

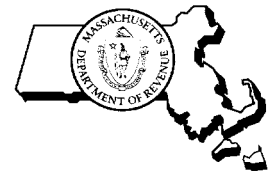


Town of Saugus

Financial Management Review

Municipal Data Management and Technical Assistance Bureau

November 2003



INTRODUCTION

At the request of the Board of Selectmen, the Department of Revenue's Division of Local Services (DLS) has completed a financial management review of the Town of Saugus.

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, treasurer/collector, deputy assessor, as well as other staff members, as available, in each office. Efforts to contact the finance committee chair were unsuccessful, so no members were interviewed. All selectmen were called, resulting in interviews with two members.

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 records 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

With a population of 26,000± people, Saugus is the state's 28th largest town. Because of a relatively small geographic area of 11.75 square miles, the town has a population density of 2,465 people per square mile which makes it the 45th most densely populated community in the state based on the 2000 census. It ranks 20th among 311 towns, and is more dense than 15 of the state's 40 cities.

The town is substantially built-out and located within 10 miles of downtown Boston, but its dominant characteristic may be Route 1, a major state highway. Route 1 bisects the town as it carries an average daily traffic volume of over 120,000 vehicles to and from the city and points north. The resulting combination of high traffic exposure and proximity to Boston attracts commercial and industrial enterprises of all kinds, and it is this concentration of uses that has become a local influence in both positive and negative ways.

In the first instance, there is a tax benefit. Among 351 Massachusetts municipalities, only 19 cities and 22 towns had commercial/industrial/personal (CIP) property with a higher total FY03 assessed value than Saugus. In FY03, only 47 communities raised more tax dollars from CIP properties than Saugus where the amount represented 37.4 percent of all the town's local tax revenue, or approximately \$13 million. This total includes \$5.7 million that the town was allowed to shift, through the imposition of a split tax rate, from residential to CIP property owners. Only 48 communities, mostly cities, are permitted to raise their CIP tax levy to the maximum 1.75 times the residential share, and Saugus is only one of 18 that actually does.

A high inventory of CIP property, and the ability to shift the tax burden to the maximum allowed under state law, have helped keep residential tax bills low. In FY03, the average single family tax bill in Saugus (\$2,505) was 7.5 percent below the state-wide average (\$2,709). In fact, according to DOR records, the town's average single family tax bill has trailed behind the state-wide average in each of the last ten years, and overall, has escalated at a slightly lower rate.

On the negative side, the activity along the Route 1 corridor often places a disproportionate demand on town resources. A multitude of restaurants require health inspections. Entertainment establishments require police and fire services. Constant tenant turnover, and on-going property upgrades, place pressure on inspectional services. Now, at a time of significant budget constraints, the commercial/industrial districts are, in a sense, competing for services with the residential sections of the town.

The town is, in turn, confronted with questions of whether or not to expand town services to meet this broad-based demand which would require a corresponding reallocation of existing, or infusion of new, revenue. However, like most communities, the town is restricted in this regard by its reliance primarily on property taxes, state aid, local receipts and reserves to fund its budget. Although these sources can reach, they seldom grow at, significant and sustainable

new levels. As an alternative, when revenues fail to keep pace with expenditures, cities and towns turn to overrides and debt or capital exclusions under Proposition 2½. In this regard, Saugus voters were asked to consider three operational override questions, totaling \$1,090,000 million, for the police, fire and school departments on November 4 of this year. All three were rejected. In May 2003, voters rejected an \$86.5 million school debt exclusion and \$1.6 million override for schools by a 2-to-1 margin.

Whether or not successful, overrides cannot avert the dramatic economic swings that place a continuing burden on local government to manage well and spend wisely. A town manager, as well as department heads, must look for ways to gain efficiencies and productivity in the day-to-day administration of town business. At the policy level, decision makers must consider how best to use, maintain and replenish reserves, such as free cash and stabilization. Rules should guide the expenditure of any new revenue source. In Saugus, there is evidence that the board of selectmen, finance committee, town manager and town meeting members try to act in accordance with fiscal guidelines, but the rules appear to be informal and applied on an ad hoc basis. We believe they should be expanded and formalized.

Other economic gains can be realized through improved proficiency of town hall operations. In this regard, Saugus has a solid foundation in its town manager form of government. However, with just over six months in office, the town manager continues to navigate town practices and procedures, as well as acclimate to staff. The accountant has held his position for about a year, and the treasurer/collector is on a three-to-four month leave until December. Budget cuts have prevented hiring in town offices and unanticipated absences have further depleted the workforce.

Periods of unsettled conditions such as these are common in local government and often times cause a shift in the immediacy of issues. The resultant volume of every day decisions can easily divert the attention of administrators away from those matters that have long term implications on how effectively town government works. With this in mind, we encourage the town manager to place a priority on an evaluation of financial management systems, practices and procedures. As a start, we recommend changes in personnel administration, purchasing, technology, and the budget process.

At a higher level, we examined the structure of government itself. Under the charter and by-laws, and in accordance with state statutes, executive powers are vested in the board of selectmen. Legislative powers are conferred on a town meeting, which in the case of Saugus, is a 50 member, elected body representing a town-wide population of 26,000. Local elections are in November, rather than in the spring, and all five selectmen are elected simultaneously every two years, rather than for longer, staggered terms. In the recent November 4 election, seven of ten incumbents - three on the board of selectmen and four on the school committee - were not returned to office. We suggest that as a matter of course, government structure is a legitimate area of discussion when the by-laws and charter are next scheduled for review.

We also make recommendations intended to improve operation in the various finance offices. Those and others are summarized below and presented in more detail in the remainder of this report.

Overall Financial Management - The overall financial management of the town is in the hands of a mix of experienced and relatively new people. Town government functions adequately, but there is reliance on procedures and systems that have been in place for an extended period and in some instances are ready for improvement. In some instances, our recommendations are intended to bring the town into more technical compliance with the requirements of state statutes. Other recommendations ask the town to open its collective mind to new directions. More than anything else, our approach is to encourage clarity and certainty to policies and procedures that will endure as those in elected and appointed positions change over time. Therefore, we propose formalizing financial policies, acting to avoid December town meetings, and strengthening town by-laws and charter through recodification and review.

Personnel System - Glaring at town hall is the absence of an employee performance evaluation system. Although referenced among the duties of the personnel board in the by-laws, the board itself has no members. Instead, we recommend that a personnel by-law be adopted and responsibility be placed with the town manager for its implementation. As is already the case, many of those duties would be carried out by the personnel assistant. Such a by-law would address the circumstances of department heads who are not currently covered by any collective bargaining agreements. With performance evaluations, the town manager, department managers and staff will have a clear understanding of their respective responsibilities and the expectations placed on them. As a result, goal setting and accountability will be strengthened. We also recommend that all job descriptions be updated with an intent to create efficiencies and better allocate personnel resources.

Purchasing - The purchasing assistant has little leverage, on her own, to compel strict adherence to a purchase order system. As a result, there are instances when the system is by-passed. At other times, the volume of purchase orders to be processed, because of low cost thresholds, disrupts the process. To function as a financial control mechanism, department heads, as well as vendors, must understand the system and recognize that invoices will not be paid when procedures are ignored. Instituting a requisition process to precede the issuance of a purchase order would help in this regard. Raising the cost threshold over which all purchase orders are required would also help ensure that the system works as intended. To gain efficiencies, we further recommend that consideration be given to merging the purchasing assistant's and accountant's purchasing functions.

Computers and Technology - While the town is making some progress, there is no overall technology program and no single person whose sole responsibility is to direct and enhance the town's computer capability. The system appears to work on a department by department basis.

There is no hardware replacement schedule, no on-going training effort, and no real means to evaluate how computer capability can dovetail with financial management policies and practices to maximize efficiencies and minimize problems. We recommend the creation of a technology position to address these important issues.

Assessors - The overwhelming issue facing the assessing office involves staffing and the current burden of responsibility, which by necessity, is disproportionately placed on the deputy assessor. Unexpected turnover and the lack of experience among replacement staff contribute to a situation where the ability of the assessing office to function is totally dependant on one person. If needed, there is no other person in town hall qualified to fulfill office responsibilities on a day-to-day basis. Still, the office accomplishes requisite tasks and with a recent new hiree, the situation is likely to improve. The DOR Bureau of Local Assessment regards the assessing office as a well managed operation, but fundamental changes should be considered.

Treasurer/Collector - Despite the added burden of managing the water/sewer program and processing the mail, the Saugus treasurer/collector and her staff effectively meet office responsibilities. In some instances, because of the time devoted to these atypical duties, it seems that more traditional tasks are slow to get done. In other cases, office procedures may sometimes be more comprehensive than is necessary. Overall, the office, particularly in the temporary absence of the treasurer/collector, effectively completes a high volume of work on a timely basis.

Accountant - The accountant and the assistant accountant both began service in the office at a time when a transition from a Statutory to a UMAS system of accounting was taking place. The conversion was made more difficult by efforts to reconcile meaningless statutory numbers, incorrect balances carried forward and a series of audit adjustments that were never posted. However, now that the transition is substantially complete, the accountant should meet with staff to reinforce critical office tasks, as well as identify and remove obstacles that prevent their timely completion. The office should look to increase the use of computers and eliminate unnecessary and time consuming tasks.

SUMMARY OF PRIMARY REPORT RECOMMENDATIONS

Overall Financial Management (page 8)

- 1) *Modify Budget Presentation for Town Meeting*
- 2) *Avoid December Town Meetings*
- 3) *Formalize Policies on the Use of Free Cash, Stabilization and other Reserves*
- 4) *Re-Evaluate the Town's Capital Improvement Program*
- 5) *Use Targeted Stabilization Funds*
- 6) *Approve Enterprise Funds by Separate Budget Articles*
- 7) *Review Revolving Account Annual Authorizations*
- 8) *Initiate By-Law and Charter Reviews*

Personnel (page 14)

- 9) *Commit to a Performance Review Process*
- 10) *Rescind the Personnel Board and Adopt a Personnel By-Law*
- 11) *Review and Update Job Descriptions*

Purchase Order System (page 17)

- 12) *Institute a Purchase Order Requisition System*
- 13) *Raise the Purchase Order Threshold*
- 14) *Consolidate Purchase Order Review Functions*
- 15) *Require Town Manager Signature on Emergency Purchases*
- 16) *Explore Options for Electronic Purchase Order System*

Computers and Technology (page 20)

- 17) *Create a Technology Position*
- 18) *Enhance Employee Training and Expand Use of Software Applications*

Assessors (page 22)

- 19) *Increase the Responsibilities of an Office Clerk*
- 20) *Develop an In-House Data Collector Role*
- 21) *Mail Income and Expense Surveys Annually*

Treasurer/Collector (page 25)

- 22) *Separate Water/Sewer Commitment from Collections*
- 23) *Explore Vadar Report Capability to Shorten Water and Sewer Bill Processing*
- 24) *Enhance Lockbox Utilization*
- 25) *Explore Vadar Bar Scanning Capability*
- 26) *Redesign Departmental Turnover Sheets*

Accountant (page 28)

- 27) *Cease Posting School Department Line-Item Transfers*
- 28) *Automate Record Keeping for Sick Leave and Vacation Time*
- 29) *Institute Direct Deposit Program*
- 30) *Leave Invoices Without Purchase Orders off the Warrant*

OVERALL FINANCIAL MANAGEMENT

A review of the town's overall financial management practices focuses on the procedures in place to accomplish tasks that typically cross over among various municipal departments, and that tend to impact town government on a global basis. Accordingly, we examined the budget process and the payroll and vendor warrant processes. We looked at long-term planning, financial monitoring practices and financial policies, as well as the effect of the town's organizational structure on the operation of government. We examined the purchasing system and personnel administration. We considered the level of communication and cooperation that exists among offices. Finally, we reviewed compliance with state law relating to finance issues, adherence to form, and to timetables for the submission of periodic reports to DOR.

In this context, the town manager entered his first annual budget process pursuant to procedures in place prior to his arrival. He has worked with the selectmen, finance committee and with town meeting. The process is typical of most towns. An atypical characteristic of town government is the frequency of special meetings throughout the fiscal year and the number of financial articles that are included on those warrants. Otherwise, we took note of the presentation to town meeting members of budget data in two separate documents. We suggest that the town manager and the finance committee consider how the two might be consolidated into a more streamlined, straight forward document. In our review of individual budget articles, we offer suggestions for changes that bring text and form closer to compliance with the requirements of state statutes.

We traced the town's capital improvement program back to 1995 and to the authorization of the debt service reserve fund as a financing mechanism. The annual budget also includes capital outlay line items that are recommended from requests made by department to the town manager. However, as the reserve fund is depleted, additional importance will be placed on a process to establish capital improvement priorities. Notwithstanding fiscal constraints, we encourage the town to re-examine its capital program with an intent to implement an on-going review process.

Outside the budget process, we looked at the steps involved with preparing weekly vendor and payroll warrants. A schedule is set out and works well, but examination of the process has exposed other areas where we have directed attention. In particular, backlogs can result in the approval of vendor invoices through the warrant and the issuance of checks before the required purchase order process is complete. In the preparation of the payroll warrant, time is consumed as the payroll clerk manually logs sick and vacation days from time sheets. We have addressed both these issues, but would otherwise advise the town accountant to withhold invoices from the warrant when not accompanied by purchase orders. Similarly, the town manager should ensure that he attaches his signature to payroll warrants in time to allow the lawful distribution of checks each week.

Bureau of Accounts (BOA) and Bureau of Local Assessment (BLA) records suggest that reports requiring input from multiple finance officers are effectively coordinated. The town's tax recapitulation sheet, year-end balance sheet and Schedule A have, in recent years, been completed and submitted on a timely basis. However, special town meetings in December have occasionally delayed submission of the recap sheet.

Finally, although the town operates under a well-established form of government, the underpinning structure has not been sufficient to provide continuity in the exercise of executive and administrative authority. The practices of the selectmen and finance committee in financial management matters are often times sound, but are not formally documented. With each new town manager comes a divergent management style which subjects the town employees to an inconsistent interpretation and application of these informal policies. Our response is a recommendation to formally adopt fiscal policies noted in this section. In later sections of this report, we recommend the adoption of firm policies in purchasing and personnel practices. Finally, on a higher level, we recommend the recodification and substantive review of by-law and charter provisions.

RECOMMENDATION 1: MODIFY BUDGET PRESENTATION IN TOWN MEETING WARRANT

We recommend that the proposed budget be incorporated into the Town Meeting warrant.

Under current practice, town meeting members receive an advance copy of the town meeting warrant, the town manager's "budget workbook", and the Finance Committee (FinCom) Report in a separate spiral-bound booklet. Each includes projected revenues and departmental expenditures, while the FinCom report has additional summaries, graphs, charts and in various levels of detail. Town meeting votes the finance committee recommendation, but it's not immediately clear which budget format or what level of detail presented in the FinCom Report booklet is actually voted.

We recommend that the town manager and the finance committee work together to produce a single budget document which would reflect the budget process, but also function as the Finance Committee Report to town meeting. Prominent would be the FinCom narrative report followed by the budget recommendation in the line-item detail to be voted by town meeting. All other revenue and budget information, including summaries, charts, etc. and other data typically presented in the town manager's workbook and in the Finance Committee Report can be attached as back-up documentation.

This, or a similar structure, presents all budget information in a single document, including departmental requests, the town manager's recommendation, the selectmen's action and FinCom recommendation. However, it would clearly distinguish the FinCom budget recommendation to be voted by town meeting members from data intended as back-up, and not subject to town meeting approval.

RECOMMENDATION 2: AVOID DECEMBER TOWN MEETINGS

We recommend that that the town work to limit the number of special town meetings and the number of finance related articles. In the last three fiscal years, Saugus town meeting has met in annual session and then in special session an additional 11 times . In two of the last three years, the town meeting was still making decisions impacting the tax rate well into December. As a result, undue pressure was placed on town finance officers to complete and submit the Tax Recapitulation Sheet to DOR for approval of the tax rate by the December 31 deadline.

We recommend that the town manager, board of selectmen and finance committee reach agreement on major budget decisions and resolve other finance related issues by September. A policy might also restrict, or otherwise seek to reduce the number of spending articles on special town meeting warrants. There are always exceptions, but when moderate and legitimate, unanticipated costs arise, i.e., a special election, most towns turn to the FinCom reserve as an appropriate funding source. The overall goal is to create budget certainty earlier in the fiscal year, and to avoid late decisions that risk compromising the town's ability to submit a timely Recap Sheet to DOR.

RECOMMENDATION 3: FORMALIZE POLICIES ON THE USE OF FREE CASH, STABILIZATION AND OTHER RESERVES

We recommend that the board of selectmen formalize a policy that establishes guidelines for funding and appropriating from free cash, stabilization and other reserves. Some of what we mention below is already known to decision makers and part of the informal policy that guides their actions. Our recommendation is that the selectmen, working with the town manager and finance committee, develop a formal, written policy.

As a matter of policy, towns often decide whether free cash will be used as a revenue source only in the upcoming fiscal year budget, or only as a supplemental source in the current year. In either event, the policy should limit the amount that can be used, or establish an amount that must remain as a starting point for next year's free cash calculation. Target free cash levels should be set.

In regard to stabilization, a policy should identify target levels in a total dollar amount or as a percentage of the total annual budget. The policy might also specify that excess free cash or certain, recurring income streams become a funding source. The use of stabilization might be restricted to non-recurring expenditures and to an amount above a certain dollar threshold. As an option, new state law allows communities to authorize debt exclusions to fund special purpose stabilization funds. (See Ch. 46, §14 and §50 of the Acts of 2003 which amends MGL Ch. 40B, §5B).

Use of a finance committee reserve should be considered. Even a modest reserve can help the town enhance administrative oversight of the departmental budgets if policy dictates that requests must first be approved by the town manager. Over the course of the fiscal year, if legitimate, unanticipated costs can be paid from the finance committee reserve, the need for unnecessary special town meetings can be reduced. At year end, any remaining portion of the reserve can be transferred by town meeting to cover other deficits, or can be closed-out at year end.

Although overlay surplus can occasionally serve as a revenue source, it should not be relied upon as a reserve. With input from the board of assessors and deputy assessor, general guidelines for setting the annual overlay reserve should be agreed upon. If and when overlay surplus is available, additional policy guidelines should specify how that money will be spent, preferably for one-time capital or other non-recurring expenses.

RECOMMENDATION 4: RE-EVALUATE THE TOWN'S CAPITAL IMPROVEMENT PROGRAM

We recommend the town commit to a capital improvement program. As is typical in most communities, tight fiscal conditions often divert funding away from capital programs and in favor of other purposes. Even with a diminishing balance, the Special Debt Service Reserve represents money which is, by statutory language, restricted to debt service payments. Although this, or direct capital outlays, may only allow a minimal program, the review and prioritizing of town needs should be on-going. A five-year program should be developed, annually revisited and included in budget materials for the information of town meeting.

Oftentimes a capital improvement committee, or similar group, offers a mechanism to annually view and establish priorities on a global rather than department-by-department basis. 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: USE TARGETED STABILIZATION FUNDS

We recommend that the town use targeted stabilization funds rather than segregating Finance Committee Reserve funds. On June 16, 2003, the Annual Town Meeting "voted to transfer \$300,000 from the Stabilization fund to the Finance Committee reserve as a special school reserve fund for unanticipated School Department expenses such as Special Education Costs."

This is an inappropriate action. A special school reserve fund is not among those authorized by statute, and no part of a finance committee reserve balance can be lawfully set aside, or earmarked, for a particular, stated purpose.

However, as an alternative, the FY03 Municipal Relief Package approved by the Legislature and signed by the Governor, amends MGL Ch. 40B, §5B and now allows a community to establish one or more stabilization funds for different purposes. Appropriations both into and from such a fund requires a two-thirds vote of town meeting. The ceiling on the combined total annual appropriation to all individual funds (10 percent of the prior year's tax levy) remains and the overall limit (10 percent of equalized valuation) applies to the aggregate balance of all stabilization funds. However, interest earned now flows to the general fund. An amendment to MGL Ch. 59, §21C(g) also allow funding stabilization for a particular purpose through a debt exclusion. For more information on both amendments, we direct the town to the DOR web site and its Informational Guideline Release on the subject.

RECOMMENDATION 6: APPROVE ENTERPRISE FUNDS BY SEPARATE BUDGET ARTICLES

The FinCom is correct to list the enterprise fund appropriations at the end of the town budget 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 town manager and town accountant to the DOR publication entitled "Enterprise Funds" (June 2002) which outlines the proper procedure for presenting and approving enterprise fund budgets. It can be viewed at www.dls.state.ma.us under publications.

RECOMMENDATION 7: REVIEW REVOLVING ACCOUNT ANNUAL AUTHORIZATIONS

We recommend that the town act to ensure that revolving fund authorizations conform to statutory requirements. Massachusetts General Laws govern the purposes for which revolving funds can be established, the content of initial authorizations, as well as the requirements for annual re-authorizations, if any, by town meeting. By statute, the annual reauthorization of a general departmental revolving fund, created under MGL Ch. 44, §53E½, must identify the program and purposes for which collected fees may be expended; which department receipts are to be credited to the fund; the board, department or officials authorized to expend from the fund; and the limit on the total amount to be expended. A report to town meeting each year is also required under the statute.

It appears that these requirements apply to the Senior Center Programs and Activities, the Senior Lunch Program and the Water System Cross Connection Program revolving funds. Because it is unclear, the town accountant should verify under what statute the Vitale Memorial Park and the Recreational Programs revolving funds were created. The Wetlands Protection revolving fund does not require a re-authorization and can be omitted from the town meeting warrant.

RECOMMENDATION 8: INITIATE BY-LAW AND CHARTER REVIEWS

We recommend the town republish the town by-laws. In its present form, the town's by-laws are well organized, but accumulated amendments are included as add-ons and in a form as passed by town meeting. With republication of the by-laws, and acceptance by town meeting, those amendments (with citations) would be seamlessly incorporated into the by-law sections they impact. For easy updating, the by-laws can be recreated as a Microsoft Word document. A separate binder should be maintained to include the individual amendments in the form as passed by town meeting with citations that correspond to the revised by-law document.

We recommend that the town initiate a formal charter review process. The town's charter is a less organized collection of numbered and unnumbered pages. There is no table of contents or index. Amendments, many pre-dating the last publication date of January 1, 1996, have been merely inserted in the form they were passed by the Legislature producing a document with no consistency of format. Interspersed throughout are hand-written changes and marks which further confuse a reader.

There are also substantive issues worthy of review concerning the structure of local government, the timing of elections, and the terms of elected officials. Saugus operates under a town form of government with five at-large selectmen who are simultaneously elected every two years. While most towns hold local elections in the spring, Saugus elections are in November. We recommend that the town consider 1) expanding the selectmen's term to three years; and 2) staggering the selectmen's term of office so that no more than two board members are elected in any year.

As another example, charter review is an opportunity to clarify language and create consistency among provisions such as those relating to the appointment of a town manager. Currently, the town manager is appointed and removed by four-fifths vote of the board of selectmen. The charter is, however, silent on the number of votes to appoint a temporary town manager, or to re-appoint a sitting town manager. In considering these questions, the town might benefit from a discussion and evaluation of the four-fifths vote requirement to appoint, remove, as well as to re-appoint a town manager.

Changes of the kind recommended can only be achieved through the creation of a charter commission in accordance with Section 3 of Amendment Article II of the Massachusetts Constitution, which provisions are also replicated in the General Laws at Ch. 43B, §§3-12.

PERSONNEL SYSTEM

The town manager supervises a personnel department, which comprises one person, the personnel assistant. Under Section 506.00 of the Town By-Laws, the town manager is also called upon to appoint the three person, personnel board, which is currently without any members.

Under the by-law, the personnel board is directed to oversee a human resources system that incorporates a classification plan, an annual compensation plan, staffing controls, policies and procedures for recruitment, selection, promotion, transfer, performance management, discipline and removal of employees, as well as the adjudication of personnel grievances and appeals. The Personnel Board is assigned the responsibility to establish the hours of work, leaves and other benefits, and the compensation for non-represented employees not otherwise provided for in this by-law. In the absence of a board, the personnel assistant exercises most, but not all, of the duties assigned in the by-law to the board.

In Saugus, all town and school positions are covered by various collective bargaining agreements, with the exception of a class of town government managers. In the absence of a personnel board, no standards or policies establishing workplace rights or compensation for managers is in place. Over time, this void can present a risk of inconsistent or inequitable treatment within the class and in relation to other staff, the occurrence of which, in some respects, depends on the policies of individual town managers.

Nor is there a systematic process in place that provides for annual performance reviews of the town manager, department heads or staff. Evaluations appear to be conducted on an ad hoc basis, if at all, with no reference to a common procedural guideline or to performance parameters.

RECOMMENDATION 9: COMMIT TO A PERFORMANCE REVIEW PROCESS

We recommend that the town implement a program of employee performance reviews. The town manager should develop guidelines establishing a time, procedure and framework for reviewing the job performance of all town employees. Under a typical system, the selectmen would evaluate the town manager and the town manager would evaluate department heads. Staff evaluations would be completed by department heads.

Generally, such guidelines would set-out the purpose of the evaluation policy. They might identify step-by-step evaluation procedures that prompt a review of an employee's work responsibilities, previously established goals and performance. Guidelines should lead to agreement on new goals for the ensuing evaluation period.

In this way, employee evaluations can reinforce responsibilities and clarify job expectations for managers and staff with the message that their performance will be measured annually. If implemented in a methodical, even-handed way, regular job performance evaluations can reinforce accountability, bolster employee morale and elevate resident confidence in government.

Ultimately, the town manager's recommendations would be presented to the board of selectmen for approval and subject to the collective bargaining process.

RECOMMENDATION 10: RESCIND THE PERSONNEL BOARD AND ADOPT A PERSONNEL BY-LAW

We recommend that the town rescind the by-law creating a personnel board and adopt a personnel by-law in its place. The town should formally remove by-law language mandating the appointment of a personnel board by the town manager. Currently, the board has no members and its assigned responsibilities are carried out by the personnel assistant who reports directly to the town manager. Instead, steps should be taken to formalize personnel policies and procedures through the adoption of a new by-law. In general, it could mirror the responsibilities already enumerated in the personnel board by-law, but must be sure to cover department heads who are not currently protected by collective bargaining agreements. To ensure equitable treatment, the by-law should establish a classification system, managers' rights, obligations, and recourse in the case of dispute or grievance, or that set guidelines to identify and grant salary step raises. A by-law should contain uniform policies on the accumulation of compensated sick and vacation time for positions not covered by collective bargaining agreements. The creation of a management incentive program might also be part of the by-law to dovetail with performance evaluations as a basis for promotion and salary increase for department heads. As with performance reviews, aspects of this recommendation would take shape as a function of collective bargaining.

RECOMMENDATION 11: REVIEW AND UPDATE JOB DESCRIPTIONS

We recommend that the town manager work with the personnel assistant to review and update job descriptions for managers and all staff. Job descriptions have been updated for some positions, but not all. With the completion of this task, the town manager can better determine the most effective allocation of personnel resources in town hall. In the consideration of job functions, emphasis should be placed on gaining efficiencies by reducing paper work, increasing computer use, and eliminating unnecessary tasks in each office. We suggest the following areas are worthy of examination:

- a) Implementing bi-weekly payroll and vendor warrants.
- b) Automating the maintenance of employee compensated sick leave and vacation time.

- c) Ceasing to post school department line-item transfers.
- d) Merging the purchasing assistant's and accountant's functions in the purchase order process.
- e) Raising the purchase order threshold.
- f) Separating the water and sewer commitment from collections.

Some of these recommendations are discussed in other sections of this report. In some instances, changes will have to pass through the collective bargaining process. Each, however, can result in more efficient use of staff time.

PURCHASE ORDER SYSTEM

Under the current implementation of charter language and by job description, the town manager functions as the town's chief procurement officer. He is assisted by a purchasing assistant, who ensures compliance with MGL Chapter 30B for both town and school department purchases.

In accordance with procedural memorandums circulated in February 1998 and May 1999, a purchase order (PO) is required for all purchases of \$100 or more and a standard of good business judgment is applied relative to best price and quality service. Expenditures between \$1,000 and \$4,999 require three written quotes and for expenditures of \$5,000 and more, sealed bids are necessary as well as the vendor's signature on the purchase order. Under MGL Ch. 30B as most recently amended, the threshold for three written quotes is increased from \$1,000 to \$5,000, and sealed bids are necessary for purchases over \$25,000. The good business practice standard applies to purchases less than \$5,000.

The town uses a five-copy, numbered purchasing form which departments typically have on-hand. The purchasing assistant receives all completed POs and confirms compliance with MGL Ch. 30B and local policy guidelines. Usually within 48 hours, POs are sent to the accountant's office, where a clerk completes the verification process and encumbers department funds to cover the purchase. An emergency form is also used permitting a purchase solely on the assertion of the department head.

Even though a process is in place, it is not always followed and goods and services are sometimes purchased without going through the system. Asserting an emergency, in particular, is a means to by-pass the system. Because town policy dictates that the purchase of any goods or services with a value in excess of \$100 requires a PO, volume is heavy. It increases further because all school purchasing activity also goes through town offices. As a result, final approval is sometimes delayed in the accountant's office due to the sheer volume and because the clerk is drawn to other responsibilities.

RECOMMENDATION 12: INSTITUTE A PURCHASE ORDER REQUISITION SYSTEM

We recommend that the town require departments to requisition purchase orders. To enhance control and compliance with purchasing guidelines, we recommend that the department heads be required to requisition POs which would remain in the custody of the purchasing assistant. Only when the requisition has passed through all steps of the approval process would funds be encumbered, a purchase order be issued and the delivery of goods or services take place. Department heads, as well as vendors, should be put on notice that invoices will not be paid, if a required and approved PO is not attached.

RECOMMENDATION 13: RAISE THE PURCHASE ORDER THRESHOLD

We recommend the town revise the purchase order threshold from \$100 to \$500 for all town, as well as school departments. A purchase order threshold of \$100 reflects a policy that favors tight control and close monitoring of departmental spending. As a by-product, it substantially increases staff workloads. However, unless departments are habitually and flagrantly overspending their appropriations, the threshold need not be so low.

With town meeting approval of the annual budget, department heads are automatically authorized to expend their respective appropriations. Checks and balances are built into the verification process completed by the accountant before an expenditure is placed on the vendor warrant. The accountant reviews the invoice and certifies that funds are available to cover the cost, that the purpose is consistent with the intent of the appropriation and that no fraud is evident. Through review of monthly expenditure reports, the accountant has the responsibility to flag and report to the town manager and department head, accounts which are near depletion. Appropriate action can then be taken to avoid deficit spending.

With these safeguards in place, the more relevant question may be whether the time expended by the purchasing assistant reviewing POs for small dollar items is the most effective use of her time.

RECOMMENDATION 14: CONSOLIDATE PURCHASE ORDER REVIEW FUNCTIONS

We recommend that the review and approval functions of the purchasing assistant and the accountant's clerk be consolidated. To streamline the PO process, we recommend that responsibility for reviewing POs for compliance with MGL Ch. 30B and local policy, and also for completing the accountant's verification process and encumbering funds be consolidated in one person.

The most practical candidate for this role is the purchasing assistant. Her time availability should increase if the town raises the PO threshold, and if a PO system is implemented within the school department. The purchasing assistant would still have no authority to approve or disapprove the purpose or amount of an expenditure by a department, except if reasons arise through the customary certification process completed as part of the accounting function.

If this role were created for the purchasing assistant, she would need desktop computer access and training on the ACS software.

RECOMMENDATION 15: REQUIRE TOWN MANAGER SIGNATURE ON EMERGENCY PURCHASES

We recommend that the town manager sign-off on emergency purchases over \$1,000. The town has a procurement policy that allows emergency expenditures outside the purchase order

process. The determination of an emergency is unilaterally made by the department head through the submission of a form with no further review or approval. As is, this represents a well-intentioned, but fairly loose process that provides a means to by-pass procurement rules. To tighten controls, we recommend that the form be reconfigured to include the town manager's signature for any requested emergency purchase of \$1,000 or more.

RECOMMENDATION 16: EXPLORE OPTIONS FOR ELECTRONIC PURCHASE ORDER SYSTEM

We recommend the town explore options to implement an electronic purchase order system.

With expanding computer capabilities, town offices will have increased opportunities to communicate electronically. A natural direction is the implementation of an electronic purchase order system and a module that integrates with the ACS accounting software. Whether by emailing spreadsheets over the internet or installing software on shared drives, efficiencies can be gained in this way that reduce paper transfers and free-up staff time.

COMPUTERS AND TECHNOLOGY

Responsibility for the town's computer technology is generally assigned to the accountant's office, where the accountant oversees system improvements. The payroll/data processing clerk assists as a resource to other departments on matters involving, among other things, hardware purchases, software operation and vendor contact. The payroll/data processing clerk also backs-up financial and payroll data, and ensures that a five-day rotation of tapes is stored in a fire-proof safe on-site.

Otherwise, the deputy assessor is more active in managing the town's website and department heads are expected to identify and communicate their computer and software needs which is typically to the accountant's office on an ad hoc basis. To help, the town has contracts with IBM (ACS), Microsoft and Vadar for software support, and with IBM and MX Consulting for hardware support.

Despite the disbursement of responsibilities, the town recently made the transition from dial-up to high-speed cable internet access. All town offices now have email capability. Under a limited network, the town manager, treasurer/collector, accountant, police department and school department can now communicate and share financial data. The IBM AS400 server that supports the network was recently upgraded with additional disk space to accommodate a planned expansion.

Four other individual servers are dedicated to the treasurer/collector, assessors and town clerk and to network-wide shared use. The IBM AS400 unit supports the financial management software and, as noted, is also available to all departments on the network. Microsoft spreadsheet and word processing applications are available on all desktops. The accountant and treasurer use ACS (IBM) as the financial management software, the collector uses Vadar, while the assessing department is on the State CAMA property appraisal system.

RECOMMENDATION 17: CREATE A TECHNOLOGY POSITION

We recommend the creation of a technology position. As town government becomes more complex, greater dependence is placed on computers and software to manage every day finances. There is the added incentive to achieve money-saving efficiencies wherever possible. These goals more than justify the presence, and estimated \$50,000-\$70,000 salary, of a full-time information technology (IT) or management information systems (MIS) director.

With assigned responsibility, a knowledgeable technology person can monitor systems' performance, and produce a periodic report, or assessment, of the town's technology status. This, in turn, 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 person can advise the town on the tendencies, strengths or limitations of hardware or financial management software when changes to policy, procedures or practices are being considered. Everyday accessibility to a technology person can encourage dialogue on how increased computer use can ease office tasks. He or she can formulate guidelines on internet and email use and can serve as a focal point for contact with vendors. He or she can survey staff on computer usage, and set-up responsive training programs to increase overall computer proficiency in town hall.

RECOMMENDATION 18: ENHANCE EMPLOYEE TRAINING AND EXPAND USE OF SOFTWARE APPLICATIONS

We recommend a survey of town hall employees to measure computer proficiency with a view toward enhanced training. Technology is an essential and growing influence on municipal government. In Saugus, it appears that some staff do well in the use of technology, while others lag behind. As a result, they tend to be less enthusiastic about new uses of technology and the software applications available to them. However, even in the absence of a full-time technology person, an initiative should be taken to identify computer proficiency levels among staff. Perhaps a small committee of department heads should be asked to explore how technology can eliminate manual data entry and reduce paper records and redundancies. Ultimately, the town should seek to devise an on-going training program to encourage computer usage to create efficiencies in time and money.

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.

The board of assessors has three, part-time members each of whom is appointed by the town manager for a three-year term. With two members who have served since 1992 and one since 1996, the board is experienced as it provides overall policy guidance, and conducts abatement hearings. The office is managed on a day-to-day basis by a full-time, deputy assessor with 13 years in the position. There are two, full-time clerk positions, but because of a prolonged illness and unanticipated turnover, are occupied by temporary or part-time people.

In lieu of an in-house data collector position, the deputy assessor contracts-out for inspection services at an annual cost of \$35,000. Included in this amount is \$2,000 per year for RRC, an outside contractor, which updates and values personal property accounts. While contracting-out offers some flexibility, it creates an additional layer of management to ensure that inspection materials are prepared, that the three, part-time real property inspectors who also work for other communities are available, and that deadlines are met. Another part-time person is engaged for data entry.

The deputy assessor manages clerical staff and, because of inexperienced personnel, has been more involved in training and directing routine tasks. They include processing abatement and exemptions, updating property records from deed information, generating abutters' lists, processing motor vehicle excise bills. She inspects abatement properties, and oversees the activities of five, part-time, outside contractors who inspect sales, building permit properties and other properties as part of the cyclical inspection program.

Although data collection is contracted-out, the deputy assessor analyzes market trends based on additional sale and rental data for use in triennial revaluations and in decisions whether to make annual property adjustments in interim years. She ensures that sale questionnaires are sent to new property owners, that forms of lists to identify personal property are mailed annually, and that every three years income and expense information is requested of commercial and industrial property owners. She sets-up cost schedules and completes all the analysis necessary to determine whether annual value adjustments are warranted and, every third year, to complete triennial revaluations for residential properties. In the same way, she works with an outside contractor on commercial and industrial value adjustments. She also oversees the annual updating of maps by the town engineers.

The deputy assessor estimates new growth and is instrumental in the preparation of the town's Recapitulation Sheet, which is submitted to DOR for tax rate approval. She makes a presentation to the selectmen at the annual classification hearing and represents the town before the Appellate Tax Board on appeals involving residential properties.

The office uses the State Computer Assisted Mass Appraisal (CAMA) software which, with the purchase of new hardware, was recently upgraded from a Unix to a Windows-based version. The office will fully convert to the new software this fall, but will operate parallel systems until FY05 which is a certification year. The CAMA system operates on its own server and network within the assessing office which is typical. When the tax commitment is completed, the deputy assessor converts the annual tax commitment to an ASCII format so that it can be uploaded to the collector's Vadar software. Otherwise, the office utilizes Excel spreadsheets.

RECOMMENDATION 19: INCREASE THE RESPONSIBILITIES OF AN OFFICE CLERK

We recommend that the deputy assessor increase the responsibilities of a clerk position. The deputy assessor should consider how to enhance or redefine the responsibilities of a clerk position so that routine day-to-day tasks can be completed without the necessity of her involvement and so that the office can function adequately in her absence for a prolonged period. If the deputy assessor is relieved of the inordinate amount of time she presently expends guiding clerical staff, she would have more time for higher priority, higher level management tasks and data analysis.

Staff continuity is an important factor in reaching this point. As significant is a commitment of resources from the town for computer and job training. Notwithstanding the tight fiscal circumstances under which the town operates, this represents a prudent investment that will save money in the long-run. It is also an important step toward relieving the deputy assessor of work more appropriately left to staff than management, and will result in a far more efficient use of her time and a more effective expenditure of town money.

RECOMMENDATION 20: DEVELOP AN IN-HOUSE DATA COLLECTOR ROLE

We recommend that the deputy assessor develop an in-house data collector role. This recommendation suggests that the deputy collector reconsider, perhaps through a cost-benefit analysis, how best to spend \$35,000 which has annually been appropriated for data collection purposes. Although using the appropriation to contract-out with capable, part-time data collectors offers flexibility, the arrangement has also created economic costs through added administrative burdens. It is possible that, over the long term, greater efficiencies and benefits can be gained instead with a full-time, in-house data collector. As a start, the data collector can be responsible for inspections of sale properties (250± residential sales per year) and building permit properties (500-600 per year). Abatement properties could add another 100± inspections. These inspections would also contribute to the property data recollection program

which is now on a six year cycle. A national survey of inspection rates (properties per day), suggest that a cyclical program involving 9000-10,000 properties could be completed in six-to-nine years. However, to accomplish the program in six which is generally preferred, additional or periodic data collection services may be necessary.

RECOMMENDATION 21: MAIL INCOME AND EXPENSE SURVEYS ANNUALLY

We recommend that income and expense surveys be mailed annually. Income and expense information returned by commercial and industrial property owners is essential data for annual property valuation adjustments and in the triennial revaluation years. To help increase the survey response rate from landlords and owner-occupants, we suggest that the assessors mail surveys every year, rather than every three years. If business people see the survey more frequently, and see evidence that confidentiality is honored, they may become more comfortable with the process and more disposed to respond. A cover letter can emphasize how the data is used, the importance of reliable information and the procedures imposed to ensure confidentiality of the information submitted. The letter should underscore how an inaccurate assessment and an inequitable tax distribution can result for property owners in the absence of good data.

TREASURER/COLLECTOR

The current treasurer/collector was appointed by the town manager to the combined position in 1999, after having served as the Saugus town accountant for five years. She is assisted by three, full-time staff members and a two-day a week clerk, who splits her time with the Zoning Board of Appeals. Currently, the assistant treasurer/collector manages the office while the treasurer/collector is on personal leave.

The office collects taxes for approximately 9,920± real property parcels and 500± personal property accounts on a quarterly basis. About 22,000± motor vehicle excise bills are mailed annually. Payments are made to a lock box at Century Bank, over the counter and by mail. The office uses Vadar software for collector functions and the ACS software for treasurer functions.

As required, the collector maintains an electronic receivable control record, and although the process has stalled slightly in the absence of the treasurer/collector, receivables are reconciled on a regular basis with the accountant. Posting of receipts is up-to-date, and bank deposits are made on a daily basis. The office has procedures to place properties in tax title, issue municipal lien certificates, and to turnover cash to the treasurer. On the treasurer's side, an up-to-date cash book is maintained, as are debt schedules and tax title account files. Submission of a treasurer's schedule of receipts to the accountant has been on a monthly basis, but a more frequent transfer is planned. The treasurer otherwise meets with the accountant regularly to reconcile cash and debt.

In an atypical organizational structure, the treasurer/collector also oversees the water and sewer program. She manages an additional full-time, meter reader/repair person, and four part-time meter readers. Meter readings for most residents are key-punched into hand-held units, uploaded into water-sewer software and then transferred to the Vadar database. For a six-week period, every six months (October and May), the treasurer/collector, assistant and a clerk spend a significant portion of their time scheduling meter repairs and administering the billing process which involves manually scanning approximately 10,000 water and sewer bills to identify potential problems.

The office is also called upon to process town hall mail. Every day, a clerk is drawn away from the office to run out-going letters and packages through the postage machine and to deliver the accumulated mail to a pick-up spot.

RECOMMENDATION 22: SEPARATE WATER/SEWER COMMITMENT FROM COLLECTIONS

We recommend that the town separate responsibility for creating the water and sewer bill commitment from the collection function. As a matter of sound financial management practice, those responsible for determining payments due the town should not also be charged with

collecting those payments. That is why the assessors' create then transfer the real estate tax commitment to the collector to receive payments. Motor vehicle excise commitments are treated the same way, and so should water and sewer billing. Presently, the treasurer/collector's office creates the water and sewer commitment, and is, at the same time, responsible for receiving water and sewer payments. We recommend, instead, that creation of the water and sewer commitment be transferred to the Department of Public Works.

RECOMMENDATION 23: EXPLORE VADAR REPORT CAPABILITY TO SHORTEN WATER AND SEWER BILL PROCESSING

We recommend that the town contact Vadar to determine whether its software can generate water bill variance reports. The treasurer/collector and her assistant expend an inordinate amount of time manually scanning 10,000± water/sewer bills in search of abnormal variances in resident charges from one billing period to the next. The print-out reflects meter readings stored in the Vadar software database.

While we appreciate the diligent effort and genuine concern that users should not have to deal with billing errors, to an objective viewer, the time diverted from regular treasurer/collector functions is not justified. As recommended above, the preferred alternative is to remove the water and sewer operation from the treasurer/collector's office and into a separate department. However, whether or not this is an option, the town should communicate with a Vadar representative to learn if a variance report can be generated by the software. Ideally, such a report would extract only those accounts where the current charge varies from the corresponding prior period by a set percentage, say 20 percent. As a result, the number of accounts to be reviewed would be substantially less than the current workload. If the software does not have the capability to produce a variance report, Vadar representatives should be asked to complete the necessary programming to add one to the list of available reports, even at a cost.

RECOMMENDATION 24: ENHANCE LOCKBOX UTILIZATION

We recommend the treasurer/collector explore ways to maximize the use of the lockbox. Under the town's current two-year old arrangement with Century Bank, a lock box is used for quarterly real estate payments, semi-annual water/sewer bills and the first commitment of motor vehicle excise payments. However, payments are first received at town hall where some level of sorting takes place without opening envelopes, then those intended for the lock box are picked-up by courier. Apparently, an earlier, unsatisfactory relationship with another lock box service and an incidence of errors with the current service have tempered confidence in the process. It's our understanding that bad experiences in the past with bar codes, as well, has served as a disincentive to greater lock box use.

In our experience, communities have generally had good experiences when maximizing a lock box service. As an immediate benefit, staff time would be freed-up if all payments were directed to the lock box without a stop at town hall. In its service agreement, Century Bank can be directed to process only those payments where the check amount matches the bill amount, or the bank can be instructed to also process "over and under" and "mixed multiple" payments. Under typical arrangements, payments are deposited by the service, and the day's activity is delivered to the town daily on computer disk and in hard copy. For some communities, between the lock box payments and tax payment services, manual posting has decreased by 75-85 percent.

If there are lingering doubts about the accuracy of bar codes or alpha-numeric codes, reassurances about the current technology should be sought from the vendor. If there is an unacceptable incidence of errors that create work at the treasurer/collector's office to correct, again, the vendor should be contacted to identify the source of the problem. If responses to demand letters or other mass correspondence are to be directed to town hall, the firm that prints, stuff and mails should be able to accommodate an address change on the return envelop.

RECOMMENDATION 25: EXPLORE VADAR BAR SCANNING CAPABILITY

We recommend that the treasurer/collector communicate with Vadar to inquire about the bar coding and scanning capability of its software. Even with full lockbox utilization, a certain number of payments for taxes and other charges will be received over the counter at the treasurer/collector's office. Vadar advertises on its website that bar coding and scanning configurations are available for use with its real estate and utility billing software. In this way, manual data entry is eliminated as payments can be immediately posted when received, or at a later time. In its conversations with Vadar, the town should also inquire about the need, if any, for hardware upgrades, and scanning units or wands. In general, scanning technology has reached a high level of reliability and should be examined as a more efficient way to post payments.

RECOMMENDATION 26: REDESIGN DEPARTMENTAL TURNOVER SHEETS

We recommend that the treasurer/collector redesign departmental turnover sheets. Most communities are moving toward utilization of turnover sheets designed as Excel spreadsheets in a single format, but customized by department. Typically, the form is created once as a template and emailed or manually distributed to each department. The name of the department is at the top of the page with appropriate locations at the top or bottom for dates, affirmations and signatures. The form is also preprinted with one column that lists all the revenue types that originate from the department and a second column with corresponding account numbers. A third, blank column allows for the manual entry of turnover amounts. If entered electronically, the total can be automatically calculated at the bottom.

ACCOUNTANT

The present town accountant took the position in September 2002 following service in similar positions in Melrose and Newburyport. He is assisted by three full-time staff members including an assistant town accountant, a payroll clerk and an accounts payable clerk. The town's retirement administrator is also located in the office, but is not part of the accountant's staff.

Although their respective titles suggest specific areas of responsibility, none of the staff have written job descriptions. The accounts payable clerk receives and processes both town and school purchase orders, prepares vendor warrants and separately logs sick and vacation time. The payroll clerk receives timesheets, prepares payroll warrants and also functions in a technology capacity in town hall. The assistant accountant duties are generally wide-ranging. Among other things, she reconciles cash, and school department grants. She will begin posting all journal entries in FY04, and already posts all school department line-item transfers. She generates revenue reports (on request) and expenditure reports (monthly) for all departments and when needed, assists with payroll or accounts payable. The accountant manages staff, oversees the operation of the office, and functions in an informational technology advisor capacity.

The office uses the ACS (IBM) financial management package for the general ledger, payroll, and accounts payable. The office also has access to a budget module, but the accountant only uses it as a means to transfer annual, line-item appropriations into the chart of accounts. With input from the accountant, the town's independent auditor developed a new chart of accounts as part of the town's conversion to UMAS accounting beginning in FY04. At the time, staff received training on UMAS, but not in the use of the software. The ACS software is accessible on a limited network that connects the treasurer, town manager, clerk, police and fire departments, but which is to be expanded to all other town departments. With the exception of the treasurer's schedule of receipts each month, electronic transfers are few.

As part of the budget process, the office receives departmental budget requests and enters them onto Excel spreadsheets and into a working budget document for the town manager. The accountant is also involved with the finance committee during weekly budget hearings throughout February and March.

Warrants are prepared for approval on a weekly basis. The payroll clerk receives timesheets from departments, keys in the employee hours, and extracts withholdings for a payroll warrant by Wednesday. Checks are attached to the warrant, forwarded to the treasurer for her signature and available to employees by Thursday of each week. However, in an unusual arrangement, accountant's office staff deliver employee checks to two local banks, while couriers from two other banks pick-up checks at town hall. In each case, checks are deposited and cash is available to employees. The town has direct deposit software, but it is not in use.

The preparation of vendor warrants follows an equally consistent weekly process. Vouchers are submitted by Monday afternoon by department heads allowing warrants to be completed by Wednesday. Upon approval, the treasurer signs checks which, if cash flow allows, are mailed by Friday. In some instances, invoices are submitted and placed on the warrant without an accompanying purchase order. Other times, invoices are placed on the warrant even though purchase orders approvals are backlogged in the accountant's office, or purchase orders post date invoices.

In general, the recommendations that follow are intended to result in more effective use of staff time.

RECOMMENDATION 26: CEASE POSTING SCHOOL DEPARTMENT LINE-ITEM TRANSFERS

We recommend that the accountant no longer post line-item transfers received from the school department. Under the fiscal autonomy granted with the passage of Proposition 2½, the school department is free to transfer funds between and among all budgetary line items as the need arises without town meeting approval. Its budgetary responsibility is not to exceed the approved bottom line, total appropriation.

As is typical, the Saugus school department exercises this authority with frequency. However, unlike most communities, the Saugus accountant posts each and every transfer which unnecessarily creates work and diverts staff time from other important tasks. While this practice provides town officials with an informative, on-going picture of the school spending trends, neither the accountant, town manager, nor any other town official has the authority to stop or alter any transfer. The accountant's responsibility is only to track total school expenditures against total appropriations to ensue that deficit spending does not occur.

RECOMMENDATION 27: AUTOMATE RECORD KEEPING FOR SICK LEAVE AND VACATION TIME

We recommend that the accountant seek options for automating record keeping for sick leave and vacation time taken by employees. Currently, the payroll clerk maintains a single -page, 12-month calendar for each town employee in a three-ring binder. Each payroll period, she manually circles the dates on an employee's calendar taken as a sick or vacation day as indicated on the time sheet submitted and signed by the department head. At the end of the year, when the accountant must determine the town's liability for compensated sick leave and vacation time, she leafs through the binder page-by-page and calculates totals.

The accountant should explore whether the ACS payroll automatically accounts for and calculates employee compensated sick leave and vacation time. If not, the accountant should work with the payroll clerk to at least develop an Excel spreadsheet as a central repository for the information. It would still require manual data entry, but the calculation of periodic and year-end totals would be automatic.

RECOMMENDATION 28: INSTITUTE DIRECT DEPOSIT PROGRAM

We recommend that the accountant take the necessary steps to institute a direct deposit program. Weekly payroll checks are currently hand delivered to two local banks, while two others send couriers to pick-up checks at town hall, as a means to replicate the benefits of a direct deposit for employees. By any measure, this is an inefficient and unjustified use of staff time. The town already has the capability to make electronic fund transfers, and as we understand it, possesses the appropriate software to implement a direct deposit system, but it is not being utilized. We encourage the town manager to investigate why this is the case, to address any concerns about the software, and take the steps necessary to implement a direct deposit system.

RECOMMENDATION 29: HOLD INVOICES WITHOUT PURCHASE ORDERS FROM THE WARRANT

We recommend that the accountant refuse to place any invoice on the vendor warrant for payment which is not accompanied by a correctly issued purchase order. In order to function as a fiscal control, a purchase order must attach to an invoice as a prerequisite to the payment for goods or services over the established threshold. When an invoice arrives, it serves as evidence that goods or services have been delivered. As a further check, the accountant then verifies that the details of the previously issued purchase order matches the invoice. The accountant should also work with the purchasing assistant, under the direction of the town manager, to advise department heads and vendors that no payments will be made on invoices unless accompanied by a purchase order.

ACKNOWLEDGEMENTS

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