



Town of Salisbury

Financial Management Review

Municipal Data Management and Technical Assistance Bureau

December 2002





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 Salisbury.

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 members of the board of selectmen, the town accountant and town clerk, treasurer/collector, assessors, public works director, warrant advisory committee members, as well as other staff members, as available, in each office.

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

In reviewing the town's financial management practices, we have focused on: (1) town government structure in the context of the duties and responsibilities of financial officers; (2) the town's budget and capital planning processes; (3) the degree of coordination and communication that exists between and among boards, officials and staff involved in the financial management function; and 4) the general efficiency of financial operations measured by the town's success in maximizing resources and minimizing costs.

We encourage the members of the board and others, when formulating overall strategies for improving the town's financial management, to consider the observations, analyses and recommendations contained in this report. These are recommendations only and can be implemented, at the town's option, provided there is sufficient cooperation among the various town boards, committees and officials.

EXECUTIVE SUMMARY

This financial management review has its origin in a petition circulated and endorsed by over 700 Salisbury residents in April 2002. With their signatures, they expressed anger and confusion over financial management procedures at town hall, departmental practices and what was viewed as conflicting information about the town's fiscal condition. The petition cites citizens' desire to correct deficiencies, but also underscores their frustration that sacrifices made in the form of higher tax payments, have failed to forestall continued reductions in essential services. In the end, the petition demands accountability.

Earlier town efforts to improve accountability in government were taken in 1989 when adoption of charter changes created the town manager position. At that time, DOR was completing its first financial management review for the town and, among other things, discovered severe deficiencies in the financing of its sewer system. In expectation that these types of problems would cease, our 1989 report commented: "The move to a more centralized town manager form of government should address many of the organizational and functional problems of the town. The charter change should result in increased financial accountability, an improved budget and capital process, and improved coordination and communication among town financial offices and departments." Today, however, problems persist.

Although the charter change was adopted, the system of accountability that is an integral part of a town manager government has never been executed. The board of selectmen have failed to hold the town manager accountable through annual performance reviews as required by the charter. Past town managers have not established expectation levels for department heads through job evaluations, nor have department heads done the same for staff. More than anything else, the absence of accountability has weakened line authority and caused financial management checks and balances to break down.

At one level or another, the exercise of leadership in government and strong decision-making can reverse this trend. However, little progress has been made in the last ten years. Turf wars, personality conflicts, and political posturing have played a greater role in the operation of town government than well thought-out decisions and sound financial planning. Communication, over the last year in particular, deteriorated between the selectmen and town manager, and between various boards and the department heads they advise. While some may regard these as accepted entrapments of small town politics, in the instance of Salisbury, they work to prevent the town from finding consensus and moving forward to resolve fundamental issues. As a practical matter, the financial management of the town suffers.

In the last two fiscal years alone, the town overstated local receipts in FY01 causing a revenue deficit which had to be raised in the FY02 tax rate. It was forced to make mid-year reductions to the budget when free cash was relied upon but didn't materialize; overspent a sewer project

account and was forced to use enterprise fund retained earnings to cover the gap; took and will continue to take a \$256,000 reduction in its free cash because of unresolved discrepancies in receivables; was required to reduce free cash and, at the same time, raise the same amount on its recap sheet because of overspent appropriations by departments. The town is only now completing the assessment of betterments for a project that began seven years ago. As recently as October 2002, the town's balance sheet was rejected by DOR due to discrepancies in fund balances and receivables. Free cash certification was not possible and the fall town meeting was postponed as a result.

In some respects, the town is constrained from investing in systems by the combination of annual increases in regional school assessments and wage increases for its own employees which, in recent years, have consumed corresponding revenue gains. The networking of computers and acquisition of cutting edge software could help establish controls in these, and other areas, but because of the lack of resources, the town seriously lags in technology. However, the town is not without fault in this regard. Like most Massachusetts communities, Salisbury had the opportunity to better prepare for its future. Instead, the town emerged from a period of unprecedented economic growth with no reserves built-up leaving it ill-prepared to handle the difficult budget years ahead.

In other respects, the town has failed to implement important financial management procedures which could enhance accountability in government and require no infusion of capital. Budget procedures, capital and other long-term planning policies, employee performance reviews, and accurate record keeping procedures all fall into this category.

Now, as a result of past inaction, other consequences arise. In the competition with other communities to attract talented financial personnel, Salisbury is at a disadvantage. Not only is the quality of its technology and management systems below par, but the town must also overcome what has become a physically deteriorated and uninviting work environment at town hall.

But, if it is the exercise of leadership that can clear the way to greater accountability, in a town that only elects its selectmen, moderator and school committee, where does leadership reside?

Under the charter (Section 4-1), the town manager is given wide-ranging duties and responsibilities, is designated the chief administrative officer of the town and is directly responsible to the board of selectmen. As he oversees virtually all aspects government, it would seem incumbent upon him to ensure that a sound foundation underlies financial decisions. The town charter also states (Section 3-2) that, "the Board of Selectmen shall be responsible for the issuance of policy directives and guidelines to be followed by all town agencies...and shall act only through the adoption of broad policy guidelines." Section 3 of the town's by-laws states that the town manager shall submit his proposed budget to the selectmen "for their comment and policy direction." The Board of Selectmen's Policy Manual (Section III-A)

delineates roles stating that "(the board) shall develop policies which provide the framework for the operation of the town. The administration shall manage the town within the framework of these policies."

Clearly, leadership responsibilities exist on two levels: with the selectmen to establish policies that guide government and with the town manager to effect their implementation as he oversees the practices of finance offices and administers the day-to-day business of government. While it is implicit that the selectmen and town manager must work together, and should incorporate the opinions of others as well (i.e., warrant advisor committee) as they work toward these goals, the intermingling of roles is not intended by charter or policy language. Extraordinary circumstances may compel otherwise. For instance, with the abrupt departure of the most recent town manager, the board of selectmen may have seen a necessity to be more involved in operations. However, with the arrival of an interim, and eventually a new, town manager, they must be equally willing to withdraw to their role as policy makers as outlined in the town's charter and by-laws.

Conclusion - Even during an earlier period of continuity in the town manager position, sufficient attention was not directed to the formulation of overall practices that could enhance accountability and policies that could serve to guide immediate decisions and stabilize government over the long term. The turbulence of the last 18 months as selectmen came into increasing conflict with a town manager did little to improve the financial management of the town. By perceived necessity or otherwise, the selectmen appear to have taken a greater role in the day-to-day administration of the town during this period leading many to attribute the leadership gap to the town manager. In fact, the responsibility is a shared one as clearly articulated in the town charter, by-laws and in the Selectmen's Policy Manual.

Now, as the town enters a period of transition with a new accountant, town manager and treasurer/collector, the selectmen have the opportunity to establish policies both in the financial management practices of the town and in the relationships between and among those who govern.

The recommendations listed within this report provide an opportunity for the selectmen and town manager to improve the operation of town government over the short term and at minimal cost. Other recommendations can be implemented over a longer period and according to a plan which contemplates a greater availability of resources. In each case, positive and determined actions by local leaders in cooperation and communication with each other will go far to increasing accountability, job performance and the peoples' confidence in government.

SUMMARY OF PRIMARY REPORT RECOMMENDATIONS

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- Recommendation 2: Emphasize financial oversight function [page 9]
- Recommendation 3: Adopt and commit to debt and reserve policies [page 10]
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OVERALL FINANCIAL MANAGEMENT

The town finance offices are chiefly responsible for the mechanics of financial management practices in local government. The day-to-day tasks that are completed primarily in the offices of the assessors, treasurer/collector and accountant, and to some extent in the department of public works, allow the town to assess and collect taxes, fees and charges. They provide the means to review, approve and pay town bills. The finance offices exchange information and issue financial reports. The procedures followed by these offices are interwoven and overlap in a network of checks and balances that provides a paper trail of all financial activity. When adhered to, town assets are accurately accounted for and protected.

The responsibilities of finance officials are dictated by state law, regulations and, in areas such as the budget process or capital planning, by the local charter, by-laws and adopted policy. The role of the selectmen and town manager are clearly outlined, as well. When all those involved in the financial management activities of the town are true to their roles and responsibilities, the checks and balances built into the system function as intended.

By design, a town manager's authority is expected to extend over department heads and staff, and in most instances, over committee and board members he or the selectmen appoint. In the same way that he is held to standards of accountability by the board of selectmen, so are town hall managers accountable to the town manager. While the town manager is the chief administrative officer for the town and oversees operations, he is also the town's director of finance and administration unless and until that role is assigned to another person. In either capacity, he should be able to rely on department personnel to carry out the day-to-day duties of their respective offices. His decisions can then focus on resolving issues that cross departments, on clarifying policy and communicating the overall goals of town government. He can also devote greater attention to financial projections, analyses, long-term planning and to the investigation of ways to improve operations. The town manager may, on his own initiative or at the direction of the selectmen, investigate and make recommendations for the implementation of sound financial practices.

The role of the selectmen is equally well-defined. It is their task to set policy that guides the overall financial direction of the town and to hold the town manager accountable not only for the daily administration of municipal departments, but for the implementation of the policies they adopt. The selectmen can direct the establishment and administration of a personnel system and annual performance evaluations. They can implement a requisition and purchase order system. At the direction of the selectmen, long-term revenue projections can become an annual expectation. Debt management policy and a capital improvements plan, as well as guidelines on creating and using reserves, can be incorporated into the annual budget process.

Through its leadership, the selectmen can adopt policies that allow the town to venture beyond the mere requirements of state finance laws, and toward more active self-governance. In Salisbury, however, none of this has happened. Instead, decisions-makers have historically demonstrated a lack of resolve to act in ways that would alter the status quo.

The results of non-action are clear. The town has no free cash and has built up no reserves - its stabilization fund has been at zero for years. It has only the remnants of a personnel system, performance evaluations are non-existent and it lacks the controls a purchase order system would provide. There is no debt policy, capital planning is a back-burner item, and no long-term revenue or expenditure projections are developed.

As it is now, managers and staff at the departmental level are knowledgeable, diligent and successful in completing most requisite day-to-day, month-to-month tasks of local government. Communication and cooperation between and among finance-related offices is good. Warrants get prepared on time, vendor invoices are now paid regularly. With few exceptions, the work necessary to collect, expend and account for town money is getting done. But, despite the steady work of the finance departments, the town has experienced recent problems getting the tax rate approved and free cash certified. It has dealt with overspent departmental accounts and overstated local receipts. With guiding policies and a commitment to set procedures, these problems would have been averted.

Ultimately, we acknowledge that the town is moving through difficult fiscal territory, but so are all other Massachusetts communities. Most have responded by bolstering or initiating a plan of action aimed at enhancing stability and predictability in operations through greater financial control. This is not to mean greater involvement in the detail of day to day management, but through the formulation and acceptance of set procedures and guidelines on how government will make decisions and move forward.

One way the town may better advance its financial goals is through formalizing the role of the director of finance and administration, a position mandated by the town charter. Finance issues might receive more focused attention if prospective town manager candidates possessed strong credentials in financial matters. Alternatively, the town manager may chose to appoint another person to serve as finance director.

So, our recommendations begin with a call for accountability and leadership and resolve. We speak to an enhanced financial role in town government. We make recommendations for the implementation of practices designed to encourage planning and add certainty to every day management. Other recommendations address individual financial issues that require attention.

RECOMMENDATION 1: COMMIT TO A PERFORMANCE REVIEW PROCESS

We recommend that the selectmen review the performance of the town manager, and direct the town manager to institute a formal process for employee performance reviews immediately.

Despite a charter requirement, the selectmen have infrequently conducted an annual review of the job performance of the town manager. Nor is there a systematic process in place for annual performance reviews of department heads or staff. Missing, therefore, is the opportunity to reinforce the hierarchy of government and a chance to clarify job expectations for employees with the message that their performance will be measured annually. If implemented in a methodical, even-handed way, the town will have a strong start toward reversing trends that have led to an erosion of accountability. With the institution of regular job performance evaluations, employee morale will elevate and resident confidence in government will build.

The selectmen should begin by establishing a time and procedure for reviewing the job performance of the town manager. Work should begin immediately with the interim town manager to set the groundwork and parameters for employee performance reviews, at least for those conducted for department heads. A schedule should be developed that accomplishes the necessary review by March 1, the date the town manager presents his budget to the selectmen.

The new town manager will have the task of refining and administering the personnel system, including (among other things) personnel policies and practices, rules and regulations, annual employee performance reviews and a personnel staffing plan. Whether he or she chooses to take full, on-going responsibility for personnel functions or to create a role for a personnel board can be a later decision.

RECOMMENDATION 2: EMPHASIZE FINANCIAL OVERSIGHT FUNCTION

We recommend that the town emphasize the financial management duties of the town manager.

The town of Salisbury must satisfy demands for better management of its finances as well as fill a need for town management in general. Under the charter, the town manager can function as the director of finance and administration, or he may appoint another person to fill the role. As the town manager screening and selection process moves forward, we recommend emphasis be placed on town manager candidates with strong financial management credentials.

Given the financial resources of the town, there is little, if any, capacity to create and fund a new finance director position or to pay the salary premium necessary to attract a treasurer/collector candidate who also possesses strong, overall municipal finance credentials. On the other hand, an able town manager applicant should already have some level of financial management experience enabling him or her to serve in the dual role as the director of finance and administration.

RECOMMENDATION 3: ADOPT AND COMMIT TO DEBT AND RESERVE POLICIES

We recommend that the selectmen, working with the town manager, formalize a policy that establishes guidelines for funding and maintaining reserves. During a period of prolonged prosperity when financial resources were most available to communities, the town of Salisbury did nothing to build reserves. (See chart below) Since 1994, despite moderate levels in FY99 and FY00, free cash has been negative or in decline and no contributions have been made to the town's stabilization fund. Now as economic trends have turned dramatically downward, revenues across the board are shrinking and budgetary choices are far more difficult.

<i>FY</i>	<i>Total Budget</i>	<i>Free Cash</i>	<i>% of Budg</i>	<i>Stabilization</i>
1994	10,385,160	(988,999)		0
1995	10,150,158	(637,945)		0
1996	10,235,177	(688,403)		0
1997	10,885,215	9,001	0.1%	0
1998	11,656,138	169,653	1.5%	0
1999	12,639,762	530,287	4.2%	0
2000	14,054,354	446,630	3.2%	0
2001	14,659,372	245,771	1.7%	0
2002	16,557,581	(396,456)		0
2002	adjusted 5/13	106,032	0.6%	

Nonetheless, the reasons for building and sustaining reserves involve not only establishing a means to address unforeseen occurrences and improving the town's bond rating, but also signaling to taxpayers that government is taking prudent steps to help secure the town's financial future. No matter how seemingly insignificant the contribution to reserves might appear because of budget constraints, it is a practice worth pursuing as a matter of policy.

RECOMMENDATION 4: COMMIT TO A CAPITAL IMPROVEMENT PROGRAM

We recommend the town commit to a capital improvement program. Salisbury has no formal capital improvements committee. Under the budget process as outlined in the charter, department heads annually submit capital needs to the town manager who is then directed to present a five-year capital program to the selectmen and warrant advisory committee. Recommendations for annual capital expenditures appear in a separate section of the budget.

As is typical in most communities, tight fiscal conditions often divert funding away from capital programs and in favor of other purposes. This occurs in Salisbury to the extent that no capital planning information appears in the budget. Even with a minimal appropriation, a capital program should be on-going. In the case of Salisbury, we recommend the town pass a by-law to establish a capital improvement committee and program. For more information, we direct the selectmen and town manager to Developing a Capital Improvements Program: A Manual for

Massachusetts Communities which can be found at the DLS website at www.dls.state.ma.us/publics.

RECOMMENDATION 5: CENTRALIZE ACCOUNTING OF EMPLOYEE ACCRUED SICK LEAVE AND VACATION TIME

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

Under current town practices, department heads prepare and send payroll information to the treasurer that includes the projected gross salary to be paid each employee for the current bi-weekly pay period. The gross salary information is also provided to the accountant who manually reorganizes the data by account number, makes the appropriate entries in the general ledger and prepares the payroll warrants. At no time are timesheets completed and no detail relative to sick or vacation time taken is provided. Instead, employee sick time and accrued vacation is tracked only by individual department heads, if at all.

The maintenance of records at the departmental level represents good practice only if corresponding information is also retained in a centralized location, i.e., with the accountant. Otherwise, checks and balances do not exist. The absence of a systematic procedure for maintaining these records can give rise to circumstances where an employee's claim of accrued sick and vacation time cannot be corroborated or challenged with credibility.

Therefore, as a matter of establishing internal controls, we recommend that a system be installed where employees fill-in and sign bi-weekly timesheets indicating time worked as well as sick and vacation time taken. A standard form should be developed for use by department heads in reporting complete bi-weekly payroll information to the treasurer and accountant. With technology upgrades, the transfer of timesheet and other payroll information can be accomplished electronically easing any additional burden on finance officers, departments heads and staff. In addition, payroll software applications are generally capable of automatically tracking employees' balance of sick, vacation and personal time.

RECOMMENDATION 6: IMPLEMENT A REQUISITION AND PURCHASE ORDER SYSTEM

We recommend that the town implement a requisition and purchase order system. Sound financial management practices, among other things, allow a community to quickly determine its

cash status at any given time. With this information, it can exercise budgetary control and plan accordingly in a responsible way. Contributing to this level of control, and to overall checks and balances, is a requisition and purchase order system. The town manager, as chief procurement officer, ensures that procurement laws under MGL Ch. 30 B are satisfied. However, at present, Salisbury has no requisition and purchase order system to help ensure that account balances are accurate and that no accounts are overspent.

Under the system, a department head fills out a requisition (or request) for a purchase order in advance of acquiring goods or services. The assigned person, probably the accountant, receives the requisition and completes the verification process (i.e., confirms that sufficient money remains in the account to cover the charge, the purchase is appropriate to the account purpose and no fraud is involved). She then issues a purchase order which serves as evidence to the vendor that payment is approved. Later, upon delivery of goods or receipt of services, the town receives an invoice and initiates the vendor payment process.

Absent a purchase order system, goods or services are delivered, but accounts are not charged until an invoice is received and processed. This delay presents a risk that departments could continue to spend between the time goods or services are received and the time it takes invoices to be paid. In other words, an expenditure has been made, but not recorded causing accounts to show a false balance. Under the purchase order system, the funds necessary to pay the requested charge, are encumbered, or reserved, before delivery of goods and services and, as a result, accounts are immediately adjusted for a charge and provide a true picture of balances. Additionally, as an internal control, when the invoice arrives, its detail is reconciled to the purchase order to ensure accuracy before payment is made.

With technology upgrades, each department could enter requisitions electronically, immediately view account balances, make changes and transmit the information to the accountant. Upon verification, a purchase order would be available for the department head to print, and an encumbrance would automatically be created in the accountant's general ledger. The software would automatically prevent departments from overspending accounts.

RECOMMENDATION 7: CEASE OVERSPENDING DEPARTMENTAL ACCOUNTS

We strongly recommend that departments not overspend accounts. In the last three fiscal years, town departments, particularly the police department, have spent in excess of appropriations as approved by town meeting. On a professional level, intentionally spending in excess of what town meeting appropriates violates the fiduciary responsibility to which a town officer or manager is held. On a financial basis, overspending an account results in a double penalty - free cash is reduced and the same amount must be raised on the subsequent year's recap sheet.

When a community ends the fiscal year with an appropriation deficit (an overspent account), the amount is deducted from the ensuing year's certification of free cash, and at the same time, the amount must be raised on the ensuing year's recap sheet. For example, the police department overspent its salary and wage account appropriation by \$78,021 in FY02. Absent any action to replace the funds from another source, the town's free cash as of July 1, 2002 which would be available for use in FY03 (after certification) will be reduced by \$78,021. When the town submits its recap sheet to the DOR for approval of its FY03 tax rate, the town will also be required to raise \$78,021 in its levy. In each case, free cash that might have been used to support legitimate public purposes is lost due to spending in excess of an appropriation.

This is not good management practice as financial penalties are severe for overspending an appropriation. Civil and criminal penalties can also apply under MGL Ch. 44 §62 which allows for a fine up to one thousand dollars or imprisonment up to one year, or both. If department heads monitor their accounts balances, as they are obligated to do, overspending can be avoided. At the same time, there is a level of leadership and responsibility that requires investigation into underlying reasons for its occurrence. In the case of the police department, exploring the balance between the number of permanent positions and funding for the overtime account (which offers flexibility to management) might be a place to start. In any event, the practice of overspending accounts damages the town's financial condition and cannot be tolerated.

RECOMMENDATION 8: DIRECT PARKING METER RECEIPTS TO THE GENERAL FUND

We recommend that the selectmen adopt a policy for the use of parking meter revenues. At issue here is whether or not the accountant should discontinue the "receipts reserved for appropriation" account for parking meter revenue and instead deposit meter collections into the general fund. The spirit, if not the purpose, of establishing a receipts reserved account for parking meter revenue is to allow the community to set aside money to acquire, install, maintain and operate the meters - in other words, to protect and maximize a revenue source. In FY00 and FY01, Salisbury appropriated \$56,000 and \$78,000 which constituted virtually all of its parking meter receipts for the purchase of police cruisers at fall town meetings. In FY02, the entire account balance of \$77,939 was appropriated "to be used for personnel services for meter enforcement and meter labor related work."

It is unclear whether any funds went toward meter maintenance in FY02, but more importantly, it's uncertain, on a policy level, how the town wants to use this revenue source. That the appropriation is made at an October town meeting, rather than being considered during the regular budget process in the spring, also tends to deny decision-makers the opportunity to measure the need for police cruisers against other town-wide priorities. If deposited to the general fund, parking meter revenue would be available for a wider range of purposes. If, on the other hand, the town sees an annual need to purchase police cruisers and views a receipts reserve account for parking meter revenue as a practical way to set aside money for that

purpose, it can continue as it has. In any event, as a first priority, meter income should be used to ensure that parking meters remain in good repair so as not to jeopardize a revenue source to the town.

RECOMMENDATION 9: CONSIDER PAYROLL PROCESS ADJUSTMENTS

We recommend that the town open discussion of an employee pay period adjustment. The process to generate town and school payroll checks begins during the first of the two-week pay period and ends with the distribution of checks before the pay period closes. Prospective gross salary information submitted by department heads is a estimate of hours to be worked by employees. When actual circumstances differ, corrections must be made and applied in the subsequent pay period. This creates extra work, amplifies the prospects for error and produces records that fail to accurately reflect work schedules.

Under MGL Ch. 41 §56, a town can only make payments after "it is determined that charges are correct...and services were actually rendered." Determining whether charges are correct is not possible under the present system, and employees are being paid before the end of their pay period. Also under §56, the treasurer is authorized only to release payments upon a warrant approved by a majority of the selectmen. Apparently, checks are often released on Friday even though warrants are not signed until the following Monday.

These circumstances justify an examination of the payroll process. However, we make no specific recommendations to bring the town into compliance with state law in recognition that changes involving employee pay are contractual issues and subject to collective bargaining.

RECOMMENDATION 10: APPROVE NO WARRANTS OUTSIDE OF REGULAR MEETINGS

We recommend that, with the exception of extraordinary circumstances, the selectmen approve vendor and payroll warrants only at regularly scheduled meetings. Currently, selectmen are called to town hall to sign payroll warrants every two weeks and vendor warrants each week in between regular meetings. Because of payroll procedures, signatures are necessary in order to release checks to employees at the end of the week. Otherwise, it has been suggested that warrants are signed outside of regular meetings because there is not sufficient time at meetings to thoroughly review them. However, because the warrants are often approved by only a majority, two of the five board members are effectively denied input.

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

It is a duty of the board of selectmen to review and approve warrants, and they retain the right to question any expenditure. However, copies of vendor warrants could be provided in advance of meetings. Warrant approval should be a public act by the full board. To do otherwise might be in violation of Policy II-A of the board's Policy Handbook which states "members of the Board have authority only when acting as a Board legally in session." Ultimately, if selectmen rely on the town manager, the town accountant and on the checks and balances that are built into the system, they can satisfy their statutory responsibility without unduly consuming valuable time.

RECOMMENDATION 11: APPOINT A BY-LAW CODIFICATION COMMITTEE

We recommend the selectmen appoint a committee to organize and republish the town by-laws. Section 7-7(b) of the town charter directs a by-law review and recodification including recommendations for substantive changes at least every five years, in years ending with four and nine. It outlines a procedure to be followed and further directs that the revisions or re-codification be prepared under the supervision of the town attorney or by a special counsel. We believe the town needs to reorganize its by-laws, short of a major substantive review, prior to 2004.

In its present form, the town's by-law document is a disorganized collection of numbered and unnumbered pages and provisions with and without article designations. In many instances, by-laws are referenced by title only with no page number or article designation. Even where page numbers or article references are evident, they are frequently out of sequence, duplicated elsewhere or ordered in a way that escapes immediate logic. There is no table of contents and indices are of little value. By-laws have been merely inserted in the form they were passed by town meeting producing a document with no consistency of format. Interspersed throughout the document are statements of town meeting votes and letters from the Attorney General, which are marginally informative and further confuse a reader.

The official records and documents of the town play an important role in informing and empowering municipal officials, employees as well as residents. The appearance of disorganized documents, and the inability of a reader to determine with certainty what rules and regulations he or she is held to blurs issues, creates confusion and undermines confidence in government. With this in mind, we recommend the selectmen form a small committee with a charge to restructure the town by-laws into a logical order with appropriate page numbering, consistency in article references and with a usable table of contents. The committee would not make or recommend substantive changes. The use of computer technology in this effort should also be explored to facilitate the incorporation of changes over time.

TECHNOLOGY

The town took a step forward in computerization when, in FY00, a \$50,000 appropriation was used to install a server, three work stations and Patriot appraisal software in the assessors' office. Under the same funding, a network was created with three additional new computers in the treasurer/collector's office and one in the town manager's. The treasurer/collector's office has read-only access to property and ownership data in Patriot, but rarely uses it. Software developed by Customized Data Systems (CDS), a DOS-based accounts receivable application, is also on the network and is used solely to transmit the tax commitment from the assessors to the collector. Offices have no email or internet capability.

It is our understanding that the job of overseeing the operation of hardware systems and software applications in town hall has fallen, by default, to the town's assessor/appraiser. Although not part of her job description, she responds and resolves problems within her knowledge base, but if beyond her capabilities, calls in a computer consultant. Apparently, in the past, a small appropriation in the town manager's budget has been available for computer-related expenses. The role, however, is not formal and carries no responsibility to monitor the technology status of the town, to report on conditions, or to recommend upgrades or improvements.

In general, the assessors are satisfied with the performance of Assess Pro appraisal software, as is the treasurer/collector with their CDS designed software, despite its being a DOS-based system. The accountant inherited software developed by Business Management Systems, Inc (BMSI). It is also a DOS-based system which she regards as substandard, unreliable and the cause of frequent computer crashes. Although Excel spreadsheets are also in use, the town has not purchased or utilized any of the other software modules available in the market and designed specifically for local government. Backups are completed on a daily basis, but back-up disks are stored on-site. The assessor/appraiser copies from the server and the accountant uses a zip drive to store her general ledger information.

Notwithstanding the use of computers and software in various finance offices, the town of Salisbury has no technology program. It has no information technology position nor has it assigned any one person the responsibility to monitor and assess the town's technology status. It has generated no plan to finance immediate or long-term computer and software upgrades. By any measure, in an environment where communication is essential to sound decision making, and proficient computer technology is instrumental to the timely flow of accurate, reliable information, Salisbury lags behind.

Therefore, our recommendations in the area of technology and computers are intended to prompt town leaders to look forward and plan. An investment in more sophisticated software and more powerful hardware systems will help create efficiencies and stronger internal controls.

RECOMMENDATION 12: UPGRADE AND EXPAND FINANCIAL SOFTWARE

We recommend the town upgrade and expand its use of financial management software. The need for enhanced technology exists throughout town hall. Foremost in the accountant's office, where general ledger software is outdated, visually cumbersome and resistant to reprogramming. It is not compatible with the treasurer/collector's software and as a result requires significant re-keying of data that passes between the two offices. It generates data in reports which are difficult to decipher and according to the accountant unreliable in terms of accuracy.

In other areas, with up-to-date payroll software, employee time sheets can be easily completed by department heads and electronically transferred to the treasurer's office. Records of accrued sick and vacation time would be automatically created. Installment of requisition and purchase order software would prevent departmental overspending and would help track the town's budget by establishing an encumbrance system. A budget module would facilitate the annual budget process, while fixed asset software can help prepare for the implementation of GASB 34.

Most often, a community will purchase a single vender's software package which includes a variety of modules for different offices or purposes. Compatibility between modules is then not a problem and the cost can be spread over the long-term through bonds. However, if the town decides it can only afford phased or periodic software upgrades, it must have a plan and it must give attention to compatibility issues. Investing in systems that cannot communicate seamlessly with other software systems in use defeats the purpose of technology and wastes money.

RECOMMENDATION 13: ASSIGN TECHNOLOGY RESPONSIBILITIES

We recommend the creation a MIS position or assign technology responsibilities to a member of the current staff. Typically, communities appoint one person in town hall to serve as an information technology (IT) or management information systems (MIS) director. Some communities chose to engage the services of a small technology firm, on a specified hour or part-time basis to perform the same function. In all cases, the integration of technology and municipal finance is recognized as essential to efficient government. With assigned responsibility, a single person can monitor systems and software. With the assistance of a technology committee, he or she can assess immediate and future needs, and develop a plan for improvements and upgrades. Working with a capital improvements committee, a long-term plan and funding can be orchestrated.

RECOMMENDATION 14: CREATE A TECHNOLOGY COMMITTEE

We recommend the selectmen create a technology committee. As a resource, a technology committee can relieve some of the burden placed on an individual as he or she considers ways to enhance the town's computer capabilities. It can be a meaningful and objective contributor of information, analysis and insight for the decision-makers as they grapple with computer and software issues. Its members can help produce a periodic report, or assessment, of the town's technology status which would serve as a useful tool to evaluate the performance of hardware and software in departments, to identify and prioritize the need for upgrades, and to recommend the adoption of new technologies. The recommendations made or accepted from the report would then be incorporated into a long term capital planning program.

A technology committee might comprise only three-to-five members who have appropriate knowledge or work experience. The town might recruit members from the general population, but the committee could also be a mix of residents and town officials. Absent other charter or by-law provisions, the selectmen or the town manager might appoint the committee members.

ASSESSORS

The assessors' office is responsible for valuing all the town's real and personal property and for transmitting the tax commitment to the collector so that tax bills can be mailed. To ensure that bills are accurate and are mailed timely, the office continually inspects properties, updates property records and tracks exemptions and abatements that it issues. The assessors estimate new growth, recommend the annual overlay, and provide other assessed value information for use in the recap sheet which is submitted to DOR to receive approval of the local tax rate.

In Salisbury, in-house staff inspect sale properties, properties subject to abatements, as well as building permit properties, all of which contribute to completion of the cyclical inspection program. Sale questionnaires are sent to new property owners and every three years income and expense information is requested of commercial and industrial property owners. Using sale and rental data, the town assessor/appraiser analyzes trends for use in triennial revaluations and in decisions whether to make annual property adjustments in interim years.

Office duties are carried-out by a full-time assessor/appraiser with five years in the position, and a data collector who moved from part-time to full-time status this year. Both serve as assessing board members, appointed by the town manager. The staff also includes a part-time clerk, and the board has a third, part-time member. There is a clear delineation of responsibilities among staff, even though each finds the need to help at the counter or with other tasks. The office uses Assess Pro software (developed by Patriot) and Excel spreadsheets. The assessors' office is on a computer network with the collector's office, and also uses CDS, the collector's accounts receivable software, to transmit the commitment between offices.

The Salisbury assessors' office performs many functions, in-house, that other communities contract out, often at a higher cost. The office is generally well organized, computer-sophisticated and, according to the DOR Bureau of Local Assessment, has shown improvement in operations from year-to-year. However, a persistent area of concern involves the difficulty the office has completing tasks necessary to get final tax bills out by December 31 each year.

In some years, outside factors have impacted the process. The combination of a revaluation, installation of new software and short-staffing caused final tax bills for FY00 to be mailed eight months late. Currently, the necessity to finally resolve the seven-year old, 95-1 Betterment, together with another revaluation, and staff absences are expected to delay the issuance of the final FY03 tax bill until April 1, 2003. In FY00 and FY01, recap sheets which establish the town's tax rate were approved by DOR on January 16 and December 27, respectively and late by preferred standards. Looking forward, the office faces the possible mid-year loss of its clerk, because even as a part-time position, it was under funded for FY03. This raises the question whether the work of the office, including those jobs other communities contract-out, can be completed by two-full-time assessors.

Recommendations relating to the assessors' office suggest a schedule of completing tasks leading to the preparation and submission of the town's recap sheet. Even in the event of unexpected circumstances, as in the past, a formal structure will help keep office activities on course to ensure that tax bills are mailed on a timely basis.

RECOMMENDATION 15: IMPROVE TIME MANAGEMENT IN ASSESSORS' OFFICE

We recommend that the assessor/appraiser take steps to develop a work plan. Circumstances, particularly in FY 00 and now in FY03, have prevented the town from mailing its final tax bills on time. In the FY01 and FY02, property bills were distributed closer to the December 31st deadline, but it appears that the assessors still struggled to assemble information necessary to the town's recap sheet. We suggest the assessor/appraiser commit to a work plan to get back on track.

The assessing staff should plan to complete building permit inspections, to record title changes resulting from deed transfers, and to start data analysis to estimate new growth in the first three months of the year. Between now and then, the assessor/appraiser should accelerate training of the assistant assessor so that she can take on building permit inspections by herself at that time. The assessor/appraiser can then focus on abatement applications when they begin to arrive in February. In all, this should be a three-to-four month process. No later than November 15th, the town should be prepared to submit its LA-4 and LA-13 to DOR and hold its classification hearing in time to submit its recap to DOR, at least, by the second week of December.

In thinking about a work plan, the assessor/appraiser should consider how best to use time on Thursdays and Fridays when town hall is closed to the public. If field inspections are completed in the first part of the week, the quieter days might be best suited for data input and analysis.

RECOMMENDATION 16: CONDUCT A COST-BENEFIT ANALYSIS ON CONTRACT SERVICES

We recommend that the town consider a cost benefit analysis comparing the expense of contracting out certain services to completing them in-house. In most instances, it is less costly when jobs such as interim year property adjustments, triennial reevaluations, property inspections and other data collections are completed by in-house staff, rather than outside contractors. There are also occasions when a town is justified in revisiting the issue. With staffing constraints, the assessors' office may not be equipped to do in-house all that it has in the past. Out-sourcing may be an alternative that ensures job completion and a cost savings.

TREASURER/COLLECTOR

The treasurer/collector is a combined, full-time position. The current treasurer/collector has ten years experience in the office and four as its manager, but is scheduled to retire on December 31, 2002. With budget reductions, two full-time clerks were reduced to one full-time position and one at 24 hours a week. However, because the part-time position was under funded in the FY03 budget, its status beyond December is uncertain.

The office collects taxes for approximately 4,200 real property parcels and 865 personal property accounts on a quarterly basis. About 9,000 motor vehicle and 535 boat excise bills are mailed annually. The Department of Public Works (DPW) prepares, mails and processes sewer bills, and contracts out to Pennichuck Water for water billing. Payments for approximately 2,900 total accounts are generally received at the DPW and sent to the Treasurer as a turnover. Betterment payments are also collected annually at the treasurer/collector's office. To improve the collection process, the town initiated a lock box service beginning in FY01. On average, it receives more than 50 percent of the bills mailed.

With the departure of the treasurer/collector at the end of December to retirement, the town must act to ensure that her successor has municipal finance experience and understands the core demands of the job.

Of particular importance relative to the collector is the maintenance of a receivable control record, making daily deposits and posting of collections. Action should be swift to place properties in tax title, issue municipal lien certificates and send turnovers of cash to the treasurer. The collector should communicate monthly with the accountant to reconcile receivables. On the treasurer's side, priority should be placed on maintaining an up-to-date cash book, debt schedules and tax title account files. The treasurer should have a program in place to reduce tax title accounts through available means. He or she should, on a regular basis, submit a treasurer's schedule of receipts to the accountant and otherwise meet with the accountant regularly to reconcile cash and debt. The treasurer must also be prompt in the payment of bills, monitor cash flow and arrange for temporary borrowing when warranted.

With few exceptions, the Salisbury treasurer/collector and her staff effectively meet these and other responsibilities. Consequently, our recommendations relate to only two issues. First, although the treasurer/collector generates a statement of indebtedness for the DOR, and has a record of individual bond issuances, she should also create a detailed debt schedule. More importantly, the treasurer/collector must meet with the accountant and auditors, if necessary, to correct discrepancies in pre-1991 receivables.

RECOMMENDATION 17: FORMULATE A PLAN TO RECONCILE PRE-1991 RECEIVABLES

We recommend that the treasurer/collector and accountant use all available resources to resolve discrepancies in pre-1991 receivables. We understand that the town has engaged the services of an independent auditor to help resolve this problem, but still feel compelled to comment on it. Each year the issue remains unresolved, the town's free cash is reduced by \$253,000 and the town's books show artificially inflated assets in the same amount.

Currently, \$253,000 in receivables, reflecting unpaid real estate taxes for years pre-dating 1991, appear in the accountant's general ledger, but not in the treasurer's records. Outstanding taxes due are moved off the receivables list when the tax, plus interest and charges is paid in full, or when the property is placed in tax title by the collector. Once in tax title, other options are available, including foreclosure by the town. According to the treasurer/collector, the properties have not been placed in tax title due to the absence of necessary information. Specifically, registry of deeds book and page references are missing from property records. The only other way to clear the books is to cover the total dollar amount of the receivables with funds from other town sources.

Until resolved, the town's annual free cash is reduced by the amount of the receivables, and its assets are overstated.

RECOMMENDATION 18: RECONCILIATION OF DEBT SCHEDULES

We recommend the treasurer reconcile debt with the accountant at least quarterly. The treasurer is obligated to submit a statement of indebtedness to DOR annually and under MGL Ch. 41 §59 must report to the accountant the amount of debt and interest due in the next fiscal year. Under MGL Ch. 41 §57 the accountant must keep a detailed record of all town debt, and under Ch. 44 §16 must report by May 1st the amount of debt service falling due in the next fiscal year. At the end of each year, the accountant is instrumental in completing the Schedule A which is submitted to DOR and reflects the prior year's financial activity.

The town's most recently submitted Schedule A and statement of indebtedness show discrepancies in debt and debt service paid during FY01 where there should be none. As a result, the town's debt status is in question.

The treasurer and accountant should each maintain debt records detailing the purpose and date of borrowing, the rate of interest and provisions for payment. Additional information might include the amount of the original authorization and maturity date of the debt issued. They should confer after each town meeting to verify action taken relative to debt authorizations. At least quarterly during the fiscal year, they should meet and reconcile debt activity so that, at year's end, all reports of that activity match and accurately reflect the town's debt position.

ACCOUNTANT

The present town accountant took the position in February 2002 after 16 years as an assistant accountant in another Massachusetts town. Until recently, she was assisted by a 10-hour per week clerk who split her time between the accountant's office and assessors' office. However, with the departure of the clerk, the accountant is now interviewing to fill the part-time position. The accountant's duties and responsibilities are wide-ranging and typical of the office, while the responsibilities of the clerk focus on preparation of warrants.

Since her arrival, the accountant has initiated or reintroduced practices that have helped bring order and routine in various financial areas, enhanced communication and circulated financial information. Among other things, she:

- ▶ Improved procedures for warrant processing when questions arise on individual payment items
- ▶ Runs a monthly trial balance
- ▶ Distributes monthly expenditure reports
- ▶ Generates monthly revenue reports
- ▶ Monitors line item balances
- ▶ Alerts departments heads of low account balances
- ▶ Reconciles cash monthly with the treasurer/collector
- ▶ Reconciles receivables monthly with the treasurer/collector
- ▶ Initiated use of a budget reallocation form to track line item transfer requests that do not require town meeting approval
- ▶ Initiated use of a year-end encumbrance form

By necessity, the accountant depends heavily on the performance of financial management software, particularly in the maintenance of the general ledger and production of reports. Software in use when the accountant arrived early in 2002 was developed by Business Management Systems, Inc, (BMSI). It is an older, DOS-based system that is neither networked with other computers nor compatible with other software used by the treasurer/collector and assessors. For this reason, any information necessary to the record keeping of multiple offices does not flow electronically and seamlessly to the accountant's computer from other offices in town hall. The information is typically received in hard copy (i.e., payroll data, annual budget appropriations) and manually re-keyed by the accountant into the BMSI general ledger.

More problematic is that, after eight months, the accountant has found the BMSI software to be unreliable and resistant to even the simplest customization. For example, often the same data produced in two different reports don't match; two separate reports must be generated and compared to track mid-year transfers; special revenue funds do not print on revenue reports;

flags indicating insufficient funds inexplicably appear in line items; and new account lines cannot be added to an expense category.

Despite overcoming software obstacles and initiating other improvements to date, the accountant is still new to the position and can expect to face a learning curve. From a technical perspective, municipal finance laws continually increase in complexity. From an operational point of view, it takes time to gain full comfort with a new work environment and a new system of doing things. Changes will remain the order of the day with the hiring of a new town manager and new treasurer/collector.

In this context, our recommendations are few. As the accountant considers new accounting software, she should not do so in a vacuum. Compatibility with software in use in other finance offices, and with current cutting edge technology, are necessary system components. We noted earlier that the treasurer/collector should meet regularly with the accountant to reconcile debt and make that point here as well. We understand that steps have been taken to reconcile pre-1991 receivables and underscore the importance of resolving all issues and questions that appear to have roots in past practices. The accountant should also be encouraged to take advantage of training opportunities to gain proficiencies in municipal finance and to establish relationships with peers in other communities.

RECOMMENDATION 19: FORMULATE A PLAN TO RECONCILE PRE-1991 RECEIVABLES

We recommend that the accountant and treasurer/collector use all available resources to resolve discrepancies in pre-1991 receivables. We understand that the town has engaged the services of an independent auditor to help resolve this problem, but still feel compelled to comment on it. Each year the issue remains unresolved, the town's free cash is reduced by \$253,000 and the town's books show artificially inflated assets in the same amount.

Greater discussion of this issue is presented in Recommendation 16.

RECOMMENDATION 20: FORWARD GRANT DOCUMENTS TO ACCOUNTANT.

We recommend that copies of all documents evidencing the award of grants to town departments be provided to the accountant. As required, the accountant receives copies of all town contracts which she must refer to during the invoice verification process. Before placing an invoice on the vender warrant for payment, she is obligated to confirm that the purpose of the expenditure is appropriate to and allowed under the terms of the contract. A similar process should take place when department heads seek to charge expenditures against grant accounts. However, without copies of the grants in-hand, the accountant is unable to perform this important internal control. Therefore, appropriate documentation relative to grants received by the town should be put in the custody of the accountant.

RECOMMENDATION 21: PREPARE FOR GASB 34 IMPLEMENTATION

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

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