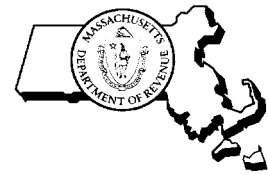


Town of Plymouth

Financial Management Review

Municipal Data Management and Technical Assistance Bureau

November 2006



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 Plymouth.

We have based our findings and recommendations on site visits by a Technical Assistance team consisting of staff from the Division's Bureau of Accounts, Bureau of Local Assessment, and Municipal Data Management & Technical Assistance Bureau. During these visits and by telephone, the team interviewed and received information from the town manager, assistant town manager and finance director, the treasurer/collector, assessing director, human resources director, procurement officer, public works director, and data processing director, 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 and receivable reconciliation reports, statements of indebtedness, the town by-laws as well as other assorted financial records.

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, warrant 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 selectmen, 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.

Overview

The town of Plymouth offers-up an intriguing, if not striking, municipal profile. It presents characteristics common to both cities and towns, and must otherwise deal with circumstances not typical of most cities or towns. For instance, according to DOR data and local sources:

The town of Plymouth is larger in population than 27 Massachusetts cities, and ranks 21st among all municipalities. Only Framingham has a higher town population.

At 566 people per square mile, the town's population density is consistent with the state-wide average for all towns (489) and far less than the average among all cities (3,262).

The FY06 town budget of \$155 million was larger than budgets in 31 cities and was the 16th highest budget in the state. Only Brookline and Framingham have higher town budgets.

At \$2,846, total general fund expenditures per capita in FY06 were higher than the state-wide average among cities (\$2,698) and the average among towns (\$2,735).

At 100 square miles, more or less, Plymouth is the state's largest municipality in geographic size. The average size of 45 Massachusetts cities is 19.9 square miles, and the average size of 306 towns is 22.7 square miles.

Plymouth has approximately 376 road miles, about half of which are private. Only Boston, Worcester and Springfield have more road miles, and only three towns and one city (Gloucester) have a higher percentage of private roads.

Plymouth draws over one million tourist a year who are attracted to its 54 miles of coastline, to literally hundreds of ponds and lakes, numerous historical sites and to the Myles Standish State Forest.

The city-like scope of municipal finances alone demands a certain level of sophistication in budget practices and decision-making procedures. The super-sized, town-like geography amplifies problems and puts solutions on a corresponding scale. As a result, issues, initiatives, questions and answers can tend to be bigger, more complex and more costly in Plymouth.

In the past, the town's ability to function effectively has been helped by atypical and substantial revenues received under the Pilgrim nuclear power plant agreement for payments in lieu of taxes (PILOTS). The town has also helped itself by preparing for the transition period between PILOT agreements and particularly in anticipation of a \$10 million revenue decline in FY08. In recent years, primarily as a product of conservative fiscal policies, free cash has averaged \$5.2 million annually. The general stabilization fund has a current balance of \$9.1 million and the special Pilgrim stabilization fund has a \$5.6 million balance. Excess levy capacity has been historically high, and was \$6.2 million in FY06.

Also, in recent years, the town has taken other forward looking initiatives, including:

- the election of a charter commission to report on whether the town would benefit from changes in its governmental structure.
- the completion of a comprehensive study that recommends a framework for the management of and upgrades to the town's private and gravel roads.
- the development of an information systems master plan that maps out a three year plan to improve the town's technology infrastructure and applications.
- the development of an infrastructure management plan which identifies, costs out and schedules utility and highway projects.
- a request to the Suffolk University Center for Public Management that resulted in the production of a strategic planning report for the town.

In the area of financial management, renewed attention is being directed to long range capital planning. Draft debt and investment policies have been written. These are important steps for the town as it enters a period when debt will be incurred as a annual capital funding mechanism for the first time, and as it begins expending \$200 million toward high school renovation and construction projects, under a debt exclusion approval.

The town deserves credit for pursuing infrastructure planning initiatives, for its work to anticipate problem areas and for its efforts to address future quality of life issues. This report, however, focuses on the efficiency and effectiveness of current financial operations.

Our recommendations relative to town meeting, budget development and capital planning reflect a deviation from traditional, and perhaps deeply held, local practices. Taken together, however, they provide a means to take greater control over town-wide finances. They offer structure, clarity and a more efficient financial operation that has the potential to endure as elected and appointed officials, staff, board and committee members change.

Our primary recommendations are founded in the underlying belief that, at the end of a comprehensive review process, it is a legitimate expectation that the budget approved by town meeting in the spring will be sufficient to cover all department or division needs for the entire upcoming fiscal year. With that in mind, it must be made clear to managers that there is no additional "bite at the apple" at a fall or spring special town meeting. Then, if this is accomplished, any revenues realized in the fall and in excess of projections, on which the budgets were based, can remain unspent and flow to the subsequent year's free cash. Similarly, the current year's certified free cash can be retained, unspent as a true reserve, and can, if the choice is made, be committed in a controlled way as a revenue source for the next year's budget.

Managers should be directed to rely on their existing authority to move money around within their appropriations with the understanding that no line-item transfers between departments or divisions will occur until May. By that time, based on monitoring expenditures as well as revenues, the finance director should be able to identify where deficits and surpluses

will occur. Then in May and June, line-item transfers can be implemented where warranted by the selectmen and the advisory and finance committee as permitted under state law, rather than by an earlier special town meeting. Throughout the year, legitimate unanticipated or emergency expenditures can also be covered by an advisory and finance committee reserve transfer.

If firm budgets are set in the spring, no supplemental appropriations are permitted in the fall, and no line-item transfers are proposed until May, then the fall, winter and spring special town meetings need not occur, or need not include budget related articles. If the budget process begins in October rather than July, and if overlapping periods when warrants open and close can be avoided, the time of managers and staff can be freed up for other tasks.

These recommendations are not intended to suggest that town departments or divisions exploit the year-long budget process that now exists. However, the town's historical approach to developing budgets, managing finances, and holding town meetings could be tightened up. The result would be greater controls over town finances, a more orderly, predictable process and more effective use of peoples' time.

Other recommendations are directed to overall financial operations and tend to address issues that impact local government on a more global basis. Chief among them is that the reconciliation of cash and receivables must be made a priority. It appears that internal reconciliations are occurring within the treasurer/collector's office, but balances are not being measured against the accounting office records. The fact that external reconciliations have lapsed during a vacancy in the accounting officer position only underscores the point. Regular monthly reconciliations represent an important check and balance and should occur under any circumstances.

Of equal concern is that, after 18 months, the town's FY05 audit has yet to be completed. This is a red flag to bond rating agencies and creates uncertainty as to condition of the town's finances and financial practices. Whatever the reason, the town should identify the source of the problem and act to ensure it does not recur. Now, with the close of FY06, the town's preparedness for the FY06 audit should also be confirmed in order to avoid any delay.

We also comment on the proposal to fund an annual capital improvement program with local receipts. With the recent decision to estimate local receipts less conservatively, future free cash will decline, but new general revenue will be immediately available to fund the town budget. An amount equal to the revenue gain could be budgeted for capital improvements. We only caution that inherent risks arise if the town were to estimate local receipts in an amount equal to the prior year's actual receipts, and then use the new revenue in its entirety.

Remaining recommendations present opportunities for the town to create efficiencies and generally improve operations. Among them, higher rank is attributed to those that potentially impact employee morale and working conditions. Specifically, the responsibility placed on the treasurer/collector's office to administer the dump and beach sticker program is a disproportionate burden. The lack of work space in that office should also be a major concern. In general, we recommend expansion of an employee performance evaluation program in a way that clarifies roles and expectations. Action relative to personnel by-laws and policies should be

taken to clarify employee as well as managers' rights and obligations. These are issues that management is aware of and to our understanding intends to address. We suggest steps be taken sooner rather than later.

Conclusion - Forming effective responses to the intermingling of complex circumstances poses an on-going challenge to local leaders, town hall staff and residents. Making matters more difficult, decisions are necessary in a time of tight budgets and uncertain revenue sources, when there are divergent views on the role of local government and competing interests on how money should be spent. Combined with the constraints of Proposition 2½ and the continually expanding complexity of local government administration, these factors invariably prompt debate on how a community might optimize its limited resources of time, money and personnel. At the same time, mounting pressure is brought to bear on local government to maintain levels of service, improve town infrastructure, control new development and preserve the town's rural character, all in a cost effective manner.

Summary of Report Recommendations

Overall Financial Management

- 1) Make Reconciliations a Priority
- 2) Complete Preparations for Audits
- 3) Form an Audit Committee
- 4) Move Forward with Changes to Sticker Programs
- 5) Rescind or Redirect Bond Proceeds; Merge Proceeds
- 6) Collaborate on Financial Issues

Town Meeting

- 7) Limit Town Meetings to Two
- 8) Move Annual Town Meeting to May
- 9) Open Annual Town Meeting Warrant in the Spring
- 10) Control Town Meeting Articles

Budget Related

- 11) Do Not Earmark Local Receipts to Fund Capital Improvements
- 12) Avoid Using Free Cash for Current Year Operations
- 13) Formalize Reserve Policies
- 14) Formalize Debt Policies
- 15) Delay Line Item Transfers and Use of Advisory and Finance Committee Reserve
- 16) Modify the Annual Budget Process
- 17) Obtain Early Consensus on Revenue Projections
- 18) Develop Long-Term Revenue and Expenditure Projections
- 19) Reconstitute the Capital Outlay Expenditure Committee
- 20) Create Separate Enterprise Fund Articles

Other

- 21) Address Treasurer/Collector Office Space Issue
- 22) Expand Performance Evaluation Program
- 23) Act on Personnel Policies, By-Law, Personnel Board
- 24) Change Handling of Bounced Checks

Summary of Recommendations (continued)

- 25) Review Revolving Funds
- 26) Have Information Technology Director Report to Town Manager
- 27) Require Sign-off of Project Specifications
- 28) Confirm Project Appropriations and Schedules
- 29) Give the Building Committee a More Narrow Focus
- 30) Establish Security Policy
- 31) Ensure Employees Are Bonded
- 32) Generate a Payroll Warrant by Individual
- 33) Maintain Independent Debt Service Schedules
- 34) Reconsider Role of Personnel Board
- 35) Relieve Human Resources of Unrelated Record keeping
- 36) Re-examine Payroll Process and Related Record keeping
- 37) Eliminate Individual Vender Invoice Sheet

Overall Financial Management

Recommendation 1: Make Reconciliations a Priority

We recommend that the finance director make the monthly reconciliation of cash and receivables a priority. According to the interim accountant, the town's cash balances were last reconciled in December 2005 and the last month when the general ledger was in balance was August 2005. We have no date when receivables were last reconciled. While preparation for the FY06 audit should now be underway, the FY05 audit is yet to be completed 18 months after the close of that fiscal year. We have not heard a plausible reason for the delay, but the absence of reconciliations could easily be the cause. In the management letter accompanying the FY04 audit, deficiencies in internal controls over cash were noted and the absence of cash reconciliations were specifically cited as a problem area.

This recommendation is intended to underscore the importance of cash and receivable reconciliations as critical financial controls and to prompt implementation of a monthly reconciliation process. Even with the vacancy in the town's accounting officer position, the responsibility falls to the finance director to ensure that reconciliations occur.

The process should begin with internal reconciliations of cash and receivables, respectively, in the treasurer/collector's office. We recommend that the treasurer/collector assign these duties to his assistant treasurer and assistant collector.

On an agreed upon date after the close of each month, the accounting officer should forward her balance of cash in town funds to the assistant treasurer, and her receivables total to the assistant collector. (Or, the assistant treasurer and assistant collector can provide balances to the accounting officer, whatever is agreed to).

If a cash or receivable variance appears, the person completing the reconciliation should verify entries through a re-examination of source documents. Other adjustments and timing issues should also be factored-in. If a variance remains unresolved, the process needs to continue into an examination of greater detail until the source of the variance is identified and reconciled.

Given the potential for town-wide fiscal implications, we further recommend that the town manager monitor the reconciliation process. He should direct the finance director to provide him with a copy of cash and receivable reconciliation worksheets each month when complete.

Recommendation 2: Complete Preparations for Audits

We recommend that audits be completed soon after the close of the fiscal year. The most recent town audit on file at the Department of Revenue is for FY04 which has attached a management letter with 14 separate comments citing, among other things, deficiencies in cash reconciliation procedures. Atypically, no town responses are provided. As of the writing of this report, 18 months have passed since the close of FY05, and that audit is yet to be completed. In

some communities, audits of FY06 financial statements have already begun. The delays in Plymouth should be a matter of concern.

Bond rating agencies pay close attention to audits of a town's financial statements which provide a measure of its fiscal health. The absence of an audit, and particularly one so far beyond the close of the fiscal year, like the Plymouth FY05 audit, can be a red flag that raises questions and creates uncertainties. Therefore, any steps the town takes that prompt the completion of audits and the resolution of audit issues take on significance. Now that the full-time accounting officer position has been filled, we encourage the implementation of procedures to ensure that the town's books are maintained and financial statements are prepared in a timely fashion for annual audits.

Recommendation 3: Form an Audit Committee

We recommend that the board of selectmen create and appoint an audit committee. Plymouth is among the vast majority of municipalities that are required to complete an annual audit of its financial records. A management letter almost always accompanies an audit and raises issues, makes comments and identifies deficiencies in a town's practices.

An audit committee would bring light to these and other issues raised in the outside auditor's management letter. Committee members, independent of staff, would be charged with reviewing management letters and monitoring the town's progress in formulating and completing a corrective action plan, including town responses to issues raised. Once or twice each year, the committee would report its findings to the selectmen, town manager and finance director.

Responsibility to formulate responses and an action plan would fall to the finance director, with the input of finance officers. He would also be responsible for implementing it.

An audit committee should also be involved in the procurement of auditing services, determining in advance the requirements and objectives of the audit, and selecting the eventual individual auditor or audit firm. The selection of an auditor is not subject to the provisions of the Uniform Procurement Act (M.G.L. c.30B,s. 15).

An audit committee of three or five might include selectmen, school committee members, advisory and finance committee members, etc., as well as residents. Given the substance of an audit report, the town would not want finance officers, or staff in finance-related positions, serving as members in order to avoid potential conflicts of interest.

Recommendation 4: Move Forward with Changes to Sticker Programs

We recommend that the town move forward with planned changes to the beach and dump sticker programs as soon as possible. By any measure, the task of processing applications for annual dump and beach stickers places an inordinate burden on the collector's and treasurer's staff. It is our understanding that for five to six weeks ending June 30, the treasurer/collector's office comes to a virtual standstill as staff members receive applications over the counter and by mail, review vehicle registrations and distribute about 14,000 dump stickers and around 9,000

beach stickers to Plymouth residents. Even when the process is moved to a larger room in town hall, during the renewal period, tension increases and staff are drawn away from other essential tasks.

The town has taken a first step toward addressing this issue by appropriating \$125,000 to fund a program where an electronic transponder would take the place of a window sticker. The program would work like the state FastLane pass. Each year, renewal applications would be mailed to current subscribers, and individual transponders would be re-activated or deactivated depending on whether or not a new beach or dump permit was purchased.

We applaud the town for its novel approach and further recommend that the dump transponders be sold on a 12-month basis where the start of the rate year is a “light” collections month. Annual fees can be pro-rated if submitted after the beginning month. Annual rate adjustments, if any, should be voted by the selectmen in advance of the rate year, and in sufficient time to allow renewal applications to be mailed to prior permit holders.

We recommend that beach sticker renewals be issued on a calendar year basis. In either event, the town’s cash flow needs should be factored into choosing the permit period.

Even with a transponder system, mail and over-the-counter applications will arrive at town hall. It is difficult to justify burdening one office with processing all applications. Placing the responsibility on the department operating the program is one approach, as is bring in additional people for the sole purpose of processing applications. In this respect, the senior work-off program may be an option.

If reviewing a copy of an applicant’s car registration is necessary to verify residency, we suggest the town explore, with information technology director and deputy collector, how it might electronically access motor vehicle data already in the custody of the assessors and deputy collector. Ultimately, the town should move toward on-line application renewals, including car registration verification, where payment would be by credit card.

Recommendation 5: Rescind Bond Authorizations or Redirect Bond Proceeds; Merge Proceeds

We recommend the town consider rescinding bond authorizations or redirecting bond proceeds where a project has yet to begin and a set period of time has passed since its approval by town meeting. Before acting on projects that have not yet commenced, investigation should be made into the underlying reasons for the delay. If process is at fault, then immediate attention should focus on corrective action. However, there are occurrences when original purposes no longer exist or priorities change, and in these instances, town resources can be put to better use by rescinding authorizations or redirecting proceeds. Generating a status report of projects and bond authorizations should become a core responsibility of the capital improvement committee. If two or three years have passed and funds are not yet used, a reassessment of the appropriation would be justified.

We recommend that the town consider the benefits of merging excess bond proceeds and diverting the combined total to an alternative use. Remaining bond proceeds from projects which are complete, or abandoned, may be redirected by a 2/3s vote of town meeting, to an alternative use. Required under M.G.L. c. 44, s.20 is that the reappropriation “must be for a purpose for which a loan may be incurred for an equal or longer time than that of the original loan, including temporary debt.” A town meeting article would therefore need to group remaining bond proceeds according to their term and identify the purpose and amount of the new appropriation. A statement that the funding source is bond proceeds from other articles where projects have been completed or abandoned should be inserted together with a list, in the article or included as an appendix, itemizing the funding sources.

Recommendation 6: Collaborate on Financial Issues

We recommend that the town manager and advisory and finance committee explore the possibility for greater collaboration on financial issues facing the town. Because the advisory and finance committee is appointed, its members, often by design, bring particular qualifications, experience and knowledge to the table. With this in mind, the role of the advisory and finance committee as a watchdog over town finances does not mean that its relationship with the town manager and his staff needs to be adversarial. Collaboration, cooperation and the presentation of unified fronts inspire confidence and faith among taxpayers that maximum effort is made to solve local problems and address important issues. With a depth of knowledge and experience, committee members could be a valuable resource that investigates major financial issues and town options for dealing with them. We encourage the advisory and finance committee chair and the town manager to meet and discuss how this type of collaborative relationship might work.

We recommend that the town manager and finance director seek ways to involve staff in discussions of major finance-related issues. For all kinds of reasons, the town of Plymouth is subject to an unusually wide range of situations, issues and problems. To reach the best possible solutions for the town requires accessing all available information, working experience as well as intellectual resources. Toward this end, we encourage the town manager and finance director to resist closed discussions on major issues that arise and, in the search for solutions, take advantage of the knowledge, insights and expertise of finance-related staff.

Town Meeting

In a typical year, the annual budget process for the ensuing year begins in July, immediately upon the close of the prior fiscal year. Also in July, the warrant opens and in August it closes for an October STM which often includes articles to supplement current year appropriations voted the previous spring. While the fall STM is on-going, the warrant for the ATM opens and then closes in November. The ATM does not occur until April - a full five months later. To account for issues that arise after the close of the ATM warrant, or again to address current year budget issues, a second STM warrant remains open during the month of January. This STM is then scheduled to occur within the ATM in April or on another spring date. It will also include articles making further appropriations to the current year budget. In FY05, there were two separate STMs within the spring ATM. In some instances (i.e., CPA) appropriations are inserted in both the spring and fall town meetings which, in fact, only represent part of a year-long exercise in tweaking the existing budget. This past year, the selectman either called the ATM for May, which would appear to conflict with town by-laws, or they adjourned the April meeting to May, which would not. On-going throughout is the formulation of the town operating budget for the next year. This is an extended process, but appears to have logical sequence and purpose. Decision-making for capital expenditures, however, seems to be out of sequence.

This entire process is characterized by a mix of too little and too much control. The net effect is that the town is in a perpetual budgeting mode throughout each fiscal year. The town manager, finance director as well as staff are forced to continuously deal with funding two budgets, and with the preparation of overlapping town meeting warrants. As a result, time is diverted - we think unnecessarily - from other important town matters.

To address these issues, we offer the following recommendations:

Recommendation 7: Limit Town Meetings to Two

We recommend that the town call a spring annual town meeting and one fall special town meeting. Placing a restriction on the number of official town meetings will give structure to the way the town interacts with its government. It will impose order on decision-making, and will prompt greater planning among all involved in carrying-out the business and goals of government. Knowing that a necessary town meeting decision cannot be obtained except in the spring or fall, a department, committee, board or commission will adjust accordingly. Relaxed could be pressure to rush to conclusions or enhanced could be the amount of thoroughness devoted to a potential warrant article.

The town manager, finance director and their staff will be relieved of the often difficult and tedious process of preparing town meeting warrants, especially, when they overlap. With fewer town meetings, the need for town counsel services declines, while the consumption of less paper,

less postage, less custodial services, less security produce further savings, even if nominal. Finally, exceptions will occur, but if the selectmen hold firm to a schedule of two town meetings a year, events will fall in line, and government business will move forward at a more controlled pace.

Recommendation 8: Move Annual Town Meeting to May

We recommend a by-law amendment to move the date of the spring ATM to late May. Town elections may have to be shifted as well. Many towns schedule a late May, and even June, ATM in order to gain a more current projection of state aid before approving the local budget. Typically, by the end May, the state budget has passed through the House and the Senate to a conference committee, and the state aid picture comes into closer view. As an additional benefit, a late town meeting allows more time for the local budget process to unfold.

Recommendation 9: Open Annual Town Meeting Warrant in the Spring

We recommend that the town keep the ATM warrant open until a date in the spring and that the January open warrant period for the STM be eliminated. For many communities, the closing date for the ATM warrant is dictated by the time needed to complete warrant article approvals, including the budget article, and by the additional time required to get the final budget document printed and mailed.

Objectively, it is difficult to find a practical purpose to opening and closing the ATM warrant five-to-six months before the ATM is called. The budget article will be far from finalized, and in the months that follow, the town will invariably find good reason to include other articles for ATM consideration. Also, Plymouth town meeting minutes reveal numerous instances where articles were not acted on, or were withdrawn at a town meeting suggesting that they were added to the warrant in November on a “just in case” basis. As a practical matter, any articles proposed in October or in January will be known in March, or whenever a spring ATM warrant closing date would occur. The same rules should apply to fall STM warrants.

Recommendation 10: Control Town Meeting Articles

We recommend that all budget related articles be taken up at the spring ATM and that the fall STM be reserved for non-budget related articles only. Although exceptions will occur, this policy and practice represents an important budget control mechanism. It establishes the budget process that begins in the fall and ends in the spring as the sole means by which departments make their case for appropriations. It underscores that the eight or nine month process which includes the involvement of the town manager, finance director, selectmen, advisory and finance committee, is when department and town-wide goals and priorities will be set. The firm message of the budget process should be that the appropriation approved by the spring town meeting is what managers can expect to operate their departments for the entire year.

Budget Related

Recommendation 11: Do Not Earmark Local Receipts to Fund Capital Improvement Projects

We strongly recommend that the town exercise caution in the proposed use of local receipts. The town is entering a period when it will begin to incorporate borrowing into its funding approach for capital improvement projects. In a memorandum dated March 15, 2006, entitled “Capital Improvement Plan Presentation,” the finance director recommends:

“funding the increased levels of debt service that will result if leveraging is implemented, by using local receipts in the year they are received rather than allowing those receipts to fall to free cash. Essentially, it is being recommended that free cash fund the capital plan as receipts in the year they are collected versus two years thereafter as certified free cash.”

In regard to this proposal, we offer the following comments and considerations:

Local receipts are a general fund revenue and cannot be reserved, set aside in a separate account or earmarked for a targeted use. Local receipts become an undistinguished part of general fund revenue which can then be appropriated to a stabilization fund set up for a specific capital purpose, or as the funding source for a capital improvement article. Once in stabilization, the fund balance must be regarded as non-recurring income, and as such, appropriate for one-time expenditures, but inappropriate as a funding source for recurring debt service payments.

Current estimated local receipts (which is a revenue projection), or alternatively all or a portion of the prior year’s actual local receipts can be used as an indicator of an expenditure level for a capital improvement program. An appropriation from the general fund equal to that amount could then be offered in a separate capital improvement article.

The town needs to consider the policy and capital funding impacts if subsequent year local receipts decline. This has occurred twice in the last seven years. In all likelihood, if local receipts decline from one year to the next, previously incurred debt service obligations will be covered by the general fund. This underscores the argument that local receipts can only be an expenditure level indicator as opposed to a funding indicator because the money may not exist.

The town has already determined it will take more aggressive approach toward estimating local receipts than in the past. This change will increase revenue projections to the benefit of the operations budget, but will also result in an immediate and corresponding decline in certified free cash compared to prior year levels.

We caution the town against estimating local receipts in an amount equal to the prior year’s actual local receipts in order to maximize operating revenue. If this occurs, free cash will be dramatically impacted. By our calculation, if local receipts were entirely excluded from the

calculation, the town would have realized \$11.4 million less in certified free cash in the last three fiscal years.

There are more time-tested, conventional approaches to capital planning and funding. More important for Plymouth, at a time when the town is moving toward greater debt, it might be better served by more traditional approaches that protect its fiscal stability and that bond agencies look favorably upon.

Recommendation 12: Avoid Using Free Cash for Current Year Operations

We recommend that free cash not be available for current year operations. A policy should guide the use of free cash, including language that prohibits its use to supplement current year operations. Instead, many communities view free cash, certified as of July 1, as a revenue source for the ensuing year. In this way, it can serve as a true reserve until it is committed to the budget by town meeting, or until June 30.

Even as a budget revenue source, there should be policy restricting or directing the amount of free cash, if any, that can be devoted to operations, what percentage will be diverted to capital outlays, what percentage will be appropriated to reserves and what percentage will remain unused. The prohibition on current use will underscore the importance of developing realistic budgets in the spring, and will avoid the tension created and pressure exerted as departments compete for additional funding in the fall, or later.

Restricting the use of certified free cash takes on added significance as the town moves away from the previous practice of estimating local receipts conservatively in its revenue projections. In the past, artificially low estimates of local receipts was designed to generate free cash at a higher level. Now, by raising those estimates, projected revenue available for operations and/or for capital projects will increase, but the free cash expectation must be lower.

Recommendation 13: Formalize Reserve Policies

We recommend that the selectmen formalize a policy that establishes guidelines for funding and maintaining reserves. As a result of conservative, but prudent practices, the town has been able to build up reserves. Free cash has averaged \$5.2 million in the last five years, but it has all been used to supplement previously approved budgets. The town's general stabilization fund has a balance around \$9 million, and a special stabilization fund has a balance of \$5.6 million. Plus, the town's FY06 excess levy capacity was approximately \$6 million. For the most part, these reserves were accumulated in accordance with a plan and in anticipation of a \$10 million decline in payments in lieu of taxes from Boston Edison.

Moving forward, we recommend that the selectmen work with the advisory and finance committee to reach agreement on policies to guide the use and funding of reserves. The provisions of a sound reserve policy and plan would, among other things, specify the following:

- 1) Identify Target Levels - Set target balances for stabilization, free cash and other reserves as a total dollar amount or as a percentage of the total annual budget. In general, credit rating agencies favor a total reserve balance from all funds that is equal to or greater than 10 percent of annual expenditures.
- 2) Adopt a Long-Range Plan - Develop and commit to a five year plan that gradually replenishes reserves, if needed, and maintains reserves at target levels. Limit a draw of reserves to expenditures over a certain dollar threshold or to a maximum percentage of the reserve balance.
- 3) Identify Funding Sources - Use all, or a portion of, one-time revenues or specific recurring receipts, i.e., rental income, as a funding source for reserves by appropriating an equivalent amount from the general fund to stabilization, or by allowing the one-time revenue to close to free cash. Then free cash can be appropriated to stabilization.
- 4) Restrict Use of Free Cash - If current, certified free cash is to be used as a revenue source for the next year's budget, limit by percentage, the amount that can be expended. Specify that an equal percentage will be retained and unspent so that it is the starting point for calculation of the subsequent year free cash, and can provide a means for sustaining funding levels. Remaining free cash, or a portion of it, can be directed to capital outlays or other one-time expenditures.
- 5) Restrict Use of Stabilization - Use stabilization funds only for one-time expenditures over a certain dollar threshold. Establish targeted stabilization funds for specific long-term purposes.

Recommendation 14: Formalize Debt Policies

We recommend adoption of a debt policy that guides borrowing decisions and works to maintain and possibly improve the town's credit rating. A debt policy is specific to each municipality, but should still address many of the points noted below which reflect commonly held sound fiscal practices. The draft policy proposed by the finance director appears adequate. However, while the draft rightly states that the town should establish debt ratios and identifies five areas of measurement, it fails to state what those ratios should be. Instead, the policy appears to leave the decision to someone else. We recommend that debt policy include specific target ratios.

In general, an effective debt policy should, 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 the debt service payments as a percent of operating revenues. If enterprise debt is included, then include enterprise revenue as well. Operating revenue should not include debt exclusions, free cash, grants, transfers and non-recurring revenues;
- Dedicate special assessment or betterment revenues to support long term debt.

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.

The town of Plymouth is, at the very least, looking forward to \$200 million in school projects. Assuming, for illustration purposes only, that state construction cost reimbursements will would cover 50 percent of the total cost, the town will be responsible for debt service payments on permanent borrowing of \$100 million. An upgrade of the town's bond rating could mean a more advantageous interest rate on its borrowing and a savings in real dollars. In year one alone of a repayment schedule, the savings to the town could be approximately \$250,000 with a gain of 25 basis points and \$500,000 if the interest rate gain were 50 basis points.

Recommendation 15: Delay Line Item Transfers and Use of the Advisory and Finance Committee Reserve

We recommend that the town avail itself of M.G.L. c. 44, s. 33B which allows year-end line item transfers and consider the use of the advisory and finance committee reserve.

Approved in May 2006, M.G.L. c. 44, s. 33B allows year-end line items transfers by majority vote of the board of selectmen and the advisory and finance committee in May, June and during the first 15 days of July. Previously, these transfers required town meeting approval. The transfer may involve any unspent and unencumbered balance in a departmental appropriation (except the school department) and may be made to another appropriation within the same or other department. The transfer cannot exceed the greater of three percent of the department annual budget, or \$5,000.

Advisory and finance committee reserve transfers can also be made late in the fiscal year and up until July 15.

If the town holds firm on departmental appropriations approved in the spring, further action on the current year budget can be delayed to the end of the fiscal year. By June, the accounting officer should have accurate reports relative to the status of accounts. Between the selectmen/advisory and finance committee's ability to make line-item transfers and the advisory and finance committee's authority to make reserve transfers for unforeseen or emergency events, problem areas can be addressed.

Avoided can be the lengthy and cumbersome town meeting articles currently used to effect detailed transfers. More important, the town need not revert to certified free cash to supplement the current year's budget.

Recommendation 16: Modify the Annual Budget Process

We recommend that the budget calendar be adjusted. Under the current schedule, revenue projects are completed by August 15, but budget preparation activities begin in July. Neither the annual budget process, nor preparation for the start of the annual budget process, needs to begin in July. This instead should be a time when the finance department focuses on closing the books on the year just ending. Particular attention should be directed to the reconciliation of cash and receivables, addressing encumbrances, making adjustments to the prior year budget if necessary, and generally finalizing the balance sheet. It is also a time when the town manager can meet with department and division heads and plan out the year ahead.

As an example, the town budget/town meeting calendar could possibly be adjusted in accordance with the schedule on the right.

confirm open/close warrant dates

<u>Current</u>			<u>Possible</u>		
15-Aug		Present revenue projections	1-Oct		Present revenue projections
1-Sep	+2 wks	BOS approves guidelines / to depts			Open ATM Warrant
1-Oct	+4 wks	Depts return appropriations requests to FD	15-Oct	+2 wk	BOS approves guidelines / to depts
21-Oct		Open Warrant	15-Nov	+4 wks	Depts return appropriation requests to FD
21-Nov		Close warrant			
1-Nov	+4 wks	FD complete mtgs w/ Dept/Div hds	15-Dec	+4wks	FD complete mtgs w/ Dept/Div hds
		Draft Budget to TM			Draft Budget to TM
1-Dec	+4 wks	TM makes recommendation to BOS	15-Jan	+4wks	TM makes recommendation to BOS
			15-Feb	+4wks	BOS approved budget to FAC
1-Jan	+4 wks	BOS approved budget to FAC	1-Mar	+2 wks	FAC completes review of Articles
15-Jan	+2 wks	FAC completes review of Articles	15-Apr	+6 wks	FAC completes review of budget
1-Mar	+6 wks	FAC completes review of budget			Close ATM Warrant
15-Mar	+2 wks	Mail warrant	1-May	+2 wks	Mail warrant
1-Apr	+2 wks	ATM	15-May	+2 wks	ATM

Recommendation 17: Obtain Early Consensus on Revenue Projections

We recommend that revenue projections be presented to a joint meeting of the selectmen, advisory and finance committee and school committee at the start of the annual budget process. The annual budget process in Plymouth appropriately begins with a development of revenue projections and adoption of budget guidelines for departments. However, we suggest that projections be presented to a joint meeting of the selectmen, school committee and advisory and finance committee so that a consensus can be reached on available funds, the use of reserves, and the allocation of resources in general. These and other policy decisions can then form the basis of budget guidelines for department and division managers as they begin to prepare their appropriation requests. Later, as the budget nears final approval, little disagreement should arise on expectations, and a united front can be presented to town meeting.

Recommendation 18: Develop Long-Term Revenue and Expenditure Projections

We recommend that the town develop long-term revenue and expenditure projections. Long-term revenue and expenditure forecasting relative to the operations budget is an important task that works hand-in-hand with capital planning and debt management in developing a strong fiscal blueprint for the town. Realistic forecasting clarifies revenue and expenditure potential, anticipates “spikes” or “hits” to revenue and, as a result, maximizes the town’s ability to plan future programs, services and projects. Most often, looking forward is associated with a capital improvement program. However, when applied to the operations budget, multi-year projections can be instrumental in establishing the town’s fiscal capacity to support long-term financial commitments. We refer the town to the DLS [Technical Assistance](#) website where there is available a new electronic revenue and expenditure forecasting tool.

Recommendation 19: Reconstitute the Capital Outlay Expenditure Committee

The town of Plymouth is shifting away from funding capital and infrastructure projects exclusively on a pay-as-you-go, or dollar outlay, basis to an approach that incorporates long term borrowing (see M.G.L. c. 44, s. 7 and 8). Moving forward, if borrowing is coordinated with debt and reserve policies, an enhanced ability to plan long-term should result. However, adopting a well thought-out capital project review process is an imperative. In this context, we recommend that the town re-examine the purpose of its capital review committee and the way that projects are approved. The time is ripe for change which can also address some confusion that presently exists in the by-laws as to responsibilities in the approval process. New language should speak with clarity to the matters of process, reports and presentations.

We have also reviewed the finance director’s memorandum dated March 15, 2006 entitled “Capital Improvement Plan Presentation.” It is comprehensive in its inclusion of spreadsheets and references a funding mechanism (local receipts) and capital improvement categories into which departmental requests would fall. However, it seems to represent the product of the finance director and does not speak to a process or role of a capital improvement committee which we do here.

We recommend, in the first instance, a name change. Capital funding is no longer restricted to direct outlay expenditures, so the committee’s name should reflect the broader program scope. The “capital improvements committee” is often the name of choice among municipalities.

We recommend that the town adopt a policy for funding capital improvements. The town should know at the start of the budget process, when revenue projections are complete, how much money will be available to fund capital and infrastructure projects. Most frequently, communities set expenditure levels by limiting debt service on general obligation bonds to a

percentage of general revenues. The calculation of revenue in this case would omit debt exclusion tax proceeds, free cash, stabilization balances, and any other reserves or one-time income source. If debt service for enterprise projects is included, so too should be enterprise revenue. The capital expenditure plan can also include guidelines on whether to include direct outlays, and when a capital exclusion should be an option.

As a general rule, bond rating agencies regard 5 percent as a minimum level, 7-to-10 percent as a moderate range and over 10 percent as high.

We do not support ear-marking local receipts as the town's capital project funding source, or using the estimate of local receipts as a measure of funding capacity. Local receipts are cyclical, sometimes volatile, and otherwise function as an important free cash feeder. The issue is discussed in more detail elsewhere in this report.

We recommend development of objective criteria against which all capital improvement requests are measured and ranked. As a first step, managers should verify that the purpose of a proposed expenditure meets the town's definition of a capital project. If a project fails to meet a minimum life-span requirement and minimum cost threshold, it must per the policy be funded through a department's line-item budget.

Ranking criteria should then be applied by department and division managers to their respective projects. Each project might be scored based on answers to questions such as:

- Is the project necessary to address public safety issues?
- Is the project legally required, i.e., to satisfy ADA standards, or a court judgment?
- Are there timing issues, i.e., the town will face extra-ordinary costs if a capital project does not move forward, or an on-going project is over budget.
- Does the proposed project have future operating cost impacts?
- Is the cost necessary to address deferred maintenance?

Criteria need not be limited to the above, and scoring is more meaningful if weighted. The goal is to arrive at an objective means to compare the urgency of proposed projects and to formulate a priority listing.

We recommend that the town manager have an earlier role in the capital expenditure review and approval process. Division and department managers should submit a prioritized list of capital projects first to the town manager. In this way, they are called upon to make a case for their capital requests just as they do their operations budget request. In turn, the town manager can understand why a project is on the list, how its ranking was arrived at, and can measure each departmental request in the context of town-wide needs and against all other requests. The town manager's recommendation to the selectmen, and for subsequent approvals, would be in the form of a consolidated document reflecting prioritized requests for all departments. The list should

include all proposed capital projects and their funding source. A separate list should include projects not recommended for approval.

We recommend that the capital improvement committee function in a watchdog role.

The new capital improvements committee can fulfill a watchdog role much like that of the advisory and finance committee. It should understand and agree with the criteria for ranking projects and how priorities were arrived at. Its review would be to ensure that criteria were appropriately applied. The committee members should review funding sources and ensure that dedicated amounts adhere to policies on incurring debt and using dollar outlays. It should understand town-wide, long-term goals and be satisfied that the recommendations for capital expenditures advance those goals.

Among its responsibilities, the committee should also prepare an inventory of existing town facilities, real estate and other assets including information on present condition, remaining life span, utility, and assigned maintenance schedule, if any. It should develop a master list of all existing bond authorizations. From the list, it should monitor where authorized bonds have not been issued, and ask departments or divisions for a status report on existing projects. It should incorporate the recommendations of the town manager and selectmen into a long-term capital improvement program, including a projection of potential funding sources.

Recommendation 20: Create Separate Enterprise Fund Articles

We recommend that each enterprise fund budget be approved as a separate budget article.

It is appropriate to list the enterprise fund appropriations in the line item budget in order to reflect total expenditures. However, each enterprise fund budget should also be approved in its own separate budget article that breaks out expenditures and identifies revenue sources. We direct the finance director to the DOR publication entitled "Enterprise Funds" (June 2002) which outlines the proper procedure for presenting and approving enterprise fund budgets. It can be accessed from the DLS website at www.dls.state.ma.us under publications, or directly at <http://www.dls.state.ma.us/publ/misc/EnterpriseFundManual.pdf>

Other

Recommendation 21: Address Treasurer/Collector Office Space Issue

We recommend that the town seek ways to provide more working space for the treasurer/collector's staff. We understand that the town is aware of the space issue in the treasurer/collector's office and is exploring options.

In the opinion of some, town hall is already congested and in the long run, the town will inevitably require additional office space as demands on government grow with the population. Appropriately, expectations will increase for space that is functional, efficient and that reflects well on the community.

However, in the meantime, it is important to recognize that, by any measure, the treasurer/collector's office may be the most difficult work place in town hall. Nine staff members are crammed into inadequate space. There are constraints on moving around; there is constant commotion and disruption; and there is a total lack of privacy. In addition, a small counter area creates problems when staff interact with departments or the public, to the extent that financial controls are at risk. Even if beyond precise and immediate measurement, the efficiency and effectiveness of the office is negatively impacted. Neither is it an office environment that helps the town retain good employees. Instead, unappealing workplace issues put the town at a disadvantage in the competition with other communities for high quality, competent town workers. Therefore, our recommendation is to address this issue sooner rather than later.

Recommendation 22: Expand Performance Evaluation Program

We recommend expansion of the current performance evaluation program. It is our understanding that the town manager, assistant town manager and department managers currently receive annual performance evaluations. At the next level down, division heads assist in the development of mission statements and goals for their respective offices, which seem to focus on office and budgetary goals. To further benefit, we encourage expanding an employee performance evaluation program to include division heads and their staff.

A performance evaluation program can help management re-establish priority functions, create clarity of roles for employees, and generally enhance accountability in town government. A well-thought out annual performance review program, if implemented in a methodical, even-handed way can elevate employee morale and build taxpayer confidence in government.

To achieve consistent implementation, guidelines for managers can be developed that identify step-by-step procedures for reviewing an employee's work responsibilities, previously established goals, if any, and job expectations. Ultimately, the goals set for offices as well as staff should uniformly reflect policies and priorities established for the entire town.

Recommendation 23: Act on Personnel Policies and Personnel By-Law

We recommend that the human resources department review and update the town personnel by-law, as well as document, for approval, personnel policies for the town. To establish uniform rules of employment and to ensure equitable treatment for non-union employees, personnel by-laws and policies should be in place. Periodically, each should be reviewed and updated.

We encourage the human resources staff to initiate such a review to ensure that personnel policies and procedures correctly address matters of recruitment, selection and hiring, promotion, transfer, performance evaluation, grievance procedures, discipline, layoffs, and termination of employment. There should also be adopted policies concerning employee safety, affirmative action and sexual harassment.

They should establish an up-to-date classification system and compensation plan, produce written guidelines to identify and grant salary step raises, and the development of written manuals for managers outlining respective employees' and managers' rights, obligations, and recourse in the case of dispute or grievance. A by-law should contain uniform policies on the accumulation of compensated sick and vacation time for positions not covered by collective bargaining agreements.

Recommendation 24: Change Handling of Bounced Checks

We recommend that the treasurer cease reversing turnover records as an adjustment for bounced checks. The treasurer's office is regularly notified by banks that checks received by town departments and deposited in town accounts were returned due to insufficient funds. On average, notice of 10-15 bounced checks are received each week. It is our understanding that under current practice, the treasurer "reverses the departmental turnover" to adjust for each bounced check. This consumes time and clouds the audit trail. We recommend that the treasurer cease reversing turnovers. In general, we recommend the following procedure to communities, some of which is already in practice in Plymouth:

- Treasurer should continue to send a schedule of receipts to the accounting officer on a weekly basis.
- The weekly report should include a list of checks returned due to insufficient funds with, at least, the payee's names, check number and amount.
- The treasurer should also send a copy of the list of bounced checks to the collector so that the receivable can be reversed.
- The treasurer should notify departments where payments were originally received that checks were returned due to insufficient funds.

-The treasurer should have a form letter and process in place to notify the payee of payment due, together with a \$25 charge.

-Adjustments for bounced checks should take place each month when the treasurer reconciles cash, internally, and externally with the general ledger balances.

Recommendation 25: Review Revolving Funds

We recommend that the town act to ensure that revolving funds conform to statutory requirements. Massachusetts General Laws Chapter 44, section 53E½ governs the purposes for which revolving funds can be established, the revenues that qualify, as well as the requirements for annual authorizations, if any. Revolving funds are held to these rules, unless created under a specific general law, or a special act, which set out their own set of requirements.

However, the concept underlying all revolving funds is that a fee or charge is received in exchange for a service provided or program offered, and that the receipts are, in turn, available for use only to support that service or program. Revenues are accounted for separately from the general fund, and may be spent without further appropriation subject to statutory limits, if any.

Between the annual town meeting warrant and Tax Recap submissions, a number of revolving funds are listed, some of which are of questionable purposes (the various village parking revolving funds, the cable franchise fees), while others appear not in use (council on aging, health, planning board, DPW cemetery). The warrant articles in many instances authorize the town manager to expend funds, while back-up to the Tax Recap sheet specifies that certain department heads are so authorized. Because names are different, matching up revolving funds listed in the warrant article and in the Tax Recap is also uncertain.

We recommend that the finance director review revolving funds to ensure that the purposes qualify for the type of fund or account established, that special or general legislative authorization exists for each account, and that necessary annual re-authorizations occur where mandated. Finally, revolving funds should be consistently listed in the town's Tax Recap sheet, annual balance sheet, Schedule A, and in a budget article, if annual reauthorization is required.

Recommendation 26: Have Information Technology Director Report to Town Manager

We recommend that the information technology director report to the town manager rather than to the Finance Director. The recent change in title of the town's data processing director to information technology director reflects an understanding that data processing is an obsolete concept. Processing or producing data from a central location, primarily for finance-related departments, is the work of a prior time. Today, technology is characterized by a decentralized system where desktop computers give end users, throughout municipal government, the ability to originate, maintain and extract their own data and reports. As a result, demands for technology services come from all town offices, technology needs compete with other capital projects, and technology decisions have town-wide impact. For these reasons, it

makes sense that the information technology director report to the town manager, or assistant town manager, whose office has an equally wide perspective.

Recommendation 27: Require Sign-off of Project Specifications

We recommend that the department or division heads be required to review and sign-off on project specifications prior to them being submitted to the procurement office. Plans are underway to redefine the role of the town procurement officer from one that originates documents and specifications for capital projects going out to bid to one that reviews them to ensure clarity and legal compliance with state bidding laws. We view this as a change worth experimenting with.

In the first instance, the new role raises the professional standing of the position. In addition, it places responsibility and burden for the production of documents and specifications with those most familiar with project details. This shift would allow the procurement officer to monitor the process, identify deficiencies in bid documents and oversee the corrective action, respond to bid inquiries, and otherwise prevent delays by protecting bids from challenges. To help, she might devote time to the development of bid document templates that incorporate as much boiler plate language as possible. She might also, early on, work with departmental project managers and engineers on setting-out realistic schedules for final review and production of bid documents, publishing notices, bid openings and contract awards.

Recommendation 28: Confirm Project Appropriations and Schedules

We recommend regular communication on capital projects. As a routine matter, the treasurer, town clerk and accounting officer should meet after each town meeting to compare notes and confirm the approval of projects and bond authorizations, or other project funding. Further communications should involve the procurement officer and the treasurer with department managers who will oversee approved projects. Information relative to the anticipated project start dates will help the procurement officer establish project schedules relative to bidding, and will help the treasurer plan cash flow and ensure the availability of project funding when it is needed.

Recommendation 29: Give the Building Committee a More Narrow Focus

We recommend that the building planning and construction committee be reconstituted to perform a more traditional role. The change we suggest here is offered in tandem with a recommendation relative to the current capital outlay expenditure committee. Briefly stated, we recommend that the work of the building committee begin only after a project and project funding have been approved by town meeting, and by the voters if a debt exclusion is sought.

Other responsibilities presently assigned to the building committee by charter language are more appropriately fulfilled through a process involving the town manager, finance director

and a capital improvement committee. They include “determining the need for additions or renovations to any existing buildings or facilities, for the construction of new buildings or facilities, or for the demolition or disposal of existing buildings.”

With or without the recommended change, State School Building Authority regulations will dictate the composition of a building committee to oversee \$200 million in upcoming local school improvements. The town’s building, planning and construction committee membership is not likely to exactly match up with the state requirements. Where possible, however, we encourage the town appointing authority to create overlapping membership where individuals on the town building committee also qualify under State Building Authority regulations.

Recommendation 30: Establish Security Policy

We recommend that the finance director establish security procedures for departments that take in money. It is common that various municipal departments take-in money over the counter or by mail as payment of fees or in exchange for services. Departments are generally diligent in turning receipts over to the treasurer on a routine basis. However, because departments can hold money overnight, or for days at a time, there should be a policy that establishes security measures for retaining funds. At a minimum, a policy should require that departments store funds in a lock box which should then be placed in a secure location overnight, such as a locked desk draw, file cabinet, safe or vault. In addition, a two-part, numbered receipt should always be given when a municipal employee accepts money on behalf of the town. The town’s copy of the receipt should remain with the payment.

Recommendation 31: Ensure Employees Are Bonded

We recommend that all employees who handle cash be bonded. The finance director should meet with the treasurer/collector, and his assistants, to identify all town employees who handle cash or receive payments on behalf of the town. The town should cover each with a fidelity bond with a surety company. The surety, or performance, bond protects the town from any loss that might occur during the transfer or handling of money. Minimum bond amounts are assigned in accordance with a schedule promulgated by the Commissioner of Revenue.

Recommendation 32: Generate a Payroll Warrant by Individual

We recommend that the payroll warrant provide detail by employee. Under current practice, the selectmen are presented with a payroll warrant listing a series of salary account numbers with a corresponding dollar amount. While this format is appropriate for the purposes of the accountant’s general ledger, greater detail is required on payroll warrants.

Whether incorporated into the warrant or attached as back-up documentation, gross, or preferably net, pay by employee must be made available if the requirements of MGL Ch. 41, §52 are to be met. To comply, whoever approves the warrant must be able to inspect and view each

individual payment, which in this case would at least be an employee's name and gross salary. Net salary might also be included, but not individual withholding amounts, which should instead be indicated in the aggregate on the payroll warrant. The same detail must find its way to the treasurer so that checks may be drawn.

On a related subject, we recommend that the treasurer/collector explore, with the IT director, how to create electronic signature capability in-house. Currently, the accounts payable administrator, with the help of the assistant treasurer hand stamp approximately 40 vendor checks each week. Harpers automatically affixes the treasurer/collector's signature to payroll checks.

Recommendation 33: Maintain Independent Debt Service Schedules

We recommend that the treasurer/collector create and maintain long-term debt schedules separate from the finance department and independent of data provided by the town's financial advisor. The treasurer/collector provided us with copies of debt payment charts for the general obligations bonds and for each of three enterprise funds. While useful, additional information provided in a different format can serve as a more effective tool for long term planning purposes.

We recommend creation of a spreadsheet that carries columns out 20 years from left to right, or to the longest term of a currently outstanding bond issue. At the far left, the chart should identify the bond authorization date, including warrant article number, the date of issuance, and the purpose of the bonds, as well as authorized but unissued amounts. Notes whether or not payments are self-supporting (covered by rates or by taxes) can also be incorporated, or separate schedules can be maintained for non-tax supported debt. As the years extend left-to-right into the future, the chart would display principal and interest obligations specific to each borrowing together with the total annual debt service at the bottom of the column. In this format, the chart would also visually show when borrowing terms begin and end, which becomes an important factor in future debt decisions.

Once or twice each year, the finance director and treasurer/collector should reconcile outstanding debt balances and annual debt service obligations. They should also meet after each annual or special town meeting with the town clerk to confirm approved bond authorizations.

We also recommend that the treasurer/collector maintain a schedule of total debt service obligations on a monthly basis during the fiscal year. Used in tandem with monthly revenue and expenditure estimates, this information is important to tracking cash flow through the course of the year.

Recommendation 34: Reconsider the Role of the Personnel Board

We recommend that the town consider the role of the personnel board. A personnel board can have a meaningful role in towns where there is no personnel director or human resources department. Whether or not a town has a personnel board is also influenced by the

number of positions under the jurisdiction of the personnel by-law. For these reasons, many municipalities have no personnel board. In Plymouth, the personnel by-law applies to only 18 positions, and there is a strong human resources department. Under these circumstances, the town has latitude in considering its options, and faces little risk of diminishing the protections afforded non-union staff with any decision relative to the future of the personnel board.

Recommendation 35: Relieve Human Resources of Unrelated Record keeping

We recommend the human resources staff be relieved of keeping spreadsheets of town contributions to deferred compensation and Medicare programs. Each week the payroll administrator in the finance department ensures that the town's matching contributions to the deferred compensation and Medicare programs are included on the vender warrant. Once approved, checks are disbursed. Notice of the payments is forwarded to human resources where amounts are recorded and maintained on a spreadsheet.

Because human resources has no involvement with processing these payments, sending payment information merely for the purpose of recording them seems like an unnecessary step. If needed, a report of year-to-date, or prior year, payments to these programs should be within the capability of the town's financial management software.

We recommend that Blue Cross/Blue Shield (BCBS) invoices be received at the treasurer's office. The town's obligation to BCBS is set prior to the start of the fiscal year and is paid in fixed monthly amounts. Each month, an invoice is sent to human resources which forwards it to the accounting officer for inclusion on the vender warrant. Upon approval, the amount is paid by a treasurer's wire transfer.

We recommend that BCBS be directed to send the invoice directly to the treasurer or to the accounts payable administrator. The human resources division should be relieved of its current, unnecessary role in this process.

Recommendation 36: Re-examine Payroll Process and Related Record keeping

Every week, offices submit a single page, payroll input worksheet to the payroll administrator listing each employee and the total weekly hours worked with details on regular hours, sick time, overtime, etc.. It does not include a breakdown by day. The payroll administrator enters the information into the Harper's Millennium software as part of the payroll process. Exceptions are that payroll clerks in the fire, police and library divisions enter information for their respective employees into Millennium.

In addition, once each month offices submit an attendance form - one per employee - to human resources which lists hours used and current balances for earned time, compensated time, sick and vacation time accruals, and long-term illness time. These attendance sheets are retained in hard copy and a copy is provided to the employee. As a matter of practice, divisions or

departments are responsible for maintaining records of employees' accrued sick leave and vacation time. Only at the division or department level is there any information showing what days or hours an employee actually works, and what days or hours he or she is sick or on vacation.

This is not a very sophisticated or effective approach for collecting, managing and disseminated important payroll related data. In particular, the absence of corroborative information on when employees actually work and the lack of a centralized, automated system for tracking employee sick leave and vacation time accruals exposes the town to potential liabilities. Therefore, we offer the following recommendations.

We recommend that the town have Harper's payroll service incorporate the collective bargaining salary, wage and other relevant employee compensation and withholding information into Millennium. With the completion of this task, Millennium will gain the ability to automatically track sick leave and vacation time earned, used and remaining balances for each employee. That information would be automatically printed on the employees' pay stubs. The town and the departments or divisions will have corroborating data and at year end, the town will receive a calculation of its potential liability for employee accrued sick leave and vacation time. Department and divisions will no longer have to submit and the human resources will not longer have to retain paper copies of the monthly attendance sheets.

Also with the inclusion of this underlying salary and wage data, the system will automatically adjust employee compensation when annual pay increases take place under collective bargaining agreements. This saves the benefits coordinator from having to enter the software and change each employee record individually. However, it is appropriate for salary and wage changes to be documented in each employee record. To save time, we recommend that the so-called "Yellow Sheet" be redesigned to include the annual salary or wage increase the particular employee would receive under the three year union contract. As a cross-reference, a separate master file would include the list of persons who actually received raises under the contracts. Moving forward, the individual employee and master file would have to be updated once every three years rather than annually.

We recommend the town establish a single budget line-item to fund the total annual liability for accumulated uncompensated sick leave and vacation time due new retirees. Budget backup is sparse which causes us to rely on anecdotal information that within each recommended and approved division appropriation is an amount to compensate recent retirees for a portion of their remaining sick leave and vacation time earned during employment.

This cost represents a town, rather than a division, obligation and should be set out in its own line-item. Once human resources sets up a central repository of this information, a report for budgeting purposes can be generated with ease and accuracy.

We recommend that all payroll input worksheets, or time sheets, submitted to the payroll administrator, or completed by the police, fire and library divisions be in a form that shows

weekly hours worked on a daily basis. It is common practice for an employee to sign a weekly timesheet showing his or her allocation of hours for each day and attributed to regular time, sick time, vacation time, etc.. That time sheet generally remains in the immediate office file. It is equally common for a department or division head to sign and submit a single sheet listing all employees showing only the number of hours worked, by day, but without distinguishing the type of hours used. To enhance internal controls, we encourage a redesign of the summary sheets to show when during the week an employee used regular, sick, vacation, or other type of time.

We recommend that the town explore the feasibility of having all department or divisions enter employee hours into Millennium. Currently, payroll clerks at the fire, police and library divisions enter the hours of respective employees directly into Millennium. However, utilizing network technology, all department and division payroll clerks could do the same. If the town wished to further reduce the transfer of paper, timesheets in hardcopy with requisite signatures, could be retained in the various offices. The town payroll administrator could then review and store the on-line copy, which would have an electronic signature attached. See M.G.L. c. 110G for guidelines on the use of electronic signatures. Alternatively, hard copies could still be sent to the payroll administrator to provide evidence of a signature, but data entry would be completed at the department or division level.

We recommend that the town evaluate the cost and benefit of upgrading to the most recent version of Millennium. For a 30 day trial period, the human resources division worked with the latest version of Harper's Millennium software. It is our understanding that staff were favorably impressed with its capabilities and viewed them as a measurable improvement over the currently installed version. We would also expect an upgrade decision to consider relative ease of use and technical support. Evaluating how the current and upgraded versions will work with MUNIS is also an important comparison and factor in determining whether costs justify benefits.

We encourage the town manager to solicit input from the human resources staff and IT director to determine whether upgrading makes sense.

Recommendation 37: Eliminate Individual Vender Invoice Sheet

We recommend that the individual forms no longer be attached to invoices when submitted to the accounts payable administrator. When an office submits invoices to the accounts payable administrator for payment, included is a cover sheet, or voucher, listing information pertaining to each invoice in the package. In addition, attached to each individual invoice is another form that provides the same information, but specific to that invoice.

This is an unnecessary duplication of effort. The information needed by the accounts payable administrator to complete the required verification process is already on the cover sheet and on the invoice. If more is needed, it can be added. The individual cover sheets are not necessary when filing by vender by year, nor if invoices are filed by warrant.

Acknowledgements

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Joe Markarian, Senior Project Manager, Technical Assistance, MDM/TAB

Christopher Ketchen, Project Manager, Technical Assistance, MDM/TAB

Barbara Dakin, Field Representative, Bureau of Accounts

Grace Sandel, Community Coordinator, Bureau of Local Assessment

In preparing this review, DLS interviewed the following persons

Richard J. Quintal, Jr., Chair, Selectmen

David F. Malaguti, Selectman

Jean S. Loewenberg, Selectman

Anthony R. Schena, Selectman

Joseph P. Bisaccio, Chair, Finance Advisory Committee

Linda Benezra, Vice-Chair, Finance Advisory Committee

Robert Leonard, Chair, Board of Assessors

David Peck, Chair, Building Committee

Mark D. Sylvia, Town Manager

Melissa Arrighi, Assistant Town Manager

Bruce Miller, Finance Director

Richard Bienvenue, Interim Town Accountant

Pamela Borgatti, Budget Analyst/Internal Auditor

Pamela Hagler, Procurement Officer

Sue Pittsley, Payroll Administrator

Paula Coville, Accounts Payable

George Crombie, Public Works Director

Patricia Flynn, Human Resources Director

Andrea Wildy, Benefits Administrator

Joseph R. Young, Data Processing Manager

Anne Dunn, Assessing Director

Katherine Rebell, Assistant Assessor

Kathy Salmon, Assessors' Analyst

Donna Pendexter, Inspector/Lister

Deborah Cavicchi, Administrative Assistant

Jessica Cristani, Administrative Assistant

Edward B. Maccaferri, Jr., Treasurer/Collector

Barbara Walulik, Assistant Collector,

Christine Edminster, Assistant Treasurer

Dorothy Perreira, Administrative Assistant

Laureen Sylvestro, Administrative Assistant

Joanne McNulty, Administrative Assistant

Jill Hart, Administrative Assistant

Marilynn Byrne, Administrative Assistant