



Town of Pepperell

Financial Management Review

Division of Local Services / Technical Assistance Section

April 2013



April 10, 2013

Board of Selectmen
Town Hall
One Main Street
Pepperell, MA 01463

Dear Board Members:

It is with pleasure that I transmit to you the enclosed Financial Management Review completed by the Division of Local Services for the Town of Pepperell. It is our hope that the information presented in this report will assist the town in improving its financial management practices, addressing areas of concern and meeting its long-term planning needs.

Our technical assistance team welcomes the opportunity to present the report to the board of selectmen at a public meeting. As an added service, we are willing to meet with staff, earlier on the same day, to discuss implementation of the report recommendations.

As a routine practice, we will post the completed report on the DLS website, www.mass.gov/dls, and forward a copy of the report to the town's state senator and representative.

If you have any questions or comments regarding our findings and recommendations, please feel free to contact Rick Kingsley, Bureau Chief of the DLS Municipal Data Management and Technical Assistance Bureau at 617-626-2376 or at kingsleyf@dor.state.ma.us.

Sincerely,

Robert G. Nunes
Deputy Commissioner &
Director of Municipal Affairs

cc: Senator Eileen Donoghue
Representative Sheila C. Harrington

Introduction

At the request of the board of selectmen, the Department of Revenue's Division of Local Services (DLS) completed a financial management review of the Town of Pepperell. The recommendations contained in this report are based on site visits made by a team from the DLS Technical Assistance Section and consultations with the Bureau of Accounts and Bureau of Local Assessment.

The scope of the review focused on the town's financial offices and the practices, procedures and policies that guide municipal decisions. We examined the duties and responsibilities of finance officers and the degree of coordination and communication that exists among the various boards, committees and officials involved in financial management. We comment on the effectiveness of financial checks and balances and on compliance with state laws and regulations that govern fiscal matters. The municipality's technology condition was assessed, and the impact of organizational structure on financial operations was evaluated.

To complete the report, we interviewed and received information from members of the board of selectmen, the town administrator, town accountant, treasurer/collector, assistant assessor, and others. A full list is provided on the Acknowledgments page at the end of this report.

Also included as part of our review, we gathered and examined information from various documents, including the Tax Recapitulation Sheet, Schedule A, balance sheet, and Pepperell's annual budget, warrants payable, revenue and expenditure reports, and reconciliation reports. We reviewed town bylaws and locally accepted statutes, the outside audit report completed by Guisti, Hingston & Company, and the independent credit rating report by Moody's.

Table of Contents

Overview	4
Overall Financial Management	8
1. Define a Strong Town Administrator in the Charter	8
2. Formalize the Budget Process in the Charter with the Town Administrator as the Lead	9
3. Conduct a Substantive Review of the Town Code and Bylaws	10
4. Revitalize and Formalize the Capital Improvement Program	11
5. Formulate an OPEB Funding Plan	12
6. Establish Formal Financial Policies	13
7. Establish an Indirect Cost Agreement for the Enterprise Funds	14
8. Accept Local Option Statute to Create Town Collector	14
9. Transfer Water and Sewer Collections to Treasurer/Collector	15
10. Establish Policy for Personnel File Maintenance and Access	15
11. Process Payroll and Vendor Warrants Biweekly	16
12. Establish Town-wide Standards for Leave Accruals	16
13. Address Audit Issues	17
14. Centralize procurement of Office Supplies	17
Treasurer/Collector	19
15. Revise Deputy Collector Procedures	20
16. Revise Turnover Procedures	21
17. Organize Tax Title Accounts	21
18. Increase the Use of Bill Scanners	22
19. Discontinue Posting Payroll Withholdings as Receipts	22
Assessors	24
20. Implement BLA Recommendations	25
21. Require Digital Submission of Plans	25
Accountant	26
22. Increase Admins Proficiency	27
23. Expand and Enhance Financial Reporting	27
Department of Public Works	29
24. Establish Direct Reporting Relationship between Town Administrator and DPW	31
25. Track Betterment Revenues as Part of Retained Earnings	31
26. Set Water and Sewer Rates in the Spring	31
27. Establish a Standardized Process for Usage Abatements	32
28. Present Enterprise Fund Budgets to Town Meeting in Separate Warrant Articles	32
Information Technology	34
29. Consider Options for Increasing Software Integration	34
30. Adopt Formal Technology Policies and Procedures	35
Appendix	37
Acknowledgments	38

Overview

The Town of Pepperell is a community situated in the northwest corner of Middlesex County on the New Hampshire border. The Nashua River runs through Pepperell, and its namesake city lies just beyond the town's northeast border. The town limits encompass 23 square miles and border the communities of Dunstable, Groton and Townsend in Massachusetts, and Brookline and Hollis in New Hampshire. Its proximity to a medium-sized city has not had a spillover commercial effect on Pepperell. Only six percent of the town's property is categorized as commercial or industrial, placing the principal tax burden on its residents.

According to the latest US Census data, Pepperell's population was 11,497 as of 2010. Its population effectively doubled during a steady incline from 1970 (5,887) to 2000 (11,191), but the growth rate has slowed in the past decade. Wealth also increased during this time, at a rate that was average for the state. The town's per capita figures for income (\$32,346) and equalized valuation (\$105,572) are both below the state averages of \$34,330 and \$149,014, respectively. The town's average single-family tax bill, \$4,190, is likewise lower than the \$4,870 average statewide. Among peer communities in the region, Pepperell tends to fall in the mid-point range relative to overall budget, average single-family tax bill, per capita income, and per capita EQV. Its combined free cash and stabilization balance is also comparable to the similar towns. Pepperell deviates most from its peers in the amount of debt and debt service, which are significantly lower. This report's appendix contains a table presenting Pepperell's characteristics along with those of its peer towns.

Pepperell provides the array of services and amenities commonly found in moderately well-off communities in eastern Massachusetts. It has full-time police, fire and emergency medical services, a library, a senior center, and recreation programs and parks. Its public works department provides water and sewer utilities as well as other services. Pepperell partners with the towns of Ashby and Townsend to provide K-12 education through the North Middlesex School District.

Factoring the annual expenditure for the regional school district poses the greatest budgetary challenge for the town. As the largest and wealthiest of the three partner communities, Pepperell is obliged to contribute the largest portion of the district's budget. However diligently and responsibly Pepperell officials attempt to account for the school's share within the town budget, they have confronted significant uncertainty around the regional school assessment. During the FY13 budget process, the regional school committee initially approved a budget that required very large increases to the assessments to the member towns. After override votes in the towns

failed, the school committee revised the budget downward, but the associated assessments still required a moderate override (\$375,158) in Pepperell.

In planning for the FY14 budget, proposed changes at the state level have greatly increased the town's required minimum local contribution to education. In contrast, the other member towns experienced decreases in their minimum contributions, resulting in Pepperell shouldering an increasing portion of the regional school budget. If not for the cooperative attitude of the new school superintendent, school committee and other member towns, the impact to Pepperell's finances could have been even more detrimental. Even so, with Pepperell's assessment increasing by \$470,000, the regional budget is barely larger than it was in FY13 due to the decreasing contributions of the other towns.

As reported to DOR on the Tax Recapitulation sheet, the town's budget for FY2013 is \$24,800,344. Roughly 65 percent of the budget is funded through the tax levy, 25 percent from local receipts, and 5 percent from other sources. Only 5 percent of the town's budget came from state aid because Chapter 70 education funds are distributed directly to the regional school district. Even so, educational costs represent Pepperell's largest general fund expenditure category at 62 percent. The rest is spent on public safety (12 percent), fixed costs (8 percent), public works (5 percent), general government (5 percent), and debt service (2 percent). A combination of culture, recreation and human services make up the remaining 5 percent.

Pepperell's certified free cash balance as of June 30, 2012 was \$1,041,622 or 4.29 percent of the total budget. At the same time, the town had another 2.68 percent of the budget (\$651,156) in a stabilization fund at the close of FY2012. Total reserve balances, however, have decreased over the last few years. Since its peak in 2008 at \$3.6 million, the total combined balance has declined by 53 percent, though it has been rebounding since FY2011. Still, while refinancing its debt last year, the town was able to retain an upper-medium Aa3 credit rating by Moody's, whose March 2012 report cited its adequate reserve levels and moderately-sized tax base.

Deteriorating reserves became a common circumstance throughout Massachusetts in recent times, as communities sought to balance budgets and retain adequate services with less state aid and local revenues. For Pepperell, this necessitated some layoffs and reduced staff hours at the height of the recession. Since then, personnel hours have stabilized, and there has been some growth in revenues, as evidenced by the rising free cash balance in the last two years.

Concurrent with this time period, however, the town experienced significant turnover in the accountant position. Between 2008 and 2012, this role was filled at different times by three appointed accountants, a consultant under contract, and the town's outside auditor. The results included inconsistent financial analyses and diminished budget input.

In response, the town's finance committee assumed a greater role as the primary formulators and analysts in the budget process. While in context, this is a justifiable course of action, it is also a deviation from the more contemporary finance committee role as budget reviewer and watchdog for town meeting. The finance committee's leadership on the budget addresses a need, but its detailed approach does not present the best model in a community that employs a town administrator.

The town administrator as presently defined in Pepperell has never been given explicit authority over the budget process nor broad management oversight over town departments. The lack of a formal framework integrating town departments into a vertical structure with centralized management oversight hinders the coordinated execution of the goals set by policymakers. The incumbent town administrator is widely respected due to his years of experience and his professional management acumen. But the absence of any direct control over most departments means that he must steer government by seeking buy-in from multiple elected and appointed officials. Though mostly out of view, this process can consume an inordinate amount of time and energy.

As an ongoing matter, the flat, independently-functioning bureaucracy in Pepperell has resulted in a pattern of obstacles and errors that could have been avoided with better coordination and communication. Information technology has not been well organized, resulting in a range of incompatible software applications. The annual budget process has been more convoluted than necessary. Errors have been made in appropriation authorizations. Financial reporting between the public works department's enterprise fund divisions and the accountant's office has not been well managed.

Fortunately, the town is on the cusp of a potential evolution in its governance model. In April 2012, a nine-member commission was elected under the Home Rule Act for the purpose of formulating Pepperell's first town charter. To this point in time, Pepperell's town government has operated pursuant to a mix of state statutes and local bylaws that define administrative and fiscal procedures and the responsibilities of officeholders. Analogous to a municipal constitution, a charter is the means preferred over bylaws for defining government structure to achieve long-term organizational continuity and stability. The charter commissioners have been meeting bimonthly since May 2012, and it is our understanding that they are close to completion of a draft charter proposal. The commission will seek feedback on the draft from various parties before finalizing a proposal to be presented for consideration by town meeting this fall.

Pepperell has reached the point where the status quo is no longer sufficient to govern the town well. The framers of the charter have the opportunity to create a document that will enable the town to institute structural changes to help meet its long-term goals of improved management and operational efficiencies. In writing the charter, the commissioners will consider how best to define relationships among officials, boards and commissions, assign responsibilities, and strengthen accountability.

Despite the inefficient government model, the town administrator has been able to accomplish much. While he does not orchestrate the budget process, over his tenure, he has played a significant role in the town's reduction of what had been a sizeable structural deficit. Key to this turnaround were his financial analyses and advice to the finance committee and his productive discussions with department heads and unions that gained their cooperation in cost containment. In another recent accomplishment, having identified the extensive labor hours needed for processing weekly payroll in-house, he completed a search and bidding process to hire a payroll vendor, which will pay dividends in work productivity. Besides that, in the year just passed, he was also able to convince all departments to conduct performance reviews of personnel from managers to line staff. This program was particularly timely given the extensive transitions taking place in many positions. In the past three years, the town hired a new accountant, assistant assessor, DPW director, water and sewer superintendent, systems administrator, and assistant treasurer.

On balance, the town's finance offices are effective in completing routine, recurring tasks. The staff is capable and competent, and individual responsibilities are clear. However, there are issues. Among them, the annual budget process moves forward, but primary responsibility should be placed in the town administrator. The capital improvement program should be formalized and more consistently funded. The town would benefit from the adoption of policies that address retirement health insurance obligations, the use of reserves, and enterprise indirect costs. In the following sections of the report, we make recommendations on these and other areas.

Overall Financial Management

Pepperell's local government operates pursuant to provisions laid out in its town code and bylaws, whose purpose is to define the responsibilities of officeholders and summarize procedures. However, these provisions fall short in terms of detailed content on town offices. They provide little information to the public on how government is structured and how it operates. As the executive branch of government for the Town of Pepperell, the board of selectmen is also its chief policymaking body. The selectmen appoint a town administrator to oversee day-to-day government operations. However, the town administrator as currently empowered is not a strong position. The town's financial officers include a town accountant, a treasurer/collector, and an assistant assessor. The town has a consolidated department of public works managed by a director. A systems administrator manages most of the information technology of the town.

Typical of communities this size, legislative power is vested in open town meeting. To advocate for the interests of town meeting, the bylaws established a finance committee consisting of seven members appointed by the board of selectmen. A capital program committee manages the town's capital improvement program.

In the recommendations that follow we propose structural, administrative and procedural modifications to improve town government.

Define a Strong Town Administrator Position in the Charter

We recommend that the charter commissioners write a provision to define a strong town administrator with well-defined responsibilities. In framing the article, they should carefully consider the vital role that a town administrator can play in bringing focus to financial management and centralized decision-making. DOR's bias in favor of a vertical organizational structure derives from observing the collective experience of Massachusetts municipalities. Over time, a central management presence has emerged as the best way to promote accountability in government. Equally important, towns having charters with well-defined town administrator duties and powers are the most attractive to potential professional job seekers.

To enable the town administrator to function as the chief operations and financial officer, a charter article would assign the position the following responsibilities:

- Oversee day-to-day operations and coordinate interdepartmental projects.
- Appoint all department heads and exercise line management oversight of them. Boards that are associated with departments would continue play statutory, policy and advisory roles within this framework. Presently, the town has two full-time positions that are

elected, the clerk and the treasurer/collector. Therefore, full centralized management can only be established by charter articles defining these as appointed positions.

- Complete multiyear revenue and expenditure projections, and develop the town's operating and capital budgets.
- Develop fiscal planning, revenue and expenditure policies for approval by the board of selectmen and finance committee.
- Act as chief procurement officer to coordinate the purchase of all supplies, materials and equipment for the town.
- Administer the town's personnel policies.

Formalize the Budget Process in the Charter with Town Administrator as the Lead

We propose that a town charter define the budget process and assign responsibility for its development to the town administrator. As the full-time professional regularly interacting with town departments, it makes the most sense that the town administrator coordinate and formulate the initial annual budget. The position affords the officeholder the perspective necessary for understanding the true needs of departments in context with long-range town-wide goals.

Particularly in recent times, the budget process in Pepperell has been orchestrated essentially from start to finish by the finance committee. Contributing to this situation were the town administrator's lack of formal budgetary authority, multiple turnovers in the town accountant position that disrupted financial reporting, and the fiscal constraints imposed by the general economic recession. To a certain degree, the extent of the finance committee's activities and sway in the process also resulted in a diminished budgetary influence for the board of selectmen. The recent committee members are to be commended for their dedication and astuteness, but as volunteers, the time commitment associated with their involvement must also be reassessed to avoid the high rate of membership turnover experienced in the last few years.

The drafting of the charter presents the opportunity to formalize a new budget process paradigm, one that posits the town administrator as its chief engineer. In this model, the board of selectmen and finance committee sustain their vital policymaking roles, and can focus on larger budgetary issues and the advancement of overall town goals. The new budget process should emphasize an early start, a consensus on revenue and expenditure forecasts, and a linear process. As guidance for a budget process model, we offer the following:

- In the early fall, the town administrator initiates the budget process by providing projections of revenues and of fixed costs to a joint meeting of the selectmen, finance committee, and school committee. A consensus on the projections is recorded. The town administrator sends budget guidelines and solicitations for budget requests to all town departments.

- After receipt of appropriation requests from all departments, the town administrator meets with department heads to discuss their needs. Upon updating revenue estimates and making any changes to departmental requests, the town administrator prepares a balanced budget proposal for selectmen approval. After review and potential alteration by the selectmen, the budget proposal is passed on to the finance committee.
- The finance committee now controls the budget. The committee reviews revenue estimates and meets with department heads, while considering the town finances objectively without external pressure. Adjustments are considered in response to state budget proposals and any estimate updates by the town administrator. By early April, the finance committee reviews its final budget recommendation with the town administrator, and upon agreement, posts or publishes it for the public and town meeting.

This budget model helps to provide the administrative and analytical support the selectmen and finance committee need to formulate and implement coordinated financial policies. Throughout the budget process, communication among the parties must be ongoing. Discussions would typically involve adjustments to revenue projections, compliance with pre-established fiscal policies, changes in the use of reserves, reordering of priorities, and any deviations from agreed-upon guidelines.

Conduct a Substantive Review of the Town Code and Bylaws

As a follow-up to the work of its charter commission, we recommend that Pepperell conduct a substantive review of its town code and bylaws. Communities establish an administrative code or set of bylaws to define and describe government structure, appointing authorities, procedures and local prohibitions. When a municipality has a charter, the bylaws serve as a supplement, filling in further details with fewer hurdles for revision should circumstances warrant. While most municipalities assemble this information in either a code or as bylaws, Pepperell is unusual in spreading this content into various documents under both names. The primary document is the 83-page Code of the Town of Pepperell. Per the town's website, there are also nine self-contained bylaws on individual topics, such as snow removal, open burning, wetlands protection, and personnel administration.

Collectively, the current code and bylaws offer only scant information on the duties of town offices, appointing powers and policies. Despite being renumbered in 1987, much confusing and extraneous formatting remains. The code is subdivided in descending order into Divisions, Parts, Chapters, Articles and Subsections. It begins with "Division 1: Town Meeting Enactments," but, oddly, there are no subsequent divisions. Also, at the front of the document is a table of contents of the parts, chapters and articles. Then within each chapter there are sub-tables of contents, repeating the articles and enumerating their subsections. Also inserted within the chapters are

references to citations that have been amended or deleted. This complicated formatting can have the effect of blurring comprehension and undermining confidence in government.

We recommend that the board of selectman establish a committee to review the town code and bylaws, and eventually integrate them into a single document. Three to five members comprising a mix of residents and town officials would work best. It should be charged to recommend the articles to retain, revise or discard in light of the new charter, and to draft proposed additions also. For guidance, it could examine the bylaws of other towns and should seek input from residents, employees and officials through public hearings. A one-year timetable should be anticipated for completion of this work, and the revised code will require approval by town meeting and the state attorney general.

Revitalize and Formalize the Capital Improvement Program

Pepperell's general bylaws provide for a capital program committee (CPC) comprised of the town administrator, the treasurer/collector, a finance committee member, and two selectmen appointees. Beyond charging the committee to be "responsible for long-range planning of capital needs in the town," the bylaws provide no other capital program guidance. Neither have any formal capital policy and procedures been developed. While the group meets annually during budget season to review capital requests from departments, in recent years, the town has deemphasized capital improvements due to declining resources. Therefore, the committee's work has resulted in little more than a capital item wish list.

So that critical infrastructure needs do not become neglected, we recommend establishing capital procedures that set clear expectations, standards and spending priorities for the benefit of present and future decision makers. To be most effective, they should include the following:

A complete and detailed capital asset inventory. The CPC should assemble an inventory of all buildings, equipment, roads, and utilities in town. Data for each asset should include the dates built, acquired or last improved, original cost, current condition, depreciated value, extent of use, and any scheduled replacement or expansion dates.

Process for annual capital assessment. This would include the format and data requirements for departmental requests, review of the requests, the status of existing projects, sequence of approvals, final recommendation, and a timetable for the completion of each step.

Capital criteria standards. These are typically based on two factors: useful life and dollar expense thresholds (e.g., five years or more, \$10,000 or greater). Any project or purchase failing to meet either threshold must be funded through a departmental budget line item.

Objective ranking system. All the capital proposals should be comparatively assessed using objective guidelines to ensure that town-wide needs can be prioritized. The CPC should

weight urgency based on factors such as public safety, legal requirements, availability of matching funds, and the future cost impact of deferred maintenance.

Long-term forecast. Through discussions with department heads, the CPC should acquire the information necessary to develop a five- or ten-year projection of capital needs. Vehicle replacements, road improvements, and facility repairs all lend themselves to a long-term schedule. With estimated costs included, a clear picture will emerge.

Town meeting presentation. An annually updated, formal report of capital needs with the CPC's prioritized recommendations, including items deferred due to resource constraints, should be presented to town meeting to keep residents informed. Capital needs are ongoing throughout town and should be considered as an annual budget expenditure.

With a comprehensive capital program shaped by clear, consistent standards and spending priorities, the town can more effectively direct funds to identified needs and make strategic plans based on explicit long-term goals. With a plan on hand, the CPC will be better equipped to determine funding levels and sources. Once the committee decides on all aspects of a comprehensive capital program, we recommend that officials formalize the process in the town bylaws for the benefit of current and future decision makers. For more information on the capital planning process, refer to the workbook, "Developing a Capital Improvement Program," on the DLS website. Go to www.mass.gov/DLS. Click on MDM/TAB, and then click on Financial Management Assistance, and on Publications and Other Useful Links.

Formulate an OPEB Funding Plan

By its membership in, and annual payments to, the Middlesex County Retirement System, Pepperell has established a consistent, ongoing means to fulfill its pension obligations. However, the town must also be concerned with its non-retirement commitments for current and future retirees. Known as Other Post-Employment Benefits (OPEB), these commitments generally take the form of healthcare and other insurance premiums, which are not covered through the county system. As of June 2011, Pepperell's OPEB liability was calculated to be \$7.4 million. This figure does not include the town's portion of OPEB responsibility for North Middlesex Regional School District employees, a projection that is yet to be calculated.

To begin to address the issue, in May 2010, town meeting voters approved an article establishing an OPEB trust fund, although as yet, no funds have been appropriated to it. Historically, Pepperell, like most other communities, has merely paid for OPEBs on a pay-as-you-go basis (i.e., as line items in annual budgets) with no formal policy for addressing the totality of the unfunded liability. With their OPEB fund now established, we recommend the town formulate plans for allocating funds toward this sizeable liability. Given the slow general economic recovery, we advise initially taking an incremental approach, depositing modest, affordable

amounts. Then, as the improvement continues, the town can decide what additional revenue could be allocated to the fund. Below are three funding options that the town could consider:

- Appropriate to the OPEB trust a sum equal to the annual Medicare Part D federal reimbursement it receives from the federal government.
- Conservatively estimate the town's annual healthcare costs and appropriate a sum equivalent to any monies saved.
- Reinvest OPEB funds with the State Retiree Benefits Trust Fund established in M.G.L. c. 32A §24.

The following links from the Office of Administration and Finance's webpage provide further guidance about the State Retiree Benefits Trust Fund and OPEB issues generally:

<http://www.mass.gov/anf/srbtf.html>, <http://www.mass.gov/anf/opeb-commission.html>

Establish Formal Financial Policies

To promote fiscal stability and reinforce internal controls, we recommend that Pepperell formulate a set of formal financial policies. Besides providing guidance to officials on responsible and effective management, a comprehensive set of financial policies can have the added effect of boosting the town's credit rating. Already, the treasurer/collector has written draft policies on debt and investments, but there are other areas that are appropriate for formalizing in policy as well.

With input from financial officers and the finance committee, the town administrator should develop financial policies and submit them to the board of selectmen for review and approval. In general, we advise communities to establish formal policies covering the following areas:

Revenue Policies. Identify revenue sources, and promote diversification, conservative estimates and sustainable increases.

Fees and Charges. Stipulate the legal basis for establishing fees and charges, the methods by which they are set, the extent to which costs are recovered, and the requirement for periodic reviews through costing studies.

Use of One-Time Revenues. Promote consistent, prudent practices for the management of various one-time revenues, including free cash. The policy should preclude using these types of revenues to fund recurring expenditures.

Reserves and Stabilization Funds. Endorse the practice of appropriating money annually to legal reserves for future needs and identify potential extenuating circumstances for which reserves may be used.

For further guidance, we encourage the town to review sample policies from other communities to help determine what would work best for Pepperell. Additionally, the Government Finance Officers Association's website has many useful links on policy planning, www.gfoa.org.

Establish an Indirect Cost Agreement for the Enterprise Funds

The DPW's water, sewer and trash enterprises rely on other town offices for some services, which imposes reimbursable costs to the general fund. For example, the treasurer/collector and accountant make weekly bookkeeping entries related to the revenues or expenses of the enterprises. Enterprise operations are also supported by the systems administrator. While the water and sewer enterprise budgets list line items for these indirect costs, there is no basic understanding or agreement on how the amounts are arrived at. To ensure accuracy, consistency and fairness, we recommend that the town develop formal indirect cost agreements for each of the enterprise funds.

To start, the town administrator should direct the accountant to develop a formula for calculating the enterprise funds' indirect costs to the general fund. He should begin by querying all town staff connected to the enterprise funds as to the administrative hours they spend working on them. With these hours and associated percentages of salaries determined, he should take care to also factor all other related costs, like town hall office space and software licenses, into the formula to calculate the true sum of the cost to be recovered from users. The resulting formula should be reasonable to produce a fair and consistent annual payment to the town. Once approved by the board of a selectmen and the DPW board, the formula should be incorporated into a formal, written indirect cost agreement that the parties should review annually.

In addition, we recommend that the accountant modify the method he uses to account for these indirect costs. Currently, the indirect costs are not set up as a combined portion of the enterprise funds' budgets. Instead, they are listed as several line-item accounts in the water and sewer enterprise budgets, and throughout the year, the accountant bills the DPW for these costs. A far easier practice would be to follow the guidance of the DLS Bureau of Accounts (BOA) and budget them on the Schedule A-2 as "Costs Appropriated in the General Fund." Then the accountant would only need to make periodic adjusting entries to bring enterprise revenues into the general fund. For more information, see BOA's manual on enterprise funds at <http://www.mass.gov/dor/local-officials/accountant-info/accountants-corner/>

Accept Local Option Statute to Create Town Collector

We recommend that town meeting accept the local option statute to convert the treasurer/collector position to the status of a "town collector". Presently, the office is only authorized to collect real and personal property taxes, excises, betterments, and other charges added to and

committed as taxes. In order to receive payments for any other monies owed the town, a vote of town meeting must be taken to designate the position as a “town collector” in accordance with M.G.L. c. 41 §38A. This recommendation must be adopted before the following recommendation can be implemented.

Transfer Water and Sewer Bill Collections to the Collector’s Office

After Pepperell creates a town collector position, we recommend that it transfer responsibility for water and sewer collections from the DPW to the treasurer/collector’s office. Currently, DPW employees carry out all the processing tasks associated with the town’s water and sewer accounts. An employee stationed at the water department building assigns amounts due on the accounts and transfers the resulting water and sewer commitments to an employee at town hall. The town hall clerk mails bills, receives and posts payments to the DPW’s accounting software, and turns receipts over to the treasurer/collector’s office.

Pepperell’s acceptance of M.G.L. c. 41 §38A, as recommended above, would allow the treasurer/collector to collect all monies due the town, including water and sewer charges. Subsequently, the DPW would create and forward commitments to the treasurer/collector, who would upload them to a receivables module in the utility management software application. The department’s staff would post payments there as they are received. With this shift in operations, the treasurer/collector would also assume responsibility for pursuing past-due utility accounts.

Shifting water and sewer collections provides a stronger check and balance than is present when the commitment and collection of fees are both handled within one department. The adoption of this recommendation will increase the workload of an already under-staffed treasurer/collector department, however. To balance out the load, we also recommend that some DPW staff, or at least a portion of their hours, be transferred to the treasurer/collector department.

Establish Policy for Personnel File Maintenance and Access

We recommend that Pepperell officials establish a formal, town-wide policy for the maintenance of personnel files that sets standards for physical security and access authorizations. In Pepperell, files containing documents related to employment eligibility are maintained in the selectmen’s office, while folders holding benefit-related documents are kept in the treasurer/collector department. In addition, some department managers internally maintain personnel action files for their employees. While this decentralized arrangement seems to work for Pepperell, to mitigate the risks of improper disclosure or data loss, the town must assure that the new policy applies to files stored in all three areas.

File folders should be kept in file cabinets that are locked during off hours and located in areas that are inaccessible to the general public. If not too costly, the documents could be scanned to computer storage and included in the usual data back-up routines. The new policy should also reference privacy and data breach reporting requirements outlined in M.G.L. c. 93H. Finally, the policy should specify which employees and officials are authorized to access personnel files.

Process Payroll and Vendor Warrants Biweekly

We recommend that the town process payroll and vendor warrants on a biweekly basis in line with the schedule of the selectmen's meetings. This system will help reduce paperwork, simplify reporting, and more easily coordinate authorizations. But more importantly, its efficiencies will significantly reduce pressure in the treasurer/collector's and accountant's offices where staff hours have been cut.

The move to a two-week warrant schedule should not pose risks to paying vendors beyond the required 30-day standard provided that departments submit timely invoices to the accountant. And by consolidating any multiple invoice payables that were received and posted for the same vendors in the two-week span, fewer checks will be generated.

The greater efficiency impact will be felt on payroll processing, which is presently a very time-consuming task. While it takes no additional effort for departments to report two weeks of work and leave hours versus one, a biweekly system would eliminate substantial amounts of processing work in the financial offices every other week, allowing more time for completing other important tasks. The accounting, cash flow, and productivity benefits associated with biweekly payroll are well established, making it the most common payroll standard in the public and private sectors. The town has been considering a move to biweekly payroll and should commence collective bargaining sessions with its unions.

Completing both warrants biweekly will make it easier for the selectmen to sign them to ensure compliance with the state law requiring that payroll and vendor warrants be approved by selectmen before check issuances. It is our understanding that the payroll direct deposit file sometimes goes to the bank on Monday afternoons prior to receiving selectmen signatures. Delaying the file transmission until Tuesday morning after being duly authorized by a majority of selectmen should not interfere with timely receipt of employee pay during the same week.

Establish Town-wide Standards for Leave Time Accruals

Terms of employment for various categories of town employee are dictated by four union contracts and by the personnel bylaw. Among these, there is significant variation in the rules for earning and using leave time, like sick and vacation. This can impact the morale of union and

non-union employees if people think that there is a lack of fairness. We recommend that the town administrator examine the leave time accrual terms for all full- and part-time employees. Then, as each contract renewal comes up, employ the collective bargaining process to work towards a standard set of town-wide accrual terms. Obviously, these standardized terms would then also need to apply to non-union employees as well.

Address Audit Issues

We recommend that the town administrator devise corrective action plans in response to weaknesses identified in the independent auditor's annual management letters. The purpose of an audit management letter is to communicate deficiencies and weaknesses that could pose risks to the integrity of financial reporting if left unaddressed. It therefore can be a powerful management tool to guide proactive measures for improving financial controls. In the last-issued management letter (for FY2011), Guisti, Hingston & Company presented 10 weaknesses, some of which were unresolved issues carried forward from prior years. On an annual basis, the town administrator should work with the finance team to develop corrective action plans for each identified weakness, indicating what steps will be taken, who will be responsible, and when actions will be completed. He should also monitor implementation and periodically report on progress to the selectmen and finance committee.

Pepperell has contracted with Guisti Hingston to conduct annual audits for about 10 years. While staying with one auditor over multiple years promotes continuity and minimizes disruption of everyday activities, the Government Finance Officers Association recommends that towns change their outside auditor every five to eight years. Doing so provides fresh perspective and fosters long-term independence. We therefore also advise Pepperell to solicit proposals from multiple firms for the next fiscal year.

To maximize the value of the audit service, town officials need to be informed of deficiencies timely to take prompt corrective action. Small town clients may sometimes not be a high priority for independent auditors, particularly when they have had long-standing engagements there. Audit delays can also be caused by the inability of town finance officials to prepare, complete and finalize town financial records, and this should also be looked at. As the town considers its next audit contract, at minimum, we urge them to stipulate that the audit shall be completed as of a date certain. A closing conference should also be held for the auditors to present and discuss their findings and recommendations prior to issuing the final report and management letter.

Centralize Procurement of Office Supplies

Pepperell would benefit from centralizing the purchase of all office supplies. By doing so, the town could realize lower prices through bulk purchases, more competitive bidding, and greater

levels of standardization. Officials could also ensure the quality of goods purchased and more effectively control inventory. To centralize purchasing, town officials should first designate the town administrator as the purchasing agent authorized to administer the program and interact with vendors. Second, the town should adopt written policy and procedures for program administration that conform with state procurement laws to ensure that all purchases follow the standardized protocol for bidding, quotation and buying procedures. Pepperell should also research the possibility of establishing cooperative purchasing relationships with other communities or regional associations.

Treasurer/Collector

In Pepperell, the positions of treasurer and collector are functionally combined into the elected office of the treasurer/collector. The current treasurer/collector has held the position for twelve years, and he supervises two staff members: a full-time assistant collector and a part-time assistant treasurer.

As the community's cash manager, the town treasurer has custody of all municipal money. Chief responsibilities of the position include assuring the timely deposit of all town receipts into appropriate bank accounts, monitoring account balances to ensure the availability of funds for town obligations, and investing funds to maximize income and meet cash flow needs. Necessary tools for the job include a cashbook, check registers, debt schedule, and logs for tracking balances in the general fund and in various special funds, such as grants, trusts and revolving funds. Other key duties include the tracking and resolution of tax title accounts. As a financial control, the treasurer must reconcile cash balances and debt, both internally, and externally with the accountant on a regular basis.

Pepperell's treasurer/collector uses QuickBooks financial software to track the cash position of the town's bank accounts, recording the receipts turned over from all town departments and the disbursements made through weekly vendor and payroll warrants. He records treasury receipts in Admins financial software and submits corresponding reports to the accountant for recording in the town's general ledger. The treasurer/collector department is also responsible for managing insurance benefits for town employees. The town's membership in the large joint purchasing group, Minuteman Nashoba Health Group, a self-funded health insurance consortium, helps to minimize insurance costs.

A town collector possesses the authority to collect real and personal property taxes, excises, betterments, and other charges added to and committed as taxes. The collector must ensure that collections are properly counted, posted to appropriate accounts, and turned over to the treasurer. The collector also pursues delinquent property owners and moves their parcels into tax title. To be successful, the collector needs to maintain an up-to-date receivable control and reconcile it with the accountant monthly. Credit reports should be run as appropriate and research completed to confirm when refunds are due. The collector is also required to respond to requests for municipal lien certificates in accordance with state law.

Kelley & Ryan Associates is contracted to provide numerous services to the treasurer/collector's department. The company sends bills, and any necessary subsequent demand notices, for real

and personal property accounts and for motor vehicle excise accounts. It collects and turns over excise payments. It also provides the software that the treasurer/collector staff use to post receipt of property taxes (City Hall System, or CHS) and excise (K2). And it manages online payments through supported links on the town's website.

Since 2009, the treasurer/collector's office has seen its staff working hours reduced by almost 25 percent. And while about half of property tax payments come from escrow companies via electronic banking files, the minimal staffing in the department still makes it difficult to keep up with payment volumes at certain times of the year. To alleviate pressure, beginning in January 2013, the treasurer/collector implemented a contract with Century Bank for lockbox services. By diverting mailed payments to Century for processing, the office expects to significantly reduce its workload. And, for payments received in-person at town hall, counter computers have scanning wands to expedite entry of payment information into the CHS and K2 systems.

We found the staff of the treasurer/collector department to be very professional and committed to properly fulfilling their fiscal duties. Our recommendations below are mostly geared towards increasing efficiencies, tightening controls, and maximizing collections.

Revise Deputy Collector Procedures

We recommend the treasurer/collector modify procedures related to the deputy collector, Kelley & Ryan, to ensure compliance with state laws and strengthen financial controls. Under current practices, Kelley & Ryan deposit collections into their own bank account. Then, once a week, a company representative delivers a check written on that account to the treasurer/collector's office, along with a summary of the payers. The turnover check is the total of payments received, minus Kelley & Ryan's service fee.

Per DOR's Informational Guidance Release 90-219, deputy collectors should not receive tax payment checks made out to them nor endorse checks made payable to municipalities. In addition, no deputy collector may deposit municipal funds in a personal bank account nor maintain a personal bank account in a community's name. Further, state law requires that a deputy collector must make weekly turnovers to the collector of all amounts that were collected or deposited into a community-controlled bank account.

In light of the above, we recommend that the treasurer/collector require Kelley & Ryan to either turn over all receipts to the treasurer/collector's office weekly or deposit them to a joint bank account under the treasurer/collector's control. We also recommend that the treasurer/collector require invoices and process the deputy collector's fees through the standard warrant process.

Financial controls are strongest when the deputy collector submits detailed bills to be paid through the vendor warrant process with appropriate checks by the treasurer/collector. Further, if a joint bank account is established, the treasurer/collector should transfer balances in that account to the main treasurer/collector's account weekly, including accrued interest.

Revise Turnover Policy and Procedures

To strengthen financial controls, we recommend that the treasurer/collector revise the procedures for turning over revenues to his department. The current policy states that departments must turn their receipts over to the treasurer/collector on a weekly basis unless "a large amount of money is received," in which case, the turnover should be done immediately. To avoid any possible confusion and to maximize interest potential, the policy should be changed to establish a dollar amount threshold for immediate turnovers, such as \$100.

Furthermore, treasurer/collector staff should discontinue the practice of providing turnover copies to the accountant. Under M.G.L. c. 41 §54, departments are required to give the accountant hard copy reports of all receipts turned over to the treasurer. Upon presentation of a turnover, a treasurer/collector staff member should verify the amount turned over, sign the turnover form, make two photocopies of it, and return both copies to the department representative. The new policy should make it clear that the department representative must retain one copy of the accepted turnover record and deliver the other to the accountant. The accountant should insist on receiving turnover copies directly from the departments turning over. The accountant should then reconcile amounts on the turnover sheets to the figures entered into the treasury receipts module of Admins.

Organize Tax Title Accounts

We recommend the treasurer/collector implement a plan to reduce the number of properties in tax title. Currently, Pepperell has 31 tax title properties that collectively owe approximately \$395,000 including interest. We suggest the treasurer/collector use a spreadsheet to organize the accounts into groups and then move them through the process by taking the appropriate actions listed below.

- Fast-track land of low value properties toward auction outside of Land Court proceedings. For calendar year 2013, a vacant or improved tax title property must have a current assessed value less than \$20,230 to qualify.
- Consolidate multiple parcels under single ownership to address them together, either in Land Court or during negotiations for partial payment agreements.

- Investigate properties with bad addresses and/or deceased owners to try to identify and contact the legal owners or persons in possession. For owners that cannot be identified or found, petition the Commissioner of Revenue under M.G.L. c. 59 §11 for the authority to assess taxes either to owners unknown or to persons in possession.
- Review existing payment agreements to verify if they are being paid in sufficient amounts to discharge the outstanding tax balances within reasonable time. If not, restructure or void the agreements and initiate foreclosure proceedings.
- Obtain outside legal assistance for the remaining properties through the request for proposal process.

Reducing tax title accounts and collecting on outstanding taxes will require the combined commitment of the treasurer/collector, the board of selectmen and town meeting. A well-thought-out and adequately-funded action plan can help maximize collections and convince current and potential delinquent taxpayers of the town's seriousness in the collection of taxes.

Increase the Use of Bill Scanners

To increase efficiency while assuring accuracy, we recommend that the treasurer/collector staff use the scanning wand to post payments as they are received. Although the implementation of the lockbox contract is anticipated to substantially reduce treasurer/collector processing volumes, the office will continue to receive a certain amount of manual payments at town hall. Once a staff member verifies that the payment amount corresponds with the amount on the bill, she can use the scanning wand to read the bill's barcode, which then automatically posts the payment to the receivable module in CHS. This process will be quicker than manually entering the data for every payment, and it assures data accuracy too.

Discontinue Posting Payroll Withholdings as Receipts

We recommend the treasurer/collector discontinue the practice of posting payroll withholdings as receipts since this practice creates unnecessary accounting entries that overstate receipts and expenditures. Payroll warrants list the salary and wage amounts due to individual employees and the aggregate amounts due for their federal and state taxes and other withholdings. Currently, the treasurer/collector makes a bookkeeping entry that records the withholding amounts as receipts for the purpose of funding them through a subsequent vendor warrant. Instead, we advise that with the selectmen's approval of the payroll warrant, the treasurer/collector is authorized to disburse both employee pay and withholding amounts.

The new process would work as follows. At the end of each pay period, the treasurer/collector transfers an amount to the payroll account to cover all employee direct deposit payments as well as the total of all their withholdings. Through electronic fund transfers and check-cutting, the treasurer/collector disburses employee pay and the withholdings that are payable weekly (e.g., state and federal taxes, child support, etc.). The other withholdings payable on a different schedule (e.g., health insurance paid monthly) are held until due in an agency account. When the remaining withholdings are due, the treasurer/collector disburses them without further warrant approval and clears the corresponding amount from the agency account.

Assessors

The Pepperell Board of Assessors consists of three elected members whose primary responsibilities involve reviewing and approving valuations, abatements and exemptions, and signing off on annual overlay and new growth estimates. Day-to-day departmental operations are overseen by an assistant assessor. The current assistant assessor was appointed by the board in March 2011 after having worked as the administrative assistant in that office for two years prior. She also has previous assessing experience in three other Massachusetts communities. To help with office duties, the department employs a part-time administrative assistant.

The assessors' office is responsible for valuing all real and personal property in town and generating the commitments that authorize the treasurer/collector to collect real estate taxes, betterments, and motor vehicle excises. The assessors annually review property assessments to ensure they reflect full and fair cash value. Subject to the approval of the board of assessors, the assistant assessor sets the annual overlay amount and makes decisions on all abatement applications and property tax exemptions. Other duties of the assessors' office include updating tax maps and deeds, responding to public inquiries, and soliciting information from taxpayers through sales questionnaires, income and expense statements, and forms of list.

Consultants from Patriot Properties inspect all personal property and all properties connected to building permits and sales. They also perform interim-year adjustment and revaluation analyses. The Northern Middlesex Council of Governments does the town's annual map updates.

The department maintains the town's real property assessment records and personal property accounts in a Patriot Properties database. The general public can access this database using a computer terminal at the office or a link on the town's website. Using Patriot, the department compiles analytical data into reports and property tax commitments, which are then sent to the treasurer/collector. The Patriot database is also the source of the property information needed to complete the Tax Recapitulation sheet submitted to DOR for approval of the town's annual tax rate. While the town's geographic information system (GIS) capabilities are limited, there are plans to expand this technology by participating in the state's project to provide Level 3 GIS to municipalities. The department also has plans to upgrade the Patriot database to better utilize the forthcoming GIS application.

In the two years since the assistant assessor assumed her position, she has taken steps to verify and assure data quality. She has made revisions to the sales questionnaires to obtain more data for analysis. To improve the response rate, she now sends them out in the months following the

sales rather than sending all of them together at the start of the new year. Having determined that a significant portion of parcel records lacked photographs, she is conducting a project to assure that, at a minimum, all properties will be at least externally photographed. She has conducted ad hoc data quality reviews and intends to expand these to parcels inspected by Patriot Properties, applying due diligence to her oversight responsibilities related to the vendor contract.

We commend the assistant assessor in the initiatives she has undertaken. Based on DLS's experience with the assessing department and available data, it appears that the office fulfills its function, completes requisite tasks, and complies with state regulations. The following recommendations reiterate advice from Bureau of Local Assessment (BLA) and make a suggestion regarding planning submissions.

Implement BLA Recommendations

We recommend that assistant assessor implement BLA's certification recommendations. BLA completes certification reviews to verify full and fair market values in Pepperell. As part of its last review, completed prior to the hiring of the current assistant assessor, BLA made recommendations to improve the accuracy of valuations and the effectiveness of assessing operations. Therefore, the assistant assessor should work with her BLA community advisor to develop a plan to apply BLA's advice prior to the town's next certification in FY2015.

Require Digital Submission of Plans

We recommend the assessing department coordinate with the planning board to require that all plan submissions be in digital format. As the town moves towards implementation of a GIS system, all subdivision plans will have to be digitized at the town's cost before they can be incorporated into the mapping software. Since the assessors receive plans from the planning board, and there is sufficient authority in state law for the planning board to specify the format of proposals, requiring digital submissions is feasible and makes sense. This requirement would save the town dollars, and also quicken the implementation of the GIS system and updates to it. Therefore, we encourage discussions between the assessors and the planning board members about this issue.

Accountant

The town accountant has the legal obligation to oversee all financial activity of the municipality, and thus plays a critical role in the system of statutory checks and balances established to safeguard local assets. The overarching mission of the position is to monitor the town's revenues and expenditures. Pepperell's town accountant has been in the position for two years. He also works part-time as the town accountant for Royalton. Previously, he worked for many years as town accountant in Athol. The accountant is aided in his duties by a assistant accountant who works 28.5 hours per week.

Through the maintenance of independent records and adherence to well-defined procedures, the office documents the flow of money in and out of municipal accounts. Essential duties include the verification of expense and payroll warrants; maintenance of a general ledger recording all the town's financial activities; and monthly reconciliations of account records with the treasurer/collector. Among required submissions to DOR, the accountant is responsible for producing the annual Schedule A and the year-end balance sheet necessary for free cash certification. The accountant also collaborates with the assistant assessor and the town clerk on the annual tax recapitulation sheet.

The accountant maintains the general ledger in Admins accounting software and also relies on Excel software for data analysis. The quality and frequency of data submitted by town departments critically affects the accountant's job performance, and in this regard he reported satisfactory departmental compliance. It is also vital that the accountant regularly reconcile his balance records of cash and receivables with the treasurer/collector.

The town accountant position in Pepperell has undergone a period of flux beginning about five years ago. At that time, the accountant who had been in the position for decades left office with little in the way of transparent procedures left behind. The next officeholder stayed for less than a year, and then the town paid for an accounting consultant for a time. And in FY2010, the year-end closures were completed by the outside auditor, as the consultant had moved on by then.

This type of haphazard turnover, with unscheduled departures and little if any transitional knowledge handover, has predictable negative consequences. The current officeholder has had difficulties learning the complex Admins systems, providing customary and ad hoc data to support budget planning and management, and in absorbing, analyzing, and perhaps revising inherited accounting practices. Even so, sources have attested to the progress that has been made. The accountant reconciles his records with the treasurer/collector regularly and with little difficulty. He fulfills the fundamental responsibilities related to vendor and payroll warrant

processing and complies with various internal and external reporting requirements. Below, we make recommendations on addressing Admins difficulties and improving financial reporting.

Increase Admins Proficiency

Since prior to the current accountant's arrival in Pepperell, the department has been using Admins financial software to maintain the general ledger. He had no prior experience with this system and has admittedly struggled with its particulars. Luckily, he has been able to rely on his assistant for some tips and can refer to cheat-sheet guides created by some of his predecessors too. The town's outside auditor concurred that Admins is unnecessarily cumbersome and appears to have been designed for larger, more complex municipalities

The accountant's still-limited comfort and facility with Admins imposes time constraints on the department, inhibits his ability to maximize the usefulness of system data for forecasting and for feedback to departments and boards, and poses risks to the timely and accurate completion of statutorily required reports. Therefore, we recommend that the accountant take more proactive action with Admins to close the knowledge gap. A review the company's existing contractual obligations for training and support may provide leverage for scheduling free or minimally costly remedial training.

We also propose that the accountant carve out some time periodically to work on simplifying the Admins chart of accounts, combining some accounts and closing others as appropriate. Too many accounts were created in the chart of accounts in the past, totaling over 5,800 today. For his own sake and that of his staff and any potential successor, he should continue to add procedural information to the cheat-sheets. Finally, we advise the accountant to contact Admins Systems about existing user groups. Irrespective of whether software users experience the same problems, the peer relationships and collective analyses that emerge from user groups can be effective in resolving issues. Admins should know of active user groups or could provide a list of Massachusetts communities that use their software.

Expand and Enhance Financial Reporting

Pepperell's department heads and policymakers would benefit from expanded financial reporting from the accountant's office. Therefore, we recommend that the town administrator and accountant meet to discuss what reports should be generated, to whom they should be sent, and by what method. At minimum, these standards would encompass monthly reports of expenses and periodic reports of revenues.

Required by statute, monthly expenditure reports are used to apprise department heads and policymakers of running expenditure totals by department in relation to the total amounts appropriated for each. On the revenue side, periodic reports comparing actual receipts to budgeted estimates, though not legally required, can provide meaningful insight into fiscal year trends. These reports are essential for analyzing shortfalls, excesses and one-time receipts, and assessing the need for midcourse budget adjustments. The revenue data is also valuable for making forecast estimates during the budget process. These reports provide a means to analyze, prioritize and manage spending, especially late in the fiscal year, which can lead to more end-of-year departmental turn backs.

Currently, the accountant's reports are Admins printouts distributed manually. We recommend electronic distribution moving forward. This would reduce paper consumption and provide a convenient way for departments to reconcile the reports against their records. It is our understanding that Admins can export reports into Excel format. The accountant could email these Excel reports, and with the transmission, instruct each department to review and respond with any necessary reconciliation adjustments within a specified time.

Department of Public Works

In 2002, Pepperell accepted M.G.L. c. 41 §69 C-F to establish a consolidated department of public works (DPW) comprised of the following divisions: water, sewer, transfer station, cemetery and parks, highway, and engineering. A DPW board consisting of three elected and two appointed members oversees the department and appoints a director to act as its chief operating officer. A superintendent reporting to the director manages the water and sewer divisions. Both the director and superintendent are fairly new to Pepperell having been hired within the last three years.

The DPW supplies water to approximately 80 percent of Pepperell properties and sewer service to about 50 percent. Pepperell's sewer system also provides service for a section of the Town of Groton as part of an intermunicipal agreement established in 1987. For this, the sewer enterprise received approximately \$250,000 from that town for FY2012, which covered the flow for those residents as well as their portion of the system's debt and maintenance costs.

The DPW's water, sewer and transfer station divisions are operated as enterprise funds. Municipalities often choose an enterprise set-up for their utilities because this accounting mechanism allows for the computation of all direct, indirect and capital costs associated with operating a service and the setting of user rates at the appropriate level to offset those costs. Rather than being commingled with the revenues and expenses of general governmental activities, a specific enterprise operation's revenues and expenditures are segregated into its own, separate fund with its own financial statements. However, an enterprise fund is merely an accounting methodology. It does not create an independent department nor does it alter preexisting lines of authority and reporting relationships among personnel or between the water, sewer and transfer station divisions and town hall.

The recent history of Pepperell's enterprise funds, particularly the sewer fund, has been one of dysfunction. The foremost issue has been the failure of the DPW board to set betterments and user rates at amounts sufficient to finance debt incurred from a series of capital sewer projects. A root cause of this was overly-optimistic expectations of growth in customer base for projects early on. The board never established a mandatory hook-up policy, and betterment amounts for these early projects were set too low. Beyond that, the DPW has undervalued its utilities generally. User fees for water and sewer have not been consistently set at the appropriate levels for recovery of all costs, including basic service delivery, debt service, and indirect costs, and for generation of reasonable surpluses to accumulate for future use as capital expenditures.

The decentralized structure of town government has permitted the DPW department to function too autonomously in recent times. With this lack of integration into the town's overall management, budget planning, and financial operations, the elected/appointed DPW board has approved or acquiesced to a series of unwise or unlawful actions. Among these, the board:

- Failed to recognize the need to pay for debt service using betterment revenues.
- Improperly used bond proceeds in FY2009 to pay operating costs.
- Applied retaining earnings to pay FY2013 operating costs without the necessary prior appropriation of town meeting.
- Failed to properly report indirect costs on the Schedule A-2 of the tax recap.
- Granted betterment abatements too liberally and inconsistently.
- Allowed rate payers to be up to six months delinquent without penalties.
- Neglected to maintain an ongoing, multiyear capital plan.

Working together, the new DPW director and superintendent have taken a number of steps to rectify some of the past issues. Recognizing the undervaluation of utilities that had existed, they presented the board with the data supporting the need for increased rates. In January 2011, sewer rates increased 29 percent and water by 9.5 percent. Rates increased again in January 2013, three percent for sewer, and eight percent for water. In 2012, the superintendent created a detailed sewer debt forecast through FY2031, analyzing the gap between existing sewer betterments, anticipated revenues, and debt service requirements. She also created a rate tool spreadsheet with formulas that allow her to analyze various hypothetical scenarios for closing the gap. The director has worked to improve communication with the rest of town government and regularly attends the town administrator's financial team meetings.

To generate more revenue, the DPW has tightened up controls for going to lien and added a lien processing fee. The department has also established a standardized procedure for betterment abatement. Finally, the department is making plans to begin charging late fees for every month that ratepayers are delinquent, as opposed to the existing practice that allows them to be up to half a year late before facing penalties.

We are encouraged by the recent progress made and with the professionalism and dedication of the director and superintendent. In recognizing the mistakes of the past, they and the board have set about establishing a new era for the DPW. However, there are still areas of concern. Below we make recommendations related to management reporting relationships, enterprise fund accounting, and presenting enterprise budgets to town meeting.

Establish Direct Reporting Relationship between Town Administrator and DPW

As the town charter commission completes its work, we encourage it to recommend a direct reporting relationship between the town administrator and the public works department. The mistakes noted above happened in the absence of the check and balance that would exist in a framework in which the department director reported to the town administrator. Giving the town administrator managerial oversight of the department would increase accountability and end the isolation currently existing between the DPW and town hall. Consideration of this change should also prompt discussion of whether there is good rationale to retain the DPW board. Other options include having the selectmen serve as the board or authorizing them to appoint board members.

Track Betterment Revenues as Part of Retained Earnings

Within the sewer enterprise, an account was created to accumulate betterment revenues rather than having those amounts commingle with monies in the general enterprise account. Called the 601 Fund, this account has accumulated approximately \$1.5 million as of August 2012. It is unclear what authority exists to establish the 601 Fund. Under M.G.L. c. 44 §53, all receipts of an enterprise fund must be deposited to its general account unless otherwise permitted by a general law or special act. Nonetheless, we encourage the division to keep track of betterment receipts to cover the debt service payments associated with sewer construction projects.

We suggest that the sewer division track the accumulating revenues associated with betterment payments, and then allow the amounts to flow to retained earnings. Once the retained earnings are certified, the division should appropriate the necessary amount to cover the sewer debt service in accordance with its long-term financial plan.

Set Water and Sewer Rates in the Spring

We recommend that the DPW set water and sewer rates annually in the spring concurrent with the town's budget season. Departments with fee-for-service operations should review their rates every year to verify that they adequately cover the total expense of service provision, an analysis the DPW does each fall. Pepperell's DPW conducts this review in the late fall and applies the new rates for the succeeding calendar year, not the town's fiscal year, which runs from July to June. However, funding for the water and sewer departments should be analyzed in the same context as other town departments during the annual budget season, regardless of their enterprise fund status. Moving this rate analysis to the springtime more fully aligns these funds' revenues

and expenditures with the town’s annual budget and financial reporting, and it justifies a consistent rate effective date of July 1st in alignment with the town’s fiscal year.

We advise the DPW to formally adopt a prospective rate-setting process to occur during its annual spring budget development. The department should consider the prior year’s revenues and expenses, including indirect service costs, and consider any available retained earnings. They should then forecast and estimate the cost impact of any changes for the upcoming year. Management of retained earnings should be consistent with the town’s policy on free cash. In other words, these revenues should not be used to fill in any gaps in operating costs during the year. In this way, rates will be tied to forecasted expenses, which can include prospective capital projects. Once this new process is established, we also recommend that it be formalized in the town bylaws.

Present Enterprise Fund Budgets to Town Meeting in Separate Warrant Articles

In the interest of transparency, we recommend that Pepperell create separate articles for each of the DPW’s three enterprise funds in the annual town meeting warrant. The articles should specify general categories of expenditures along with anticipated revenue. Below is a sample article taken from DLS’s Enterprise Fund Manual.

To see if the community will vote to raise and appropriate or transfer from available funds a sum of money to operate the water enterprise or take any other action thereon.

Voted:

That the following sums be appropriated for the water enterprise:

Costs Appropriated in the Enterprise Fund:

Salaries	\$254,000
Expenses	8,000
Capital outlay	125,000
Debt	45,000
Extra/Unforeseen	10,000

Costs Appropriated in the General Fund:

Indirect Costs	<u>40,000</u>
Total:	\$482,000

And that \$482,000 be raised as follows:

Department receipts	\$432,000
Retained Earnings:	\$50,000

Establish a Standardized Process for Usage Abatements

We recommend that the DPW implement a formal abatement process for water and sewer usage bills. Currently, the divisions and DPW board approve abatements in an informal manner. This process opens the door to questions regarding the basis for abatement awards and whether decisions are equitable or in compliance with state criteria. We suggest that the DPW require any resident seeking an abatement to file a standard application for review by water or sewer division personnel and subsequent approval by the DPW board. The abatement policy, form and process description should be posted on the website of each division. Once the division and board have completed all actions involved with abatement approvals, copies of abatement certificates or a list of the approved abatements should be forwarded to the offices of the treasurer/collector and accountant.

Information Technology

Pepperell's information technology (IT) is managed by a full-time systems administrator, who was appointed by the board of selectmen and reports to the town administrator. His oversight extends to all town departments with the exception the police and fire departments, which have a different specialist managing their IT. However, whenever that person would retire or otherwise leave town service, it is expected that the systems administrator position will cover those departments too.

In recent years, the town has not had the benefit of a systems administrator serving in the position for longer than about two years. The current officeholder filled the job vacancy in February 2013. While the police and fire technology is relatively satisfactory, the lack of long-term oversight for the rest of town likely contributed to the poor condition of technology. In his short time in town thus far, the system administrator has identified numerous areas needing upgrades. The town hall has only a very basic, consumer-grade network system and decaying wiring. Funds have already been appropriated to rewire town hall, which will allow for a properly managed computer network and for a future upgrade of the phone system, which presently is only a very basic Nortel private branch exchange system. Many servers are outdated and have expired service agreements. Virus protection at workstations, while prevalent, is not universal, and many computers are still running the outmoded Microsoft XP operating software.

Data from computers on the town network is virtualized on three central servers, and these are imaged nightly as a back-up. Weekly, the imaged data is downloaded to a hard disk stored at the home of the systems administrator, not at a vendor storage facility. The town also does not have an email system, only a web-hosted, POP3 set-up. This is less secure, reliable and multifunctional than an Exchange email system. The system administrator also has plans to address the outdated and user-unfriendly town website.

Based on our discussions, the new systems administrator seems well-qualified to take on the IT challenges in Pepperell. The capital program committee now has a good source for detailed information about the town's long-term capital IT needs. Below, we make recommendations to address the present situation of incompatible financial software applications and the need for IT policies and procedures.

Consider options for increasing software integration

Pepperell's financial offices process data on independent, proprietary software applications that do not "talk to" each other. A symptom of the town's flat government structure, this lack of

software integration among the offices of the accountant, treasurer/collector, public works, and assessors creates obstacles to operational efficiency and data integrity. Presently, information must be shared through intermediary electronic data conversions, or worse and more commonly, by hard copy reports and repetitive data entry. In most cases, these departments do not even have view-access to each other's systems, which would be useful as a verification control.

We therefore recommend that the systems administrator initiate a project to analyze the situation and propose solutions. He should begin by contacting the existing software vendors to find out if additional programming might allow for more data integration between systems. According to the DPW superintendent, some inquiries were done about this, but no progress was made due to a lack of internal coordination in town. With compatibility workarounds, it may be possible for departments to share information more easily. Duplicate data entry and its associated opportunities for error might be eliminated as well. At minimum, until further solutions can be implemented, these departments should consider transmitting data among themselves in Excel spreadsheets via email. This would reduce paperwork and may make it easier for recipients to work with the data.

If these efforts fail to significantly diminish issues, the systems administrator should do a cost-benefit analysis on the purchase and implementation a single, universal financial software system. This would involve research and solicitation of marketing and pricing materials from appropriate companies. With a universal software package, finance offices could more easily share information, and town departments could possibly enter some of their data directly to the system (e.g., invoices and purchase order requests), which would help free up staff time in the central financial offices. If amortized over multiple years, the cost impact of conversion could be reduced. Also to be factored, however, are the work impacts of potential data conversion issues, departmental downtimes, and users' learning curves. Still, these factors should be evaluated against the gains to be achieved in efficiency and data integrity.

Adopt Formal Technology Policies and Procedures

We recommend that the systems administrator write technology policies, to be approved by the board of selectmen, applicable to all employees and officials who use the town's computer systems. The policies should address topics such as allowable email and internet usage, password protection, allowed software, network and workstation file downloading, network monitoring, and disaster recovery. For examples of these, we have forwarded some of the state's IT policies to the systems administrator, and he could also research examples in other communities.

Ultimately, the purpose of these policies is to safeguard both the town and its personnel against the risk of compromised data or networks. A form should be created on which the signatory attests that he or she has read and understood the policies and the associated penalties for noncompliance. The town administrator should distribute the policies and forms to department heads, who would then secure their employees' acknowledgments. Acknowledgments should also be obtained from all new officials and employees as they begin their tenures or employment. The selectmen's office should retain the signed acknowledgment forms in each employee's personnel files.

Appendix

Comparable Communities

Below we present data for Pepperell in relation to comparable communities in the same area of Massachusetts. The state figures are based on information submitted by municipalities to the Department of Revenue.

Municipality	2010 Pop	Total Budget	2013 Avg SF Tax Bill	2010 Per Capita Income	2012 EQV Per Capita	2012 Total Debt Service	2012 Debt Service % of Budget	Free Cash Amount as of 7/1/2012	Stabilization Fund available in FY12	Moody's Bond Rating	S&P Bond Rating
Ayer	7,427	27,088,850	3,649	26,154	138,814	2,870,508	10.75	1,421,490	987,971	Aa3	
Blackstone	9,026	21,700,787	4,210	25,029	97,552	1,536,872	7.32	1,176,534	1,891,549		AA-
Charlton	12,981	25,927,941	3,140	31,079	112,071	2,434,234	9.65	612,720	2,573,180		AA
Douglas	8,471	27,507,408	4,138	30,346	106,174			384,047	1,283,795	Aa3	
Lunenburg	10,086	31,341,561	4,287	32,825	121,006			572,129	1,337,637	Aa3	AA-
Millbury	13,261	37,897,053	3,495	26,919	105,263	2,734,896	7.42	626,231	1,102,880	Aa3	A+
Oxford	13,709	37,651,008		25,154	96,465	8,159,075	20.68	129,346	1,769,857	Aa3	
Rutland	7,973	18,498,231	3,926	30,925	100,232	2,713,597	15.33	308,072	356,712	A2	
Townsend	8,926	19,195,522	4,018	29,308	94,320	796,871	4.31	773,528	1,677,270	Aa3	
Tyngsborough	11,292	37,234,110	5,034	36,269	133,622	978,455	2.73	694,466	977,718	Aa3	
West Boylston	7,669	25,188,975	4,420	27,780	115,415	2,062,090	7.97	450,892	1,475,734	A1	
Pepperell	11,497	24,800,344	4,190	32,346	105,572	1,703,879	7.01	1,225,587	651,156	Aa3	
Average	10,075	28,111,950	4,032	29,253	109,986	4,227,771	15.07	649,950	1,403,118		

Acknowledgments

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Michael Green, Clerk, Board of Selectmen
John Moak, Town Administrator
Melissa Tzanoudakis, Chair, Finance Committee
Gene Ferrari, Town Accountant
Lynette Sharpe, Assistant Town Accountant
Michael Hartnett, Treasurer/Collector
Marron Ryan, Assistant Collector
Jane Carruba, Assistant Treasurer and Benefits Manager
Maureen Bolger, Assistant Assessor
Kenneth Kalinowski, Director, Department of Public Works
Laurie Stevens, Superintendent, Water and Sewer Departments
Martin Cadek, Systems Administrator