a role in setting budgetary priorities. Whether or not new approaches reflect the changing demographics of the town, in this time of fiscal stress, flexibility and cooperation in arriving at municipal funding goals is likely to be more productive than the application of a rigid rule for resource allocation.

Finally, to benefit from the practices of other communities, we recommend that the members of the board of selectmen take advantage of seminars and association meetings. As a relatively inexperienced board - four members have less than five years of tenure combined - these events represent important opportunities to meet peers and gather insight into how other towns conduct their business, how their departments relate, how budget practices differ and how confidence in government can be built.

We have also offered other recommendations relative to overall financial management practices and pertaining to the various finance offices. We have encouraged stricter adherence to the rules, regulations and laws enforced by the State Bureau of Accounts (BOA). We call for a centralized repository for accrued sick and vacation time data in the accountant's office. We endorse the development and implementation of a more coherent plan for the use of software, as well as new opportunities for staff training on current software. We believe the assessing manager has the knowledge and experience to expand property inspections and to conduct

triennial revaluations in-house. We also suggest that he plan in advance for anticipated betterment programs. The treasurer/collector's office is hampered by computer issues that should be immediately addressed. Certain manual entry practices should be abandoned and a system for tracking outstanding parking tickets should be developed.

Conclusion - Overall, municipal government in North Reading functions well. Financial management procedures have matured over time due, in part, to longevity in the town administrator position, in the finance director position and among many department heads and staff. For the most part, our resulting recommendations pertaining to municipal financial management are few.

However, in discussions with selectmen, finance committee members and municipal employees, the perception and belief that public trust in government, and to a lesser extent trust within town hall, is low, emerge as a universal concern. The fact that viewpoints center around the town-school relationship is inconsequential. The obligation of establishing or restoring confidence in government belongs to all in public service. Toward that end, recent initiatives to enhance communication by the town administration and the school department are positive events and should be made more public. With a continued commitment to open and honest communication, to the exchange of accurate information on a timely basis, decision makers can reach consensus and should then present a united front to the voters and residents on town priorities and important town issues as a means to rebuild public trust.

SUMMARY OF PRIMARY REPORT RECOMMENDATIONS

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OVERALL FINANCIAL MANAGEMENT

The overall financial management of a community is an inter-linked fabric of procedures, practices and responsibilities that accomplish routine, on-going and periodic tasks, that set policy and ensure the integrity of system checks and balances. Consequently, the effective execution of the budget process, capital planning, and warrant approval procedure is essential. Equally significant is the organization of government, the assignment of duties and the granting of authority to office holders. Good record keeping, the production of regular reports and the timely flow of accurate information between and among offices are also major contributors to sound fiscal results.

In North Reading, the day-to-day administration of government is the responsibility of a town administrator who is granted wide-ranging authority by the charter. With this in mind, we address the issue of warrant process. Currently, vendor and payroll warrants are often signed by selectmen outside of board meetings, and contrary to the provisions of state law, payroll checks are sometimes issued prior to warrant approval. Ideally, employee pay periods are set and requisite processing by the finance offices are scheduled to enable warrant approval at regular board of selectmen meetings. However, to make this happen can involve changes to collective bargaining agreements, or a change to the night selectmen meet. Our approach is to enhance the authority of the town administrator to include warrant approval responsibility.

We comment on the so-called "60-40 Rule," which exists as a long standing means to allocate town resources between the school department and all other municipal departments. In effect, this is a policy, like any other, which is subject to review and modification to reflect changing times. We suggest that, at the very least during this period of fiscal stress, a review of this policy is justified. We encourage, as well, the adoption of policies relative to the use of free cash, the building of reserves and debt management.

Three-year revenue and expenditure projections were developed for the first time last fall. The presentation of the analysis signals the start of a budget process, and was good reason for joint meetings involving the town administrator, selectmen, finance committee and school committee. Discussions lead to consensus on budget guidelines for the upcoming year. To assist in the budget process and as another forum to discuss planning for the future, we recommend the creation of a capital planning committee, and in a later section of this report, a technology committee as well.

Otherwise, we recommend that the information systems administrator be removed from the division of finance and instead report directly to the town administrator. Technology is a global issue that might benefit by leadership that has a town-wide view. We also suggest formal restructuring to bring the treasurer's office into division of finance in order to clarify lines of accountability and to better reflect how government actually operates,

Conclusion - In almost all respects, North Reading functions well. The town benefits from an experienced town administrator, and equally knowledgeable department heads, most of whom have longevity in local government. Staff are capable and offices are well organized. Individual responsibilities are clear and cross-training is evident. Our focus shifts, instead, to aspects of the town's financial management that involve issues relative to government structure, policies and planning.

RECOMMENDATION 1: FORMALIZE DEBT AND RESERVE POLICIES

We recommend that the selectmen formalize a policy that establishes guidelines for funding and maintaining reserves. In recent history, the town has managed to fund the stabilization fund. With the exception of FY00 and FY01, free cash has averaged over 3.5 percent of the annual budget which is consistent with recommended levels. To help establish and ensure the continuation of sound practices, the selectmen in discussions with the town administrator, finance director and finance committee should consider provisions of a reserve policy that, among other things,

- 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) Direct the use of unexpected, non-recurring revenue sources;
- 4) Restrict the use of the stabilization fund to non-recurring expenditures subject to a certain dollar threshold. Set similar guidelines on use of free cash.
- 5) Establish guidelines for the use of surplus revenue which is available after reserves are funded, i.e., restrict its use to non-recurring expenditures, to tax levy relief, etc.

We recommend that the selectmen, in consultation with the town administrator, finance director and the finance committee, establish a debt policy that guides future borrowing decisions and works to preserve and improve the town's credit rating. An effective debt policy should provide guidelines that, among other considerations:

- Specify purposes for which long and short-term borrowing will be permitted;
- Set goals for the average maturity (i.e., less than ten years) of long-term debt;
- Set limits on non-enterprise fund debt service payments as a percent of operating revenues (less enterprise fund revenues, free cash, grants, transfers and non-recurring revenues);
- Dedicate anticipated special assessment or betterment revenues to support long term debt.
- Dedicate revenue from identifiable, recurring sources to capital projects.

In considering factors that influence the town's credit rating and are within control of town management, recognize that rating agencies (Moody's, Standard & Poor's, Fitch Investment Services) consider the following:

- Revenue forecasting and a community's ability to anticipate future events;
- Interim financial reporting and monitoring;
- Contingency planning policies (reserves);
- Policies on the use of non-recurring revenues;
- Debt management policies; and
- Capital planning.

RECOMMENDATION 2: CONSIDER MODIFICATIONS TO THE BUDGET PROCESS

Note: It is our recent understanding that the town, to its credit, has moved away from the 60-40 allocation of estimated revenue in preparation of the FY04 budget. It has, instead, initiated an approach that examines municipal needs on a department-by-department basis. As a statement of our support for this action, we have kept the following recommendation in this report.

We recommend the town consider alternatives to the 60/40 allocation of revenue to the school and town budgets. Coinciding with the implementation of Proposition 2½ in the early 1980s, the town of North Reading adopted a policy for budgeting resources to fund town services and school programs. It has been used over time by the town administration and confirmed each year by town meeting through its approval of the annual budget. At issue, today, is the arbitrary nature of the 60-40 policy.

In practice, at the start of the budget process, certain categories of fixed costs and other off-budget estimated expenses are deducted from total estimated revenue. Then, 60 percent of the remaining revenue balance is allocated to the schools and 40 percent is made available to fund town services. In FY03, ten categories of deducted costs, totaling \$6.3 million, were associated with employee benefits; debt service; debt exclusions; and retirement costs; together with the vocational technical assessment; snow and ice deficit; abatements and exemptions; court judgements, state charges; and an adjustment for water funding.

At any time, the increasing complexity of municipal finance and dramatic shifts in local demographics are sufficient reasons to revisit budgetary priorities and the process by which those priorities are set. Now, at time of severe fiscal constraints, detailed scrutiny of departmental programs and goals is a necessary exercise in order to arrive at informed and realistic town-wide budget decisions. Although the school department has freedom to manage its appropriation, during the budget process it is a town department like any other and is competing for town dollars like any other. As the school committee and school administrators present their budget request for review of the town administrator, selectmen and finance

committee, they can all share in the formulation of overall town priorities as reflected by the allocation of budget resources. The result could very well mirror the 60-40 split, but it would emerge from a more realistic process.

RECOMMENDATION 3: REORGANIZE FINANCE-RELATED OFFICES.

We recommend that the town combine the offices of the treasurer and collector. By charter language, the treasurer is appointed by the selectmen and is excluded from the division of finance. The collector, on the other hand, is appointed by the town administrator, and reports to the finance director. Since March 2002, both positions have been occupied by the same person, as they had for the previous 45 years. In practice, both positions operate within the division of finance, and report to the finance director.

The town finance offices are in effect organized in a way prescribed under MGL Chap. 43C, except for the exclusion of the treasurer's function into the town's finance division. By adopting Chap. 43C, the charter provisions will reflect the actual operation of government and will automatically amend any existing charter language to the contrary.

We recommend that the town shift responsibility for the information systems department from the finance director to the town administrator. Under the present organizational structure, the information systems administrator reports to the finance director. He works effectively to sustain the operation of the town hall computer system, but by job description and in practice, his role is not that of an advocate who would focus more closely on global issues, or on a long-term technology program, particularly as they relate to non-finance functions or departments.

At the same time, the demands on the finance director to run a division of town government and function as town accountant are not insignificant, and can place limitations on the time and attention he can devote to other matters. The finance director is likely to have first-hand knowledge of issues in finance offices, but his awareness of computer needs and concerns in non-finance departments may not be as acute. In short, technology issues have wide-ranging ramifications in government that tend to fall outside the purview of individual finance officers, or even a finance director, and are more appropriately brought within the overall perspective of the town administrator.

By opening channels of communication between department heads and the town administrator on technology issues and with the assistance of a technology committee (discussed below), the town can more effectively identify its needs and plot a course for improvements.

RECOMMENDATION 4: CREATE A CAPITAL IMPROVEMENT COMMITTEE

We recommend the town commit to a capital improvement program. Under the budget process, department heads annually submit capital needs to the finance director who assembles the requests into a five-year capital improvement program. Capital items must cost \$10,000 and have a useful life in excess of five years. The program, including back-up materials from department heads and a cover memo is then forwarded, around November, to the town administrator, selectmen, finance committee, and school superintendent and business manager. As the budget process unfolds, decisions are made as to which project requests are ultimately submitted to town meeting for funding and those are presented in a separate article. Other capital expenditures are made as a direct cash outlay in a departmental line-item.

As is typical in most communities, tight fiscal conditions often divert funding away from capital programs and in favor of other purposes. Even with a minimal appropriation, a capital program should be on-going and North Reading does well in this regard. However, we believe the town administrator, in formulating the budget, would benefit from the assistance of a capital improvement committee. It could help particularly in an effort to take a more global view and to set priorities based on what the town needs. Under the present structure, it is sometimes difficult to focus other than on departments which have constituencies and to resist effective departmental lobbying. For more information, we direct the selectmen and town manager to Developing a Capital Improvements Program: A Manual for Massachusetts Communities which can be found at the DLS website at www.dls.state.ma.us/publics.

RECOMMENDATION 5: GRANT AUTHORITY TO SIGN WARRANTS TO TOWN ADMINISTRATOR

We recommend that the selectmen consider granting the town administrator authority to sign warrants. Because the town employee pay week ends on Wednesday and checks are issued two days later, on Friday, selectmen are called to town hall to sign payroll warrants each week whether or not a regular Monday night board meeting is scheduled. If a majority of the selectmen are unable to get to town hall, payroll checks are delivered to employees before warrants are approved, which is a violation of state statutes. Vendor warrants are signed by selectmen outside of regular meetings as well, in part, so that the town can receive a 15 percent discount on charges from the Reading Municipal Light for early payment.

We suggest that the warrant approval process would be streamlined if the town administrator were granted warrant signing authority. Right now, the responsibilities of the town administrator, enumerated in the town charter, are wide ranging and comprehensive. By the standing of the office, he already acts on behalf of the selectmen and the town in managing day-to-day town affairs, and to resolve issues, concerns and problems that are otherwise brought to town hall.

Once the town budget is passed, salaries are set, paid incrementally based on schedules, and as a result, change very little from week to week. They do not typically require close scrutiny. In regard to vendor as well as payroll warrants, the accountant completes a verification process to ensure that money exists in the account to be charged, that the purpose is appropriate to the particular account, and that no fraud is evident. Through a review of monthly expenditure reports by the accountant, the town administrator as well as the selectmen, problematic trends can be discovered and acted on. Ultimately, the checks and balances that are built into the system are preserved.

By granting the town administrator warrant approval authority, the town can comply with the requirements of the law, establish a set process for signing warrants that all can rely on, and still continue to avail itself of benefits like the light company discount.

FINANCE DIRECTOR/ACCOUNTING DEPARTMENT

The finance director oversees the division of finance which is one of four organizational function areas created by the town charter. As such, he has administrative responsibility for the assessment, collections and accounting operations, as well as the information systems department. By charter language, the treasurer's office is not included, but in the budget document and in practice, it is. The finance director has ten years in the office, occupies the position of town accountant and directs a staff of two. A 30 hour per week assistant finance director has 11 years in the office and a full-time administrative assistant began in the department in May 2002, after serving as a "floater" in town hall.

The office has used software developed by Lawrence Braverman Associates for its general ledger and accounts payable functions for 10± years. The software fulfills general ledger needs, and is used for payroll and accounts payable purposes, but is not compatible with the Point software used by the collector. As a result, much of the financial information received by the accountant's office is in hard copy. That includes departmental turnovers, the treasurer's schedule of receipts, abatement and exemption information, and purchase order requests. Spreadsheets created on Quattro Pro are also heavily relied upon for budget documents.

Among other duties, the finance director/accountant completes financial analyses as requested by the town administrator and otherwise coordinates the activities of the departments under his charge. He meets with finance officers individually and as a group on an ad hoc basis as the need arises. During the budget process, he receives appropriation requests from all town departments and assembles a detailed working budget for the town administrator. Beginning in the FY04 budget cycle, the finance director developed a three-year expenditure and revenue forecast which he expects to update each year moving forward.

The assistant finance director reconciles cash and receivables with the treasurer/collector, reviews labor contracts and grants, and has been asked to assume greater day-to-day involvement in staff supervision. The administrative assistant prepares weekly vendor and payroll warrants and posts to the general ledger.

To his credit, the finance director worked with the town administrator to arrive at more realistic budgets. For example, rather than retain an artificially low snow and ice appropriation and forcing deficits to be funded in the following year's budget, the account has been adjusted to more accurately reflect actual annual expenditures. He advocates more thoughtful budgeting at the departmental level, submission of greater detail with invoices and is receptive to installing a procedure to track internal transfers between line item by department heads. He has not been as successful managing the appropriation of free cash, meeting certain state deadlines for reports or producing regular financial statements for use in town hall.

Conclusion - The accountant, as the finance director, effectively relieves the town administrator of many budget related tasks that counterparts in other towns are burdened with. Personnel issues have disrupted the production and distribution of certain reports, and other lapses in compliance with state finance related procedures have occurred. However, overall, the finance director and his staff efficiently carry out the duties of the office, are proficient with the software in use and are receptive to new approaches.

RECOMMENDATION 6: MORE CLOSELY ENFORCE RULES OF FINANCIAL MANAGEMENT

We recommend that the finance director/accountant more closely administer the rules and practices of sound municipal finance. Due, in part, to staff illness and personal leave, revenue reports have not been consistently produced. In recent years, the office has been slow in submitting its Schedule A to DOR. In each of the last three years, the town has appropriated free cash before its certification by DOR. Last year, town meeting approved a revolving fund expenditure which exceeded the maximum allowed limit under statute.

The finance director/accountant has independent responsibility to ensure that the town conforms to all rules and regulations that govern municipal finance practice. He must make certain that regular reports and a paper trail of fiscal activities are created and available. He has an instrumental role in preparing requisite filings with DOR and is the prime initiator of sound financial management practices. He must, therefore, do his part to provide confidence to the town that requisite procedures are acknowledged and upheld.

RECOMMENDATION 7: CENTRALIZE ACCOUNTING OF EMPLOYEE ACCRUED SICK LEAVE AND VACATION TIME

We recommend that the town centralize record keeping for accrued employee sick leave and vacation time. Among his duties, the accountant must annually report, for the purposes of GAAP accounting for financial statements, employee sick and vacation time vested and accrued. This reflects the obligation of the town under contracts to compensate employees, upon retirement, for all or a portion of their sick and vacation time earned, but not taken. For many communities, this represents a future, and oftentimes unfunded liability, which can only be determined and planned for with proper procedures for the collection and maintenance of employee payroll information. In North Reading, no uniform procedure is in place and the liability is unknown.

Under current town practices, sick time and accrued vacation is accounted for and maintained generally for employees outside town hall and the library, at the departmental level. When there is activity on a particular employee account, the information is transferred via the payroll process to the treasurer and accountant. However, the accountant has no record, nor the means to calculate, the total town liability for sick time and accrued vacation.

The maintenance of records at the departmental level represents good practice only if the practice is uniform, and if corresponding information is also retained in a centralized location,

i.e., with the accountant. Otherwise, checks and balances do not exist. The absence of a systematic procedure for maintaining these records can give rise to circumstances where an employee's claim of accrued sick leave and vacation time cannot be corroborated or challenged with credibility.

Therefore, as a matter of establishing internal controls, we recommend that finance director in cooperation with department heads, devise a process for identifying a centralized system for tracking accrued sick leave and vacation time town-wide.

RECOMMENDATION 8: LINE ITEM TRANSFER FORMS

We recommend that the finance director institute the use of line-item transfer forms by department heads. Department heads have, by design, virtually unfettered ability to move money between line items within the same general budget category (i.e., salaries, expenses, etc.). Moving available funds between categories (i.e., from a salary line item to an expense line item) requires town meeting approval. As long as the department head spends no more than the amount appropriated for the general budget category, no other approvals are necessary.

However, in North Reading, transfers are apparently frequent and not known to the accountant until the close of the fiscal year. A transfer request form would help the accountant track the reallocation of money and fulfill his responsibility to monitor town accounts. The information on the form would include the department head requesting the transfer and the date of the request, respective from-and-to account numbers, the amount and an explanation for the transfer. Transfer approval might require the signature of the accountant and the department head's division director.

The use of a transfer request form brings clarity to how town money is being spent. It encourages more precise budgeting at the department level and discourages managers from routinely under-budgeting some accounts while and over-budgeting others because he or she knows money can be moved around.

RECOMMENDATION 9: PREPARE FOR GASB 34 IMPLEMENTATION

We recommend that the accountant outline to the selectmen what action has been taken to bring the town into compliance with GASB 34. As a so-called "tier two" community, the town must begin implementation of the provisions of GASB 34 in FY03. Although much of the required new procedures are accounting-related, other departments are typically involved in developing an inventory of fixed assets which is a large part of the up-front preparation. It is our understanding that steps have been taken to bring the town into compliance, but the accountant should continue to coordinate other departments in this regard, report on progress made, as well as identify potential costs to complete the project.

INFORMATION SYSTEMS DEPARTMENT

Technology in the town of North Reading is the responsibility of an information systems department with a systems administrator (SA) as its sole employee. The SA served as a technology consultant to the town in the early 1990s, departed, and returned as a full-time employee in 1999.

The SA maintains the present inventory of 30 or so computers most of which are networked in town hall and others at the library, fire and police departments. The network system is supported by two Windows NT servers and a Unix server which is dedicated exclusively to the State CAMA system utilized by the assessors' office. According to the SA, most town hall department heads have recently received upgraded, email capacity and high-speed internet access. Only a few remain connected to the slower, dial-up service based in the school department. However, email capacity has not been extended to staff.

The SA purchases and installs hardware and software, and maintains the existing computer network. He also expends much of his time responding to computer issues at staff work stations, but typically defers programming or complex software issues to various vendors with whom the town has service support contracts. Data files created on the main server are automatically backed-up daily to disks which are stored off-site. The assessors back-up property and other files separately and desktop users are individually responsible for the security of their work products on local drives. Otherwise, the informational services department prints approximately 55,000 bills each year for quarterly real estate taxes, water charges and trash fees.

The town finance related offices rely on a mix of incompatible software applications. The accountant's general ledger, accounts payable and payroll software, developed by Lawrence Braverman, is not compatible with Point software used by the treasurer/collector. As a result, manual re-keying of data is frequently necessary. Although Quattro is the chosen spreadsheet application and Word Perfect is used as the primary word processing software for the town, some offices also use Microsoft Excel. With the exception of CAMA in the assessors' office, all versions are up-to-date. The most recent version of CAMA is installed, but awaits staff training before implementation.

The SA reports to the finance director and is comfortable with an annual appropriation which the finance director develops and shepherds through the budget process on his behalf. Although, the budget has historically included funds for training and education, the available amount has rarely been used in-full, and sometimes not at all. It appears that the SA periodically takes advantage of educational opportunities, but there is no program in place to train or refresh town hall staff in computer and software use. Other budgeted amounts, for capital outlay, fund software and hardware improvements and upgrades each year, but the appropriation is not always depleted. First among IS departmental needs, the SA cites more staff.

Conclusion - The information system department is a one-person operation. As such, the systems administrator is kept busy installing and maintaining network and computer components, software and hardware, as well as responding to the needs of individual users. As a result, he has little time to devote to an analysis of system and software performance, global issues, technology alternatives, or long term planning. A technology committee can help in this regard. In terms of available technology, restricting email access solely to department heads denies staff an effective tool that could help overcome the inefficiencies created by software incompatibility and network limitations.

RECOMMENDATION 10: EXPAND EMAIL CAPABILITY TO ALL STAFF

We recommend that the SA develop a plan to expand email capability to all staff. Because of the town's fragmented computer system and incompatible software applications, communication is significantly hampered. The absence of email capability for all staff is a further impediment to office and town hall efficiency. The inability to electronically transfer data between computer workstations (either in Point software or as Quattro Pro spreadsheets) means that information frequently travels in hard copy and requires re-keying upon reaching its destination. We note this situation particularly in the treasurer/collector's office where network limitations force manual entries by staff and manual data re-entry by the department head.

Expanding email capability to all town hall offices and to all staff would resolve these types of issues and put the town on par with the rest of the government world. Concerns about abuses can be addressed by adopting, distributing and enforcing policies to guide appropriate email use. Toward this end, we suggest the SA gather up-to-date information on email system expansion for the benefit of the town administrator.

RECOMMENDATION 11: CREATE A TECHNOLOGY COMMITTEE

We recommend the town form a technology committee. A technology committee can be a meaningful and objective contributor of information, analysis and insight for decision-makers as they grapple with computer and software issues. A technology committee can also serve as a resource for the town administrator, IS director and staff as they consider ways to enhance the town's computer capabilities. Its members can work with the IS department to produce a periodic report, or assessment, of the town's technology status. Such a report would serve as a useful tool to evaluate the performance of hardware and software in municipal departments, to identify and prioritize the need for upgrades, and to recommend the adoption of new technologies. The recommendations made or accepted from the report would then be incorporated into a long term capital planning program.

A technology committee might comprise only three or four members who have appropriate knowledge or work experience. The town might recruit members from the general population, but the committee could also be a mix of residents and town officials.

RECOMMENDATION 12: INITIATE A SOFTWARE COMPATIBILITY STUDY

We recommend that, as a first task, town administrator direct the technology committee to study, identify and document software compatibility issues. The rapid, reliable and smooth transfer of information and data between and among town offices is often critical to making effective decisions, to efficient government operations and to maintain the integrity of built-in financial checks and balances. Because of compatibility issues between the different software in use, particularly, by the accountant and treasurer/collector's office, manual re-keying of data occurs. At the very least, this slows the process and raises the potential for errors.

We recommend the committee also explore and report on alternative software solutions. Even where the present incompatibility issues may seem to be few, cutting edge financial management software offers a multitude of modules that can improve municipal operations in ways the town may not be aware of. Modules for budget formulation, purchase orders, fixed asset management and enhanced programs for accounts receivable and payable are worth looking at. At the very least, it is a valuable exercise to compare the capability of present software applications with packages currently on the market. Decisions on potential changes need not be immediately necessary, but planning for the prospects of a future conversion can take place.

RECOMMENDATION 13: INSTITUTE A LOG SYSTEM AND ASSESS COMPUTER PROFICIENCY AND PROVIDE STAFF TRAINING

We recommend that the systems administrator institute a log-in system for receiving work requests and assess the level of proficiency among town hall staff in computer and software use. According to the IS administrator a substantial amount of his time is spent responding to town hall staff requests for assistance. Through a log-in system the IS administrator can track the type of problems that arise. Whenever a request is made, the IS administrator should record the date of the request, person making the request, the nature of the problem and the time it took to resolve it. The IS administrator should also, formally or informally, survey staff to identify how each uses their computer, whether the available software accomplishes what they need, and what other tasks they would like to do.

From the combination of this information, the IS administrator should have a relatively clear picture of where training can help reduce calls on his time and increase staff proficiency on the software available to them.

ASSESSING DEPARTMENT

The assessing department is directed by a full-time, assessing manager with seven years in the position, and is staffed by an assistant to the assessor and a clerk, with 14 years and five months assessing experience, respectively. A three member, part-time board of assessors and the assessing manager are appointed by the town administrator, but the manager has dual reporting responsibilities to the board of assessors and to the town's finance director.

The office is on a computer network with the collector's office, and also uses Point, the collector's accounts receivable software, for limited purposes. Real property data is maintained on the State Computer Assisted Mass Appraisal (CAMA) software and personal property is on a Patriot system. The office also uses Quattro Pro, a spreadsheet application.

The department is responsible for identifying and valuing all the town's real and personal property with the goal to equitably distribute the tax burden. Therefore, up-to-date property information is critical. In this regard, the assessing department is effective in gathering information through the inspection of properties where abatements are requested (150 in a revaluation year), or where building permits are issued (average of 500-600 annually). Additional information is drawn from a 50± percent return from 150-200 sale questionnaires that are mailed to new buyers of properties each year. A lower percentage (30-40 percent) of commercial and industrial property owners return annual income and expense surveys despite a follow-up program involving two additional mailings.

Each year, the assessing manager analyzes property sale trends from sale questionnaire information, Multiple Listing Service (MLS) reports and from commercial and industrial rental data. His conclusions are instrumental in determining whether to make interim year property adjustments. However, with the exception of a triennial revaluation year, sale properties are not physically inspected. In preparation for the certification of values by the State every third year, the town engages Vision, as an outside contractor and most recently at a cost of \$75,000, to inspect sales and complete the revaluation analysis. Because of his greater familiarity with the CAMA system, the assessing manager develops tables, arrays and otherwise prepares data for use by the contractor.

Property information is also gathered from deeds when transfers occur, through tracking exemptions and abatements that the office issues, and as part of a "measure and list" inspection program of all properties which should be completed, at least, every 10 years. The department is toward the end of its current cycle which it hopes to conclude within the next three years. It has released a Request For Proposals (RFP) soliciting outside services to complete the measure and list program for which it expects to pay around \$150,000.

Among other responsibilities, the assessing manager generates new growth estimates, develops an annual overlay, and provides assessed value information for use in the Tax

Recapitulation Sheet which is submitted to DOR to receive approval of the local tax rate. He oversees the processing of boat and motor vehicle excise bills, and administers betterment assessments. Although current betterments are limited to 20 or so Title V assessments, the town faces the prospect of new sewer service for the former J.P. Berry industrial property, the Martin's Pond neighborhood and the industrial areas along Concord Street. When construction occurs, major betterment programs will follow.

Conclusion - The office is generally well organized, computer proficient and there is clear delineation of responsibilities between office personnel. According to the DOR Bureau of Local Assessment, it functions effectively. Keying on the depth of experience of the assessing manager in appraisal techniques and with the CAMA appraisal system, taking on new tasks and expanding his in-house role in carrying out the duties of the office is worth evaluating. Our recommendations focus on a few areas where this can occur.

RECOMMENDATION 14: EXPAND PROPERTY INSPECTION PROGRAMS

We recommend that the assessing manager inspect property sales. In between revaluation years, the assessing manager determines whether or not annual property value adjustments are warranted based on a review of sale questionnaires and MLS sale reports. In preparation for triennial state certification of property values, sale inspections are included within the contract for outside revaluation services. However, by initiating an in-house program to inspect sales throughout each year, the assessing manager can gain a more complete picture and more reliable measure of market trends on which to base adjustments. The sales inspections would contribute toward the completion of a longer-term cyclical measure and list program, and might provide a basis for rethinking the range of services contracted for in revaluation years.

As a rule, inspections should occur as close to the sale date as possible with property cards and sale questionnaires in hand. Often assessors set aside one day, or morning a week, for inspections and other field work.

We recommend the Assessors implement a cyclical, measure and list property inspection program. When property data is accurate and up-to-date, assessors are better able to meet their statutory obligation to value properties at 100% of full and fair cash value, and taxpayers are more confident in the reliability of their assessments. In its guidelines to cities and towns, BLA strongly recommends that a cyclical, "measure and list" inspection program be completed at least every ten years. Although the assessing manager expects to contract-out for services to complete the current measure and list program, the job might be brought in-house to start the next inspection cycle.

The assessing manager already organizes inspections of properties which are the subject of building permits as well as those identified in abatement applications. We made the above recommendation that in-house inspections of sale properties be initiated as well. By slightly

expanding the purpose of the visits, these inspections can be incorporated into the town's cyclical "measure and list" program.

Depending on the structure of a community's assessing department, cyclical inspections are completed by full or part-time board members, a full-time professional administrator, or by a data collector whether on-staff or hired as an independent contractor, who typically work on a flat fee or per parcel inspected basis. According to national studies conducted by the International Association of Assessing Officers, the number of property inspections that can be completed in a day typically falls in the range of 16-20 single family homes, 5-10 apartment buildings, 5-10 commercial buildings or 4-6 agricultural parcels.

RECOMMENDATION 15: CONSIDER COMPLETING TRIENNIAL REVALUATIONS IN-HOUSE.

We recommend the assessing manager consider completing triennial revaluations in-house.

Already, the assessing manager completes sale analysis and determines property value adjustments during years in between triennial revaluations and appears willing to conduct actual sale inspections in all years. Because he is well-versed in the CAMA software, he also prepares the data tables and arrays for use by the revaluation consultant during revaluation years. His professional background includes certifications and extensive experience in residential, as well as commercial/industrial appraisal. On balance, he is well equipped to consider taking on the task of completing triennial revaluations in-house.

To help make this decision, a cost benefit analysis examining the cost to contract-out for revaluation services compared to the cost in time, money and personnel to complete the job in-house would be useful.

RECOMMENDATION 16: PLAN FOR ASSESSING BETTERMENTS

We recommend the assessing manager, working with the collector, plan for the efficient implementation of betterment assessments. As the town approaches, for the first time, the assessment of betterments associated with new sewer projects, it would benefit from advance planning. Toward this end, we direct the town assessing manager and collector to the Division of Local Services' (DLS) publication Betterments and Special Assessments / Assessment and Collection Procedures located under "Publications and Forms" at the DLS website (www.dls.state.ma.us).

We would also advise the assessing manager and collector to speak with their counterparts in other communities which have successfully executed a betterment program and with some that have not. Questions relating to the substance and order of requisite actions by Town Meeting, Board of Assessors, assessing manager and collector will arise prior to the completion of the betterment project. Upon project completion, other issues will involve the commitment procedure, communication with property owners and record keeping. In any event, early

planning and agreement on the procedures necessary to an essential program can be critical to ensuring that the town recaptures, in a timely manner, its cost to provide municipal improvements.

RECOMMENDATION 17: PLAN TO SUBMIT INTERIM YEAR ADJUSTMENT REPORTS

We recommend the Assessing Manager plan to submit interim year adjustment reports.

Pursuant the state law provisions that local property assessed values must reflect full and fair cash value each year, beginning in FY05, the Bureau of Local Assessment (BLA) will require communities to submit interim year adjustment reports annually in all circumstances. Under current practice, the report need only be filed with BLA if assessors determine that changes in market conditions warrant adjustments to community property values as a whole and in excess of 10 percent. The new annual submission requires the assessors to show estimated adjustments of any amount to all classifications of property. For more details on this new policy, we direct assessors the BLA web site link located at www.dls.state.ma.us.

TREASURER/COLLECTOR DEPARTMENT

Although one person serves as town treasurer/collector, it is not a combined position. The treasurer is appointed by the selectmen for a one-year term, while the collector is appointed by the town administrator for an indefinite term. At the same time, charter language specifically excludes the treasurer from the finance division of government, but in practice, the treasurer reports to the finance director, and the finance director oversees the operation of the treasurer's office.

The current dual office holder assumed her duties in March 2002 following the 45-year tenure of her predecessor. The treasurer/collector arrived from ten years in the private sector, preceded by eight years as an assistant treasurer in another Massachusetts town. An experienced staff includes an assistant treasurer/collector with 13 years in the office, and three collector-side clerks, all of whom are full-time. Two of the three clerks have worked in the office 10 and 13 years and the third has 13 months of experience. Each has specific, well-defined duties and all are cross trained.

The collector's staff work on computer terminals which form a limited network with the treasurer/collector desktop unit. They utilize a currently updated version of Point financial management software for accounts receivable and to process municipal lien certificates. Although the user interface is neither DOS nor windows, it appears easy to navigate and satisfies, for the most part, the needs of the office. However, the system is not free from problems. Point is not compatible with the Lawrence Braverman software used in the finance director/accountant's office. The manual re-keying of data is still occurring and within the treasurer/collector's office, computer inter-dependencies exist. For example, the treasurer/collector's desktop unit must be powered-on for other computers to operate. Due to Point characteristics, all print jobs must originate from the printer in the treasurer/collector's private office. Once keyed-in, Point data is available to all computers in the office, but the network does not support Quattro Pro, so spreadsheets cannot seamlessly flow between computers.

The capability limitations of Point also precluded the town from implementation of a lock box system for collections. However, three tax services, which account for 75 percent of the real estate tax payments made to the town, purchased Point and reprogrammed their software to convert taxpayer data to a Point format. Payment information, received on disk, from the tax services is now uploaded directly into Point by the town's information services department. The remaining 25 percent or so of bill payments are received over-the-counter, or by mail, and are processed manually.

In general, the collector's office receives and processes payments for approximately 5,400 real and 415 personal property accounts, an additional 4,400 water bills and 4,000 trash bills each quarter, or 55,000 bills annually. All bills are printed by the informational services department

and prepared for mailing by participants in the senior work-off program. Otherwise, a handful of Title V betterment payments are received annually, and the town's deputy collector, Ryan & Kelly, manages the mailing of more than 13,000 motor vehicle excise bills each year. The deputy collector is also able to convert motor vehicle data to Point so that the commitment can be uploaded at the collector's office.

Office responsibilities are identified and procedures are in place to carry out the requisite collector and treasurer functions. Payments received over-the-counter and by mail are time-stamped and sorted. Cash draws are reconciled and revenue is deposited into the municipal bank account every day. Receipts are subsequently posted and 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 a Point module. Demand notices to delinquent taxpayers are sent and properties are efficiently moved along the tax title and foreclosure process. Currently, there are only about 60 tax title accounts. The office also receives payments of parking fines, but there is no record of outstanding parking tickets.

On the treasurer's side, operations are equally organized. Departmental turnovers are received in sealed cash bags accompanied by a turnover form with account numbers specific to the department. The treasurer's schedule of receipts is forwarded to the accountant regularly. The treasurer maintains a cash book on Quattro Pro and, taking advantage of on-line access to bank accounts, reconciles the cash book balances every few days. Parking ticket receipts and tax title accounts are also recorded and maintained on Quattro Pro spreadsheets.

In general, good communication seems to exist between the treasurer/collector and the finance director/accountant. Forms are used to convey information so that adjustments can be made for any refunds, cancelled checks, etc. Reconciliations of cash and receivables occur on a monthly basis.

Conclusion - The North Reading treasurer/collector and her staff effectively meet the duties and responsibilities of the office. Consequently, our recommendations are few. The office should abandon practices that include maintaining manual records. It should argue its case for a more practical network between and among its computers. Finally, it should explore implementing a process that allows the tracking of outstanding parking tickets.

RECOMMENDATION 18: CEASE MANUAL ENTRIES OF RECEIPTS

We recommend that the treasurer/collector cease to maintain a manual log of receipts. Currently, all treasurer's receipts are manually recorded in a bound book by a staff member. The book is then physically passed to the treasurer/collector who re-enters the receipts into a Quattro Pro spreadsheet which functions as the treasurer's cash book, a required record.

Whenever re-keying of data occurs, the efficiency of operations suffers and likelihood of input error increases. In the alternative, staff can enter data directly into Quattro Pro, but have limited means to transfer the information to the treasurer/collector. Because the treasurer/collector's desktop computer is not fully networked with staff terminals, the data cannot be placed on a shared hard drive. Sending the data by email would be an option, except that department heads have email capacity, but staff do not. Until computer issues are addressed, we recommend that treasurer/collector formulate a procedure for staff to enter receipt information directly into the Quattro Pro cash book spreadsheet and use a floppy disk to transfer the information to the treasurer/collector.

This is not the optimum solution, but it represents a step forward from manual entry and re-keying of data. In any event, the treasurer/collector should ensure that data back-up procedures are in place to protect information on local drives.

RECOMMENDATION 19: ADDRESS COMPUTER ISSUES

We recommend that the town address computer issues in the treasurer/collector's office. Our purpose here is to underscore the importance of efficient computer operations and to support the effort now underway to resolve issues in the treasurer/collector office.

Currently, unless the terminal in the treasurer/collector's private office is running, no other office computer can boot-up. When the treasurer/collector's computer shuts down, all office computers follow suit. For unknown reasons, outer-office computers will not communicate with local printers. All print jobs must be sent to the printer situated in the treasurer/collector office. The staff does not have the ability to print duplicate bills, or to print from a screen when using the Point software. Office computers do share the Point software, but as noted earlier, no shared drive allows multiple access to Quattro Pro spreadsheets.

While these are office related problems, we recognize that some may require global solutions. To the extent possible and with minimal capital investment, expanding proficiency of the treasurer/collector's office through computer upgrades or email capacity, should be a priority.

RECOMMENDATION 20: ESTABLISH A PROCEDURE TO TRACK PARKING TICKETS

We recommend that the treasurer/collector implement a procedure to identify and track outstanding parking tickets. The treasurer/collector, who was recently appointed parking clerk, only becomes aware of parking tickets when fines are paid. Although receipts indicate that this is not a large revenue source, the town has no information relative to the number of parking tickets which remain outstanding. By statute, an unpaid \$15 fine increases to \$20 after 21 days, and then to \$35 after an additional 21 days. Failure to pay two or more tickets results in notification to the Registry of Motor Vehicles not to renew the driver's license. Currently,

because of the absence of records, if a violator comes to town hall to pay a ticket, there's no way to determine whether or not he or she has other outstanding tickets.

The treasurer/collector should work with the Police Chief to agree on a procedure where the third copy of every parking ticket issued is delivered to the parking clerk. The ticket information should be logged into a spreadsheet application. The treasurer/collector should also explore how best to obtain driver information from the registration plate number entered on the ticket.

ACKNOWLEDGEMENTS

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