Town of Swampscott
Financial Management Review

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 Swampscott.

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 (BOA), Bureau of Local Assessment (BLA), and Municipal Data Management & Technical Assistance Bureau (MDM/TAB). During these visits, the team interviewed members of the board of selectmen and finance committee, the executive secretary, accountant, assessors' office staff, treasurer, tax collector/town clerk, and other municipal office staff.

DLS staff examined such documents as the tax rate recapitulation sheet, town reports, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness and other assorted financial documents.

The purpose of this review is to assist town officials and boards as they evaluate the town's financial management. In reviewing the existing financial management, we have focused on: (1) the town government structure in the context of the duties and responsibilities of financial officers; (2) the degree of coordination and communication among relevant boards and officials, (3) the performance of financial operations in such a way as to maximize resources and minimize costs.

The board of selectmen should consider the recommendations contained in this report in formulating overall strategies for improving the town's financial management. Many recommendations in this report can be implemented without a major change in the current structure of town government given sufficient cooperation among town boards and officials. However, our most significant recommendations will require substantial changes to the town's charter.

EXECUTIVE SUMMARY

BACKGROUND

Swampscott is a desirable, seacoast community located approximately 12 miles north of Boston. The town has a population of about 14,400 and a FY2001 budget approaching $35 million. Swampscott consists of slightly more than three square miles of land area and, as a result, is relatively densely populated. The town's property wealth and tax base is highly concentrated in the residential property class, with the residential class comprising 92.2 percent of the total assessed value and the commercial, industrial and personal property classes only 7.8 percent. Due to the small land area and the fact that much of the land has already been improved, the town has limited opportunities for development. As a consequence, Swampscott receives little benefit from new growth to expand the tax base and add to the levy limit under Proposition 2 1/2.

The town's 2000 equalized property values (EQV) per capita are 132 percent of the state average and the town's per capita income is similarly above the state average. As a result of its above average wealth, Swampscott receives a fairly low percentage of its total revenues (11.8 percent in FY2001) from state aid. Combined, these factors contribute to a heavy reliance on the tax levy, and in particular the residential taxpayers, to fund the town's operating and capital budgets. In FY01, the town levied to its full levy limit under Proposition 2½ and the average single-family tax bill was $4,478. The mean single-family tax bills are above average in a group of twenty towns comparable to Swampscott based on population and property values (See Appendix A).

FISCAL CHALLENGES FACING THE TOWN

The convergence of a couple of factors makes the upcoming years a crucial period for Swampscott. First, the town is facing a potential FY2002 budget shortfall of approximately $2 million based on departmental requests. Increasing health insurance costs, escalating school costs, and only incremental revenue growth are all contributing to the town's budget balancing difficulties. In the short-term, these fiscal realities leave the town with few options but to appeal to the voters for an operating override to fund the FY2002 budget needs. If an override is unsuccessful, the town will have little choice but to deplete its modest reserves and cut services. Coming after several years of good economic times, and at the onset of more precarious prospects for the region, this is a disconcerting situation.

Further complicating the problem is the fact that the town is also contemplating a $35-$40 million school construction project. If the school project borrowing is authorized by town meeting, the town will need to approach the voters a second time for approval of a debt exclusion to pay for the project. Since there are finite limits on the amount of property taxes citizens are willing to pay, voters are likely to look critically at town government when making these choices. Among the things that will influence these decisions are citizens' perceptions of the credibility of town government and its ability to manage taxpayers' money in an efficient and effective manner.

When deciding how to respond to these challenges, we believe that the focus will inevitably turn to the issue of who is responsible and accountable for running the $35 million business of town government. Citizens will want to know who oversees daily operations and who ensures that these activities are performed in an efficient and coordinated manner. They will ask who is in charge of advancing careful strategies for minimizing costs and maximizing revenues, developing long-term financial and operating policies and implementing them across town departments. They will inquire about the town's organizational structure and whether or not it lends itself to distinct reporting relationships and

clear lines of communication. In government, as in any business, information management is a key aspect to developing and implementing effective policy. Important information that originates at the departmental level must be identified, compiled and disseminated on a regular basis to make good decisions.

RECENT CHANGES IN TOWN GOVERNANCE

In the ten years since our last financial management review, Swampscott has made certain changes to its government that were designed to improve communication and planning efforts. In our earlier review, DLS noted that the one-year terms of the town's board of selectmen created a lack of institutional stability. This made it difficult for the selectmen, as chief executive officers, to develop coordinated financial policies that reflected an awareness of the town's past course, yet articulated a long-term vision for the town. The town extended the selectmen's terms to three years in 1992 to create more continuity among its lead policy makers. We also recommended that the town establish a formal capital planning process and develop a multi-year revenue and expenditure forecast to be used in concert with the capital plan and other decisions with long-term implications. The town now compiles an annual capital plan and budget, however, we found that the town's multi-year forecast has not been maintained in the last couple of years.

Perhaps the most significant recommendation of the earlier report was the recommendation for full-time professional management. We recommended that, at a minimum, the town consider an executive secretary's position to serve as liaison between the selectmen and the various boards and departments to better coordinate financial management. Though we were not opposed to the proposal for a full-scale change to a town administrator form of government that was being considered at the time, we felt that appointing an executive secretary was a more moderate step toward full-time professional management. We further recommended that the executive secretary convene periodic meetings of the town's financial officers and department heads to compile, analyze and present financial information to the selectmen and finance committee. The purpose of this recommendation was to provide these bodies with comprehensive information so that they could formulate and implement consistent policies.

Although the town created its first part-time executive secretary's position in 1995, the position has not realized its full potential. We were aware that, given the town's decentralized structure (See Diagram 1 for organizational chart), an executive secretary's position might not succeed in the role we envisioned in the earlier report. We recommended that the town codify the responsibilities of the executive secretary through town bylaws to assist in this regard, but underscored that department heads and finance officers must work cooperatively within this structure. We felt that even with bylaws in place, the town lacked clear lines of authority and accountability. In the paragraphs that follow, we will discuss how the executive secretary's role has evolved to its present state.

EVOLVING ROLE OF THE EXECUTIVE SECRETARY

Although the executive secretary's position has since been expanded into a full-time position, it has not been vested with sufficient financial and overall management authority. In fact, the executive secretary is not mentioned at all in the town's charter and bylaws. It appears, then, that the town has been ambivalent about the need for a strong management position to lead the day-to-day operations of town government.

DIAGRAM 1

TOWN OF SWAMPSCOTT

ORGANIZATIONAL CHART
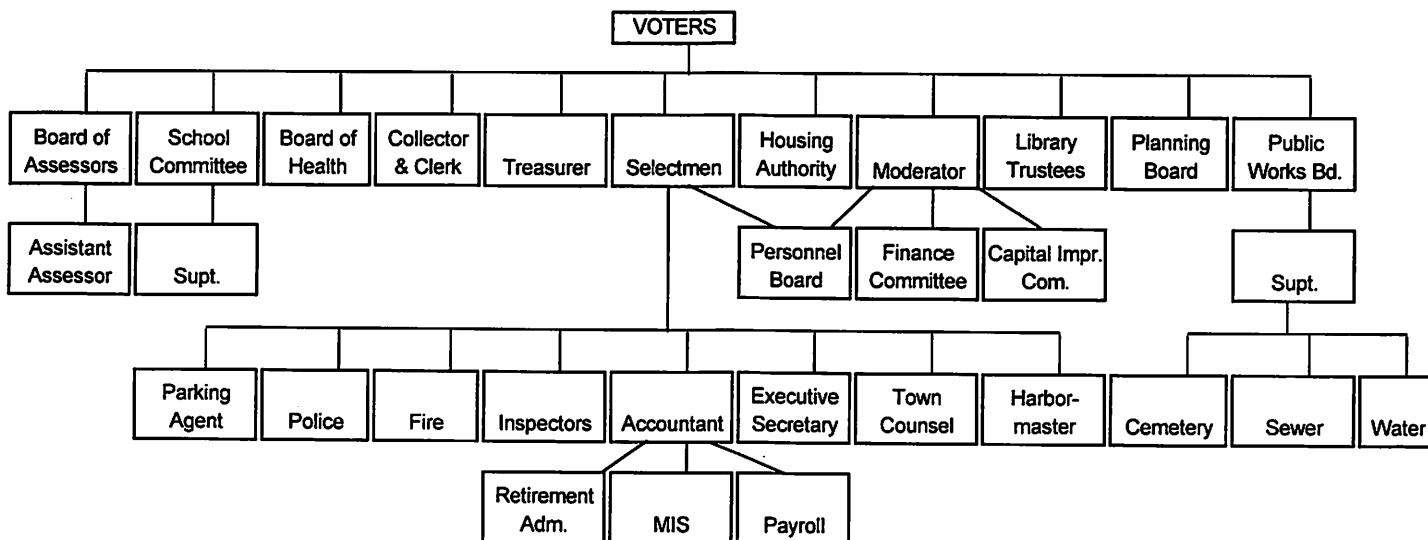
The town's 1991 bylaw establishing and requiring monthly department head meetings is a good illustration of where the executive secretary's position is conspicuously absent. These meetings were intended to improve communication and coordination among the various elected and appointed boards and officials. Rather than have the executive secretary's position (once established) chair these meetings, the bylaw calls for the group to appoint a chairperson for a six-month term and to rotate the chairperson from time to time. The chairperson is charged with convening the meetings and penalties were established for missing three consecutive meetings or more than fifty percent in one year. Despite potential sanctions, we were informed that many department heads do not participate regularly. In part, this may be because the meetings lacked a clear focus and the department heads did not consider them meaningful or substantive in nature. Another reason is that none of the department heads are really accountable to the chairperson. In fact, by definition, the chair does not possess any special status in town government that would indicate responsibility for overall financial condition and management.

Although the executive secretary's job description contemplates a fairly strong role for the position in areas such as preparation of the budget and financial forecasting, in reality, the position is currently in its nascent stages and a budgetary and financial planning role has been slow to develop. For example, the budget process is handled primarily by the finance committee and accountant, with the selectmen historically playing a limited role in the budget and planning process. However, this year the selectmen and finance committee met prior to budget season to discuss current and anticipated issues facing the town. They also revisited these issues during the selectmen's budget hearing in an effort to reach a consensus prior to the finance committee's final deliberations. This, along with the fact that the executive secretary has attended some finance committee budget hearings, indicates an evolving financial role for the executive branch.

The current executive secretary was appointed last fall and has served the town admirably for many years in different capacities. She was the selectmen's administrative assistant for several years prior to her appointment as executive secretary last fall. She has a great deal of institutional knowledge about town government and her focus has been on administrative responsibilities. However, the town's decentralized government, combined with the fact that the town has vested the executive secretary with no financial management authority, leaves a void with respect to the day-to-day financial management of the town.

In this environment, the town has benefited from a volunteer finance committee with several members that have experience with town government that can, to an extent, fill this financial stewardship role. However, while the finance committee plays a key role in advising town meeting and making reserve fund transfers, it is not the appropriate body to fulfill the daily financial management functions of the town. Especially in times of tight budgets, history indicates that placing this type of burden on the finance committee will contribute to burnout and turnover of committee members. In our opinion, a strong, ongoing management presence is needed to oversee what is essentially a $35 million enterprise.

NEED FOR A STRONG ADMINISTRATOR/MANAGER

Though the town appears to have made progress in the right direction, changes to town government often come slowly. As discussed above, the uneven commitment to a strong role for the executive secretary has made it difficult for this position to succeed in the role we outlined ten years ago. Therefore, we think that the time has come to consider a stronger management structure where relationships are more clearly defined. This will involve charter changes to provide a more centralized government to ensure that the recommended administrator or manager will possess the necessary organizational authority. Given high expectations among residents regarding service levels, coupled with the finite fiscal resources available to the town, we believe that appointing a town administrator or town manager is an appropriate direction for the town over the next few years. Absent this, the town is not well positioned to navigate through the challenging years to come.

In order to achieve this type of management, the town will need to consider charter changes to reduce the number of separately elected boards and officials and make them appointed. It is critical to establish clear lines of authority and accountability between the administrator and department heads to achieve cohesive management. Among the benefits of this type of organizational structure is that one office is responsible and accountable for the town's overall financial condition. Currently, no one board or official in Swampscott has this responsibility. A structure with major department heads reporting to an administrator will centralize authority under the selectmen, the chief executive officers of the town.

Among the advantages of this structure is that the administrator is well situated to coordinate financial management and operations. For example, the administrator will possess the authority to require department heads to collaborate to address issues that cut across several departments. These issues may include such tasks as preparing the required multi-year revenue and expenditure forecast, coordinating large purchases in the context of cash flow and borrowing needs, addressing budget and tax rate setting issues and generally making sure that departmental operations proceed smoothly. Other issues that are well suited to be addressed within this structure include developing strategies to minimize operating costs and maximize revenues, implementing integrated town-wide financial software, and developing policies to build and use reserves. Other possible responsibilities include formulating personnel performance evaluations, insuring that grants are pursued and health care costs are contained, and coordinating user fee coverage analysis and rate setting decisions.

CONCLUSION

We recognize that a charter change of the above magnitude represents a major change in town governance and will not be achieved overnight. However, we do not make this recommendation lightly. Rather, we offer it from the vantage point of having observed the town's relatively uneven progress toward coordinated financial management over the last ten years. Given the town's organizational structure, the reservations we expressed in our earlier report about an executive secretary succeeding in coordinating financial management appear to have been well founded. Therefore, we do not believe that a bylaw merely designating the executive secretary to be chair of the department head meetings is now sufficient to provide the type of unified management the town needs. Without the recommended organizational changes, responsibility for the town's financial management and condition will continue to be dispersed. No one office will be clearly accountable for the myriad issues that span town government and cut across several departments. In the context of the town's current fiscal situation and long-term capital needs, it is important that Swampscott move to a more centralized and cohesive management structure.

In the report that follows, we offer detailed observations and recommendations on the town's financial offices. Generally, we found that these offices function well individually. Therefore, many of our recommendations focus on how information flows among the departments and include suggestions for fine-tuning operations. We also offer recommendations on the budget process, capital planning and the town's information technology systems.

OVERALL FINANCIAL MANAGEMENT

FINDING 1—COORDINATING FINANCIAL MANAGEMENT

According to the job description, the executive secretary has responsibility for a variety of administrative functions as assigned by the selectmen. Specifically, the executive secretary supervises department heads reporting to the selectmen, manages the town clerical staff and works independently under the policy guidance of the selectmen. In addition, the executive secretary serves as a liaison between the selectmen and other town departments and keeps the selectmen informed of all town matters. The executive secretary, however, is not mentioned in the town's charter or bylaws and does not play a coordinating role in the town's overall financial management or budget process. One reason for this is that the town's government has historically been very decentralized and the executive secretary has not had the support necessary to coordinate financial management. Another reason is the fact that this is a relatively new position with the first appointment made on a part-time basis in 1995.

In a survey of twenty towns comparable to Swampscott in property values and population (Appendix B), we found that the majority have a selectmen/town administrator or selectmen/town manager form of government. While the duties of these positions vary to some extent based on local preference, most of these administrators and managers supervise the work of the finance officers and department heads and oversee financial management. In addition, almost all of these comparable towns have appointed treasurer and collector positions and some have finance directors as well. Although some town officials have expressed interest in a finance director, we believe that the town's first priority should be to address its overall management structure by amending the charter to provide for a strong administrator or manager, with department heads responsible and accountable to the manager.

We have designed the recommendations that follow to strengthen the important role that we believe an administrator should play in the town's financial management.

RECOMMENDATION 1—COORDINATING FINANCIAL MANAGEMENT

We recommend that the town consider adopting a strong administrator or town manager form of government. With all the financial and legal complexities facing communities, it is difficult for part-time policymakers to manage multi-million dollar communities. Increasingly, communities have seen the need to centralize administrative responsibilities and make a full-time professional responsible for the day-to-day operations and long-term administration. Recognizing the success many comparable communities have in providing coordinated financial management with an administrator or manager, we believe this type of strong, centralized government would not be inappropriate to meet the needs of the town. It should be noted that these structural models entail major restructuring of town government and charter amendments to vest the administrator's position with the necessary authority to administer town affairs and are likely to take a couple of years to implement.

The administrator position should be responsible for coordinating financial management and overseeing town operations to insure that they are performed in an efficient manner. This role should include, but not be limited to, the following:

- Administer the delivery of services to ensure that town operations are as cost effective as possible and are provided in a coordinated manner.

- Prepare a balanced budget proposal for the review of the selectmen and finance committee. The finance committee will review this budget and make budget recommendations to town meeting.

- Prepare a multi-year forecast of revenues and expenditures and provide analyses of proposed labor and service contracts, debt service and other proposed expenditures with multi-year impacts.

- Coordinate user fee coverage analysis and rate setting decisions by annually reviewing service cost and revenue information to make sure the current fee structures are sufficient to cover all costs: direct, indirect and debt service. Propose changes in fee structures when warranted.

- Oversee computer systems to make sure that all departments are using the software applications efficiently and effectively. Explore new applications that may improve town operations (e.g., automating the water meter reading system) and ensure that they are compatible with the current systems or future upgrades.

- Develop financial policies including proposing methods of building up reserves (e.g., free cash and Stabilization Fund) for emergencies and unanticipated expenditures or to offset future debt service costs. Reserve and other financial policies would be built into the budget proposal annually.

- Monitor personnel systems to make sure that adequate employee evaluation systems and personnel policies are in place.

- Review employee benefits by periodically reviewing insurance costs to make sure the community has the most cost-effective method of services/benefits. This will require the administrator to review service contracts, enrollment data and claims, manage budgetary appropriations and investigate alternative providers with the intent of containing costs to the town.

FINDING 2—ACCOUNTING FOR WATER AND SEWER OPERATIONS

The town's water and sewer operations are accounted for in the general fund. The annual appropriations for these operations cover direct, indirect, insurance, capital and most debt service costs. These operations are funded primarily through user fees, except for some of the sewer debt service costs that are funded by debt exclusions. Any surplus (or deficit) that is attributable to these operations closes to the general fund, thus becoming part of the town's certified free cash.

Currently, local governments may account for these activities in the general fund, a special revenue fund or an enterprise fund. Because of the changes in governmental accounting standards promulgated by GASB Statement 34, communities will be required to report these activities on an enterprise fund basis within the next few years. Failure to conform to these reporting standards may jeopardize their ability to obtain clean audit reports, which in turn may result in lower bond ratings. According to some local officials, the town has not adopted MGL Ch. 44 §53F½, the enterprise fund accounting enabling legislation, because the sewer operation is not fully funded with user fees. MGL Ch. 44 §53F½ does not require that the service be self-supporting but does require that debt exclusion subsidies from the general fund be identified and budgeted when setting the community's tax rate. In addition, any surpluses would close to the enterprise fund rather than to the general fund.

RECOMMENDATION 2—ACCOUNTING FOR WATER AND SEWER OPERATIONS

We recommend that the town adopt enterprise fund accounting for its water and sewer operations by accepting MGL Ch. 44 §53F½. Given the fact that the direct and indirect costs to provide these services are already accounted for, the acceptance of this statue is only a formality and will assist the community in complying with GASB Statement 34. In addition to fully demonstrating the true cost of these operations, any interest earned on the operating revenues and surpluses generated at yearend would be retained in the funds. Once a surplus is certified as available (similar to free cash), it may be used to fund operating, capital or debt service costs associated with the water or sewer operations.

THE BUDGET PROCESS

FINDING 1—BUDGET PROCESS

Historically, the budget process is primarily the responsibility of the finance committee, a part-time board. Based on discussions with the accountant, the finance committee establishes budgetary guidelines for departments in January. All budget requests are submitted to the finance committee. The finance committee members are given assignments as liaisons to departments. As liaison, a member meets with a department head to review the budget request and provides clarification if necessary during the budget deliberations. While the committee is conducting hearings, the committee and accountant formulate the formal revenue estimates and the committee analyzes cost impacts of proposed warrant articles and reviews the capital improvement committee's recommendations. After completing departmental budget hearings, the finance committee reviews its revenue estimates and conducts its final deliberations. The finance committee, working independently of the selectmen, presents its budget recommendations to town meeting.

This process is undergoing changes this year. First, the process began earlier in the fall with a joint meeting of the finance committee and selectmen to discuss current and anticipated issues facing the town. Also, budget requests were submitted to the accountant's office in early January and data-entered into the budgeting module of the Munis system for tracking and reporting purposes. The committee has also been receiving timely expenditure reports and weekly briefings from the accountant on potential shortfalls and additional needs for the current budget. During the selectmen's budget hearing, the finance committee revisited issues raised at their earlier meeting in an effort to establish consensus between these policymaking boards before the committee's final deliberations.

Despite these changes, the part-time committee members have a lot of responsibility placed upon them in the absence of a strong professional management position. The committee devotes a significant amount of time to the budget process. In addition to the hearings and deliberations, the members' liaison work requires them to spend long hours working with separately organized departments. While the current committee is willing to perform the liaison work, there are no guarantees that future members will be as enthusiastic.

The committee is also charged with the responsibility of balancing the budget. In good years and bad, balancing the budget can be a difficult process which places a lot of pressure on the volunteer board to make decisions with future year implications. In good years, they have to hold back the tide of spending growth in department budgets, while in bad years they have to find the resources to balance the budget or make service level decisions which may affect the whole town. Given enough pressure or repeated bad years, the membership can succumb to burnout and resign, leaving the committee with novice replacements. .

RECOMMENDATION 1—BUDGET PROCESS

DOR recommends that the town have the administrator/manager prepare the budget proposal for the selectmen's and finance committee's review. The administrator should be responsible for annually preparing a balanced budget proposal and managing the process to town meeting. The administrator should develop written revenue estimates with the assistance of the financial officers at the beginning of the process. These preliminary estimates should be the focal point of the selectmen and finance committee discussions prior to developing joint budgetary guidelines to departments. As a professional responsible for the day-to-day operations and long-term administration of the community, the administrator would be constantly informed of the ongoing operations and issues so that the annual budget proposals fully address the town's needs given the available revenues. In addition to

the budget, the administrator would work with the capital improvement committee, preparing the annual capital-planning budget and recommendations given competing needs and available resources to meet those needs. As new information becomes available, the revenue and budgetary estimates would be updated, keeping the selectmen and finance committee fully informed throughout the process. With a more defined role in the budget process, the administrator will be in a better position to develop and maintain a multi-year revenue and expenditure forecast.

The finance committee will be responsible for reviewing the budget proposal and making recommendations to town meeting. However, these part-time officials would have to devote less time to attending liaison meetings and having to run the budget process. This would provide the committee more time to review the administrator's proposed resources and budget and to focus on planning and decisions that will impact future budgets.

We also recommend that the finance committee and selectmen meet periodically throughout the year to discuss issues. The administrator should present updates to the policymakers on the prior year's performance, year-to-date activities and issues as they come up. These policymakers should use these meetings to discuss information presented and to plan for future needs. This is also an appropriate forum for the administrator to bring forward possible financial policies to be discussed and debated by the town's lead policy-making bodies.

FINDING 2—CAPITAL PLANNING

The town has established a capital improvement committee (CIC) which reviews all capital requests that cost more than $20,000 and have a useful life of at least three years. Departments submit their capital requests for the current year along with a projection for the next five years. These requests and five-year plans are reviewed, prioritized and published in a capital improvement report. Because the town generally issues debt to fund its capital items, town officials prepare projections of future debt service budgets based on potentially recommended capital items. The number of capital items funded is based on the debt analysis and an informal town policy that the annual debt service budget is capped at about five percent of the annual budget.

According to officials, there are some major capital proposals in the town's future. These include an estimated $35-40 million school project, a new police station, a $1-2 million renovation of town hall and/or the town hall annex for handicapped accessibility and space, a $3.5 million drainage project and a $1 million townwide replacement of water meters and data collection system. Each of these projects meets the CIC criteria, but is not included in their report because the estimated costs exceed the annual capital budget projections.

RECOMMENDATION 2—CAPITAL PLANNING

We recommend that the CIC include the major capital proposals in its annual reports. Regardless of funding ability, annual presentation of all capital needs has merit. It serves to inform citizens of the community's capital needs and to make them aware of essential capital needs that may be deferred due to financial constraints.

FINDING 3—ESTABLISHING FINANCIAL RESERVES

Over the last decade, the town has had minimal reserves available (Appendix C). One reserve is the town's free cash. While this reserve has increased in recent years, the town has also increased its use of free cash to fund the operating budget. The town used $665,000, $790,000 and $872,000 in FY99, FY00 and FY01, respectively, and plans on using all of its current free cash (816,689) to fund the FY02 budget. Another reserve is the Stabilization Fund. The town has made limited contributions

to this reserve, bringing it to its highest fund balance of $641,500 which is below the average balance of comparable towns (Appendix A). Similar to the planned use of its free cash, the finance committee is proposing using the town's entire Stabilization Fund to balance the town's operating budget if the town does not approve an operating override.

Without the availability of financial reserves, the town has little flexibility to fund extraordinary or unforeseen expenses after its tax rate is set. In addition, bond-rating agencies recognize the vulnerability of communities with few reserves and consider this lack of flexibility a negative factor when rating these communities.

RECOMMENDATION 3—ESTABLISHING FINANCIAL RESERVES

We recommend that the town establish a financial reserve policy. A formal reserve policy will allow the town to establish a practice of appropriating money to legal reserves for future needs such as capital projects and debt service costs. The town could also pursue policies to build its free cash balance such as conservatively estimating local receipts or collecting prior years' receivables. Appropriations to reserves should be considered annually as a part of the budget process and appropriations from reserves should be made for unanticipated or capital costs, not regular operating expenses.

Recognizing how painful it is to begin setting aside reserves, the town could establish a reserve policy that provides for increasing amounts each year. For example, the town could set aside one percent (or less) of its total budget in the first year with the percentage gradually escalating in subsequent years.

FINDING 4—MULTI-YEAR FORECASTING

By job description, the executive secretary is charged with producing and maintaining a three-year revenue and expenditure forecast required by the town charter. Town officials provided DLS with a copy of the last updated forecast prepared by the previous executive secretary. It was a simple, one-page projection of revenues and expenditures by major categories. Last updated in FY99, the town's financial projections showed revenue shortfalls between $.5-1.3 million.

RECOMMENDATION 4—MULTI-YEAR FORECASTING

We recommend that the administrator, with assistance from the financial officers, update and maintain the revenue and expenditure forecast. A forecast is a useful management tool that can be useful in revealing budget problems and formulating long-range financial plans. Using Excel spreadsheets, the forecast may be as simple as the current format or be modified to show more detail. All assumptions used in developing the forecast should be documented in writing so future users may understand and update the forecast. This forecast should be used by the selectmen and finance committee to evaluate budget requests with multi-year impacts and to develop long-range financial policies. Used in conjunction with a well-developed capital plan, multi-year forecasting will also help the town determine whether capital projects should be funded from current revenues, the issuance of debt or debt that is excluded from the limits of Proposition 2½.

TECHNOLOGY

The town of Swampscott is in a transition phase with regards to its technology. Prior to FY01, most offices had computer access but only a few offices were networked together to use the financial software. In addition, not all computers had word processing and spreadsheet software and some had older versions of Microsoft office products. During FY01, the town hired a computer analyst to manage the town's management information systems and replaced old terminals with personal computers (PC). The town is also upgrading its financial software and networking all the offices townwide.

The computer analyst is a member of the accountant's staff and is responsible for the town's computer systems, the town payroll system and bill printing. Her computer responsibilities include the Munis system conversion, training and user support. With the exception of the assessors' appraisal software, all user issues, problems and needs are relayed to the analyst who assesses the matter and contacts a vendor as needed, logging all vendor contacts to track response time and information. The analyst is also responsible for security, backups, hardware and maintenance.

The analyst's payroll responsibilities include distributing timesheets, reviewing payroll submissions, entering employee data and changes to payroll and producing the payroll warrant for the accountant's approval. The school payroll is biweekly and the town plans to implement the biweekly payroll for town employees in July. The analyst will be responsible for this conversion too. The analyst's bill printing responsibilities are to work with the collector's office to produce the property, excise and utility bills from committed information from a variety of departments. Once printed, the bills are forwarded to the collector's office for review, stuffing and mailing.

The town uses the Munis financial system for most of its financial activities. During FY01, the town is upgrading the Munis system from the older COBOL version to the fourth generation language (4GL) and graphical user interface (GUI) versions. As of this writing, the general ledger, payroll, accounts payable, property tax billing and collections, and trash utility billing have all been converted. The conversion of the water and sewer billing is scheduled in April just prior to the next billing.

The town is also networking the town offices. This will give e-mail and Internet access to all town offices. They will then have the ability to share and electronically transfer data among offices. The town has a vendor contracted to install a fiber optic line in April necessary to operate the network. The e-mail, Internet, Microsoft office products and other applications reside on a separate server from the Munis system.

The assessing office has its own server and software applications. The server has the Patriot Property computer assisted mass appraisal (CAMA) software and Microsoft office products residing on it. The assistant assessor is trained on Patriot and Microsoft applications, but the staff has received limited training on these products. The office personal computers have also been connected to the Munis system, with the assessing staff trained on the applications so they may enter abatements and exemptions directly.

FINDING 1—COMPUTER CONVERSION & ONGOING MANAGEMENT ISSUES

Overall, the Munis system conversion has gone well. As the conversion occurred, the computer analyst checked and tested modules and converted data. From time to time, she did detect errors. For errors that she was not able to resolve, she contacted the vendor and kept a log of the problems and when each was resolved. For example, the analyst could not install the Munis system and the network connection on the assessors' office PCs because of denied access to certain files on the

server. Patriot Property sent a contractor to establish the connection and the assessing staff received training on the abatement and exemption module on schedule.

Once the Munis system conversion is complete, there may be issues with regard to interfacing with other software programs and initiating previously unused modules. One example is the transfer of property tax billing data to the Munis system. When the data was transferred from the Patriot Property system to the Munis system, parcel count and valuation by property class reports were run on both systems and compared. When the reports did not reconcile, the computer analyst had to review the data with the assistance of the assessing office to identify and correct the problems. The vendor has subsequently fixed this problem. In another example, the department of public works superintendent indicated interest in replacing the town water meters and automating the data collection system of the water and sewer services. This proposal will require the town to select and install data collection software which takes readings remotely and to electronically transfer data to the Munis system for billing and collection purposes.

The Munis system also has some modules which the town has purchased and never used. These include the treasurer's receipts module, the motor vehicle excise module and the personnel module. Instead of using the modules, these activities are kept manually or handled by outside service bureaus. As a result, the town has not realized the full benefits of an integrated financial system and the accountant's office must re-key certain data from the treasurer's and collector's offices that is transmitted in hardcopy form.

RECOMMENDATION 1—COMPUTER CONVERSION & ONGOING MANAGEMENT ISSUES

We recommend that the computer analyst be involved with decisions regarding all software application updates and new acquisitions. As new or upgraded software applications are considered, the computer analyst should be involved in the research, selection, planning and implementation. This way, the analyst may determine that the town is purchasing the proper software that interfaces with other applications and that the analyst may work directly with each vendor, ensuring that the product is implemented timely and accurately and the application functions properly.

We also recommend that the town officials use all the financial system modules purchased. The Munis system is a multi-user, fully integrated financial system which eliminates the need to keep manual records or use outside service bureaus. A significant feature of this system is the ability of users to enter their own data and to verify its accuracy against source documentation immediately. Once verified, the information is updated on the system and available to other system users. In this system, the accountant's office should not be responsible for data entering other offices' work. To implement this recommendation, the computer analyst should develop a plan, convert any data stored on other applications and oversee any additional staff training needs. Similar to the current conversion process, these activities should be phased in, prioritizing the more critical or time sensitive applications.

FINDING 2—EMPLOYEE SUPPORT AND TRAINING

During the computer conversion process, many computer users received training on new or updated Munis modules from the vendor as a part of the contract. This training was generally done in a day or over a series of days. Since the training, employees have routinely called upon the computer analyst for follow-up information and assistance. Because the computer analyst is knowledgeable in the Munis system, she is able to provide on-site assistance and support upon request.

Based on discussions with department staff, many individuals have had limited or no training on Microsoft office products. Some individuals expressed interest in training as well as assistance in automating manually kept documents. Furthermore, some departments have expressed interest in sharing or having access to data kept in other departments. The analyst is attempting to address requests for shared access to data upon request, but these are delayed due to the fiber optic line installation.

RECOMMENDATION 2—EMPLOYEE SUPPORT AND TRAINING

We recommend that the computer analyst survey office staff on their knowledge and use of the various computer applications generally available to them. Based on the survey, the computer analyst may be able to identify users' training needs and arrange training classes on the various software applications. These training classes may range from basic instruction such as creating a document to more advanced applications such as building a database available to more than one office. With sufficient training, staff would better understand not only how to use the applications, but how the applications can help accomplish particular goals. In addition, the computer analyst may be able to work with departments to help them identify information which may be automated and set up spreadsheets or databases which will help them organize and streamline office data and records.

FINDING 3—USER INFORMATION GUIDELINES AND POLICIES

Currently, many users store information on the hard drive of their PC and there are no uniform backup procedures in place. Once the network is operational, users should have the option to transfer or copy data and files to the network which is automatically backed up daily, weekly, and monthly. Any information that continues to be stored on only the hard drive of a PC could be lost if the PC ever crashes or becomes infected by a virus.

Once the network is fully operational, users will have access to e-mail, Internet, and shared information. With all this access, there is potential for problems due to questionable uses of the Internet and information forwarded through the e-mail system, viruses and corruption of data. The Munis system is designed with system security or firewalls to prevent corruption of this vital financial data. The computer analyst plans on installing virus protection software that will systematically update user files with the latest protection application. However, despite the availability of the software application, some virus may be introduced to the computer systems via diskettes.

RECOMMENDATION 3—USER INFORMATION GUIDELINES AND POLICIES

We recommend that the town establish a backup policy for all users. All data vital to the operations of town departments should be backed-up to the network. If an office chooses not to backup to the network, the computer analyst should provide instructions on how often a backup should be performed and where the information should be stored.

We recommend that the town establish e-mail and Internet policies. Once access is established, the computer analyst will provide training on these applications. She should also provide instruction on the proper and allowable uses of these applications as well as distribute the town's written policies. The town should contact communities which have established these written policies for examples when developing its own.

Furthermore, we recommend that the town establish virus-scanning policies. Similar to the above recommendation, users should be instructed through a written policy to scan any information imported to the town's computer systems via the Internet or diskette.

ACCOUNTANT'S OFFICE

The accountant's office is staffed by an accountant, assistant accountant and computer analyst. The office's primary responsibility is to maintain the town's general ledger and to perform the accounting functions, including preparing warrants, producing trial balances and expenditure reports, and reconciling cash and receivables with the treasurer and collector. The accountant's office is also responsible for the town's computer systems, payroll and workers' compensation claims. In addition, the accountant has management oversight of the town's retirement system.

In the last two years, the town has had three different individuals fill the accountant's position. The current accountant took office in January 2000. Since taking office, the accountant and staff have been busy performing the daily activities of the office as well as taking on new projects and responsibilities as assigned. First, the accountant had to perform duties of the office not completed by his predecessor, including but not limited to bringing the general ledger up to date and completing and submitting the town's Schedule A and balance sheet to DOR. Next, the office had to plan and budget the conversion of the town's financial systems to an upgraded version of the financial software. To perform this task as well as develop an integrated network for all town departments, the accountant hired the computer analyst.

The office also assumed responsibility for the town's health benefits, insurance, workers' compensation claims and payroll systems. Since assuming these responsibilities, the accountant has found numerous problems which have taken significant staff time to resolve by phone and written correspondence. These problems include, but are not limited to, incomplete records, errors in deduction amounts, unpaid premiums and lapses in coverage, disputes between benefit participants and providers and underfunded appropriations. The accountant's office has been successful in negotiating payments and eliminating problems due to lapses in coverage as well as correcting deductions. The town will be holding an insurance and benefit enrollment program in the spring to establish new, complete records on all employee benefits. While the retirement administrator is responsible for the town benefits and insurance programs pursuant to an agreement between the retirement board and the selectmen, the accounting staff's work continues to get interrupted to respond to calls from employees, retirees and surviving spouses having problems with benefit and insurance carriers.

Once the town's computer conversion is complete, the accounting staff still has two large projects planned for FY02. First, the general ledger accounts need to be revised to comply with uniform municipal accounting system (UMAS) standards. The present ledger accounts are a hybrid of UMAS and an older statutory system that makes it difficult to locate and manage information. The second project deals with complying with the Governmental Accounting Standards Board (GASB) Statement 34 accounting requirements. GASB Statement 34 requires all governments maintain a capital asset and infrastructure inventory which is reported on the entity's financial statements. The implementation of GASB Statement 34 will be a potentially difficult and complex task for Massachusetts cities and towns. There will be start-up and ongoing costs associated with planning, inventorying, valuing and maintaining the town's fixed assets and infrastructure. There will also be new financial and auditing reporting requirements. Although the town will not be required to fully comply until FY03, the accounting staff will begin to gather information and will be working with the town's auditors relative to its implementation.

FINDING 1—ADDITIONAL DUTIES OF THE ACCOUNTANT'S OFFICE

The town has a fully integrated financial computer system where not all the software modules are used. This is due to the use of a service bureau by the collector's office and lack of computerization

in the treasurer's office. As a result, the accountant's office must make postings and journal entries in order to record this information in the general ledger. If all the software modules were used then the activity would automatically be recorded on the Munis system and not require manual posting and journal entries by the accountant's office.

The accountant's office also receives the collector's cash register report with reported overages and shortages. It is the collector's expectation that the accountant compare the departmental revenue reports to the cash register report to identify and eliminate the overage or shortage. In our judgment, the treasurer and collector should perform internal reconciliations of the departmental receipts and the cash register system before the turnover is prepared.

RECOMMENDATION 1—ADDITIONAL DUTIES OF THE ACCOUNTANT'S OFFICE

<u>We recommend that the treasurer's and collector's offices receive training to use the software modules to post their own work</u>. This will enable the offices to enter payments and receipts directly into the Munis system rather than relying on the accountant to perform postings for them. After making the postings, the offices may generate reports to compare the entries to the source documents, ensuring accurate posting and reconciliation of the work.

<u>We also recommend that the treasurer reconcile the department receipts reports with the cash register system</u>. It is not the role of the accountant to reconcile internal work for other offices.

FINDING 2—PREPARATION OF REPORTS

Generally, the town annually submits the quarterly cash reconciliation reports, tax recapitulation sheet and the Schedule A timely to DOR. However, as a result of the computer conversion and the change in staffing, the September 2000 cash reconciliation was slightly late and the Schedule A was submitted in March.

The accountant's office generates expenditure reports for department heads twice a month. These reports show the expenditures to date versus the budget appropriations. This information is extensive and useful as a management tool. At the request of selectmen and finance committee members, generally during the budget process, these same reports are produced in a timely manner.

The accountant's office does not prepare revenue reports unless requested to do so, generally during the budget process. A revenue report is another helpful management tool that should show budget to actual revenues. It is essential that town officials have access to timely financial information in order to make informed decisions regarding town finances.

RECOMMENDATION 2—PREPARATION OF REPORTS

<u>DOR recommends that the accountant's office prepare monthly revenue reports</u>. While the information is not legally required, it can provide useful management information for the town's policymakers. These reports provide essential information to monitor the financial performance of the town, to analyze the underlying causes of any shortfalls, excesses and one-time receipts, and to make necessary mid-course budget adjustments.

ASSESSING OFFICE

An assistant assessor and two full-time clerks staff the town assessing office. Hired in 1997, the assistant assessor is the first full time professional position in this office. The assistant assessor manages the office and performs fieldwork, measuring and listing new and improved properties and re-inspecting all property sales. The assistant assessor maintains the town's assessment records; compiles analytical reports and property tax commitments; and performs in-house revaluations and interim year adjustments to property values on a computer assisted mass appraisal (CAMA) system. The clerks maintain all records, process deed transfers, handle exemption and abatement applications, data-enter property and legal information on the CAMA system, handle the motor vehicle excise accounts and respond to all public inquiries.

The assessing office is responsible for maintaining assessment data on approximately 5,400 real property parcels, 210 personal property accounts, 13,500 motor vehicle excise accounts and 150 boat excise accounts. In addition, the office processes approximately 385 abatements and exemptions, 350 building permits, 390 deed changes and 10 tax deferrals annually. The staff operate under the general supervision of an elected, three-member board of assessors.

The town's Patriot Property CAMA system resides on a server located in the assessing office. There are three personal computers connected to the CAMA server for staff use and one stand-alone computer located on the office counter with property data information for public viewing. The staff personal computers have Microsoft software products installed and these computers are connected to the Munis system for transferring property commitment, abatement and exemption information.

The assessing office prepares timely reports for DOR, including new growth, taxable parcel count and recertification of value reports. The assistant assessor works with the accountant to prepare and submit a timely tax recapitulation sheet with adequate backup document.

FINDING 1—MOTOR VEHICLE EXCISE BILLS

The collector uses a vendor for the motor vehicle excise bills. The vendor obtains the Registry of Motor Vehicles' information electronically, produces a commitment list and prints the bills. The commitment and bills are forwarded to the town for the assessors' review and approval. However, it has been reported that the assessors' have not been able to review the Registry's information for errors, wrong addresses and exempt vehicles. As a result, all amounts are billed, resulting in needless paperwork to abate the erroneous bills.

RECOMMENDATION 1—MOTOR VEHICLE EXCISE BILLS

We recommend that the assessors review the Registry information before the commitment and bills are printed. The information from the Registry should be reviewed by the assessors for errors, wrong addresses and exempt vehicles and used to prepare a commitment. Chapter 60 §2 makes the assessors responsible for determining what should be assessed and to commit the same to the collector with a warrant for their collection.

FINDING 2—CYCLICAL RE-INSPECTION PROGRAM

In FY96, a contractor performed the town's last full measure and list of all properties at a cost of about $112,500. The assistant assessor completed the FY1999 update of values in-house and performed interim year adjustments in FY00 and FY01 in order to maintain a current property database and minimize the number of abatements granted. The assistant assessor has already begun working on the FY02 update of values. Generally, the assistant assessor inspects over 700 parcels annually due

to sales and building permits. There is also about $5,000 annually in the assessors' budget for outside services such as appraisal services by consultants, which the assistant assessor has used to supplement his collection activities. The assistant assessor estimates he may contract for some appraisal services so he will have more time available to review his data analysis and submit his FY02 update timely.

The Bureau of Local Assessment's (BLA) guidelines recommend full verification of a community's property data every 9-12 years. To accomplish this, BLA has recommended that Swampscott adopt a cyclical re-inspection program. A cyclical re-inspection program involves completing an interior and exterior inspection of all town property over a multi-year period. This program would allow the town to capture new growth due to construction performed without a building permit and further the office's goal of maintaining the most current property database. A cyclical program is also advantageous since it allows a community to spread a substantial workload and cost over a multi-year period.

RECOMMENDATION 2—CYCLICAL RE-INSPECTION PROGRAM·

We recommend that the town adopt a formal cyclical re-inspection program. Given the number of annual inspections due to building permits and sales and the data analysis for interim year adjustments, the office has demonstrated a commitment to maintain current and accurate values. Scheduling additional properties for inspection annually will enable the office to complete a full re-inspection before the FY08 certification in a timely and less costly fashion.

FINDING 3—AUTOMATION & TRAINING

One of the clerks has been working in the assessing office for 14 years and has attended assessment administration training courses, while the other clerk was hired within the last year and has only received on-the-job training. The clerks have limited training on the CAMA system. They currently enter property and legal changes only. They have no formal training on the Microsoft Word and Excel products, resulting in the need to produce many documents on a typewriter and keep manual records. With the new Munis system, the clerks have received training on processing abatements and exemptions, eliminating the need for the assessing office to manually produce certificates and reports to the collector and accountant. Given sufficient computer training on Microsoft products, the clerks should be able to automate and streamline recordkeeping and correspondence. More importantly, with additional training on the CAMA system, the clerks may be able to draw property sketches, enter data and prepare preliminary reports, freeing up the assistant assessor's time to do additional field and data analysis work.

RECOMMENDATION 3—AUTOMATION & TRAINING

We recommend that the clerks receive formal training on the office's computer systems and that the newer clerk attends the assessors' 101 course offered by DOR. With formal instruction, the clerks may learn to automate many of the manual records, acquire time saving techniques and possibly free up some of the assistant assessor's time.

We recommend that the assessing office develop a plan to automate its records. The office should begin by reviewing its current manual records and consulting with the MIS computer analyst to determine the following.

1. Select the records to be automated.
2. Prioritize the records to be automated.
3. Determine how long the whole project may take.

4. Identify specific training needs to implement this plan.

FINDING 4—BOAT EXCISE BILLING

Annually, the town charges boat mooring fees. For every mooring, the harbormaster obtains boat information through a mooring application form (e.g., owner name and address; boat size, color, age and documentation etc.). This data is sent to the collector who bills and collects the mooring fee and generates a listing of which boats have paid the fee timely. This mooring list is used by the harbormaster to identify vessels that have not paid the mooring fee and by the assessors, in conjunction with the boat declaration forms, to assess the annual boat excise. The mooring fee listing is shared among the offices by means of a computer printout. Presently, the assessors use the data to manually type about 150 boat excise bills. If collector's data were transferred electronically to the assessors' office, they may be able to electronically produce boat excise bills on the Munis billing system or by using Microsoft office products, thereby avoiding the need to manually type bills.

RECOMMENDATION 4—BOAT EXCISE BILLING

<u>We recommend that the assessing office work with the MIS computer analyst to develop an efficient method of handling the boat excise bills on the new computer system</u>. Using the data from the collector's office and the boat declaration information, the assessing office could develop a boat excise database from which the boat bills, commitment and reports can be produced. Again, this project will require the assistance and support of the MIS computer analyst.

TAX COLLECTOR/TOWN CLERK'S AND TREASURER'S OFFICES

The tax collector/town clerk and treasurer positions are separately elected offices and held by the same person. There is a full-time assistant treasurer and two full-time assistant collector/clerks staffing these offices. The treasurer and collector/clerk has served the town for about 23 years.

On the treasury side, the office is responsible for cash management, including the investment, disbursement and borrowing of cash. The treasurer issues capital improvement bonds annually but has not issued revenue anticipation bonds since the town adopted quarterly tax billing in FY91.

On the collection side, the office is responsible for collecting approximately 5,700 property tax bills quarterly, 13,500 motor vehicle excise bills annually and 5,500 combined water and sewer bills semi-annually[1]. Annually, the office also collects about 5,500 trash bills, 300 mooring fees, 150 boat excise bills, 200 fire alarm box fees, and other receipts (e.g., school tuition bills, rentals for the Fish House) when committed by departments.

The staff has been trained in all the collection functions, including preparing mailings, issuing demand notices for delinquent accounts and preparing municipal lien certificates. Once the real estate taxes become past due, the office issues demand notices. If payments are still not received, the collector makes phone calls and sends mailings to owners informing them of future actions, including placing a property in tax title status. Over the last few years, these activities have resulted in an average collection rate (net of overlay) of about 97 percent and only eight parcels in tax title.

The collector uses an outside service bureau for billing, posting and deputy collection services for the town's motor vehicle excise at a cost of about $250/month. The service bureau obtains the Registry of Motor Vehicles information electronically and produces the commitment list and bills for the town. Once the commitment is signed, the collector mails the bills. Payments are mailed to the collector's office where the staff matches the payments to the bills, turns over the cash to the treasurer for deposit, and forwards the bills to the service bureau for posting to individual accounts. When payments become past due, the collector gives a warrant for service to the service bureau to pursue payments on behalf of the town including marking the registration or license for non-renewal status at the Registry. All amounts collected by the deputy collector are deposited to a special bank account (MGL Ch. 60 §92) and reported to the collector. Routinely, the collector transfers these collections to another bank account and pays the deputy collector fees to the service bureau once payments have cleared.

The collector's office uses the Munis system for most collection activities and the preparation of municipal lien certificates. With the upgrade in the Munis system and purchase of additional software modules, posting will be done with scanning devices and the parcels in tax title will no longer be transferred to an Excel spreadsheet. The staff uses Excel spreadsheets to automate and streamline some turnover reports, cash and receivable reconciliations and mooring and boat excise accounts.

FINDING 1—AUTHORITY OF THE TAX COLLECTOR'S OFFICE

The town has a collector of taxes. As such, the tax collector is authorized to collect taxes and certain other charges (e.g., excise and betterments) committed for collection. The town also has a bylaw authorizing the collector to collect the water charges. However, despite the bylaw, the collector of taxes is not authorized to collect all accounts due a community. A community may extend the collector's authority by adopting Chapter 41, §38A which the town of Swampscott has not done.

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[1] These bills will be issued quarterly beginning in FY2002.

RECOMMENDATION 1—AUTHORITY OF THE TAX COLLECTOR'S OFFICE

We recommend that the town accept the Chapter 41 §38A. Acceptance of this statue will change the office to a town collector and authorize the office to legally collect all accounts due the town.

FINDING 2—COLLECTOR'S CASH REGISTER SYSTEM

According to the treasurer and collector/clerk, departments are instructed not to accept cash or payments for services, fees or licenses. Instead, individuals are billed and directed to the collector's office for payment. The collector's office accepts payments, issues a receipt to the individual and processes these revenues through the collector's cash register system. The cash register is pre-programmed to record receipts by department, but it is not integrated with the Munis system. Monthly, the collector runs the register tape to determine the gross monthly receipts by department and compares it to the total cash taken in. The cash is then deposited at the end of each month. A manual report is prepared on a state form and turned over to the treasurer and a copy to the accountant. From this report, the accountant data enters the revenue information into the Munis system, recording the journal entries that the treasurer's receipts module automatically makes. It should be noted that we found these manual reports generally note overages or shortages of cash at the bottom of the report. Rather than reconciling the cash to the register tape, the collector expects the accountant to compare departmental turnover reports to the collector's cash register report to determine the source of the overage or shortage.

RECOMMENDATION 2—COLLECTOR'S CASH REGISTER SYSTEM

We recommend that the departmental receipts be turned over to the treasurer's office as required by law. While one individual serves in both capacities, only the treasurer's office is authorized to receive and take charge of monies belonging to the town. Even if the town were to extend the authority of the collector to that of a town collector, the office is still not legally authorized to accept the departmental turnovers.

We recommend that the treasurer's office cash out the cash register daily, deposit the receipts in an interest-bearing account and review and reconcile the day's work with the drawer's contents. Performing this work daily would enable the treasurer's staff to detect posting errors or misclassifications of receipts quickly and resolve them while the day's work is current. More importantly, these funds should be deposited as promptly as possible so that the town can maximize its earnings on investments and the treasurer can make informed decisions regarding the town's cash flow. Furthermore, this information should be maintained on an Excel spreadsheet similar to the collector's tax payments to the treasurer spreadsheet. By listing the daily activity by line and departments by column, simple arithmetic formulas can summarize each day's work and each department's monthly total for reporting purposes.

FINDING 3—MOTOR VEHICLE EXCISE COLLECTION PROCESS

As previously described, the collector uses a service bureau for motor vehicle excise bill printing, posting and deputy collection services. While these services make the workload of the staff easier, the process and exchange of information has been a source of concern. For example, because the excise information is not kept on the motor vehicle excise module in the Munis system, the accountant must make the journal entries onto the Munis system for the collector. Also, any abatement granted by the assessors is forwarded to the service bureau for posting and a refund list is generated and returned to the town. This list is reviewed by the collector before it is submitted to the accountant for data-entry into the Munis system and processed through the warrant. Because this information is maintained in two locations, the information is manually keyed in both locations and some data entry

errors have occurred. Some town officials have expressed concerns and suggested bringing the posting activity in-house but continuing the deputy collector services.

RECOMMENDATION 3—MOTOR VEHICLE EXCISE COLLECTION PROCESS

We recommend that the collector receive training in the use the motor vehicle excise module on the Munis system and begin posting payments in-house. With the availability of the scanners, the payments received may be posted to the appropriate account and the day's activity may be reconciled to the cash turned over for deposit immediately. More importantly, the town can use the fully integrated financial system as it was intended. Specifically, abatements may be entered by the assessors' office and refund lists may be generated and reviewed before payment through the warrant, without keying the information multiple times and in two separate locations.

FINDING 4—RECONCILIATION OF CASH AND RECEIVABLES

The town has had some difficulties reconciling cash and receivables in recent months. The cash reconciliation problems are due to timing differences for recognizing cash. For example, the collector turns over and reports his tax collections weekly. The accountant immediately recognizes the turnover in the general ledger, but the treasurer may not recognize it until upwards of a week later. Similarly, the accountant immediately recognizes voided checks, but the treasurer may delay bringing the amount back into cash. Procedures are being put in place to eliminate these differences in recognizing cash.

The receivable reconciliation problems have been primarily due to misapplication of abatements on the Munis system and errors in the preparation of the collector's turnover report to the treasurer. With the assistance of the auditors, town officials have established procedures to prevent the abatement problems. The collector has also designed a turnover report in an Excel spreadsheet so the staff may check its daily work and weekly summary against the Munis system reports.

While these monthly reconciliations have been improving slowly, it is still a time consuming process. More importantly, these reconciliations have taken on increasing significance. Unless accurate and timely reconciliations of cash and receivables are received by DOR, a community's free cash will not be certified and will not be available for use.

RECOMMENDATION 4—RECONCILIATION OF CASH AND RECEIVABLES

We recommend that the treasurer's office recognize cash when received in an effort to eliminate reporting differences. By eliminating the recognition of cash differences, it should make monthly reconciliation easier to complete. With the completion of regular and reliable reconciliations, the town will be in compliance and ensure certification of its free cash.

We also recommend that the collector maintain a spreadsheet of the weekly collections for each month. Using the same Excel turnover report format, the weekly turnovers should be combined so the grand total should reconcile to the total cash turned over for the month. A copy of this report should be included with the monthly reconciliation report to the accountant. In addition, combining the monthly total will enable the office to track the year-to-date totals by receipt. This spreadsheet may serve as an independent check against the summary of tax and utility billing report from the Munis system.

FINDING 5—AUTOMATING THE TREASURER'S RECORDS

The treasurer maintains the cashbook on 12-column accounting paper. The cashbook reflects all town receipts and deposits; payroll and accounts payable summarized by warrant; and transfers among the town's bank accounts. A cashbook provides control which enables the treasurer to reconcile with bank statements, cash on hand, and the general ledger cash balance on a monthly basis. With the assistance of the private auditor, the treasurer has recently revamped his cashbook to include certificates of deposits and trust accounts, ensuring that the town's entire financial information is included. As entries are made, each is dated, the source or purpose identified, the adjustments by account are entered across the worksheet and totaled by line. Because it is manually prepared, there are no totals listed. Instead, the assistant treasurer performs manual calculations and notes the total on the sheet to determine the cash position of the town at any point in time.

The treasurer also maintains a manual cash receipts ledger rather than using the treasurer's receipts computer module on the Munis system. The manual cash receipts ledger reflects departmental receipts, collector's turnover of revenues to the treasurer, state receipts and investment earnings. Every entry in this ledger is duplicated in the cashbook. Occasionally, receipts that appear in summary in the cashbook appear in greater detail in the cash receipts ledger, however this detail generally appears in the departmental turnover report.

Some departmental receipts are turned over to the treasurer's office directly because they are special revenues that must be reported separately and cannot close to the general fund. These funds are generally reported to the treasurer on standard state forms without revenue account numbers which can lead to confusion. For example, the schools have been receiving cable access grant funds annually that have been reported as a general receipt and were inadvertently closed to the general fund. Upon discovering the mistake, the auditors have made an audit adjustment to transfer the funds from the general fund to a special account.

The treasurer also prepares a monthly schedule of treasurer's receipts report for the accountant. This report is prepared manually on a standard state form. Some of the reported receipts include chart of account references while other do not and some of the revenues have been data entered into the Munis system while others have not. The accountant's office must identify and enter the missing amounts into the Munis system for the treasurer's office before a reconciliation of cash may be done.

RECOMMENDATION 5—AUTOMATING THE TREASURER'S RECORDS

<u>We recommend that the treasurer create and maintain the cashbook in Excel spreadsheets</u>. Maintaining the cashbook in Excel spreadsheets will enable the treasurer to key-in entries so data can more clearly be displayed. In addition, simple arithmetic functions are pre-programmed in the spreadsheets so totals can be automatically calculated, subtotals can be quickly tested, potential errors can be avoided and the cash position of the town can be identified at any time. Furthermore, given the detail reported in turnover reports from departments and in the cashbook, the treasurer does not need to keep a duplicate, running total of revenues received in the manual receipts ledger.

<u>We recommend that the treasurer's office use the treasurer's receipts module on the Munis system to record and report the departmental receipts and revenues received</u>. The advantage of the automated module on the Munis system is the ability to enter information once and be able to transfer it electronically so other offices do not have to record the information again. The treasurer's receipts module will enable the offices to record general and restricted receipts correctly and generate standard reports automatically without having to manually type reports on standard state forms.

<u>We also recommend that the town customize its departmental turnover sheets rather than using the standardized forms</u>. For each department, a turnover sheet should be created in an Excel spreadsheet which clearly lists all the revenues generally handled by that department or board, including a brief description, operating fund and the revenue account codes. Customized forms will assist the treasurer and accountant to post the revenues efficiently and serve as backup documentation to the entries in the treasurer's cashbook.

Appendix A
Comparable Towns' Financial Data

	Pop. Density per sq. mi.	FY2001 Res. Values as % of total	FY2001 Res. Levy as % of total	FY01 Average single family tax bill	FY2001 07/01/2000 Free cash	FY2001 06/30/2000 Stabilization	FY2001 New Growth	FY2001 Levy as % of total	FY2001 State aid as % of total
Swampscott	4,470	92.2%	87.7%	4,478	816,689	641,500	154,517	65.9%	11.8%
Ashland	1,116	88.6%	87.6%	3,627	2,036,387	4,006	818,821	59.3%	14.8%
Bedford	1,005	70.8%	53.6%	4,016	3,803,468	3,252,240	871,699	63.7%	9.6%
Bellingham	862	67.1%	67.1%	2,180	2,525,968	3,644,758	304,683	42.8%	26.6%
Duxbury	639	96.1%	96.1%	4,803	2,035,285	1,219,573	426,559	64.1%	10.7%
Foxborough	831	78.4%	78.4%	3,381	1,860,024	1,862,675	598,893	54.0%	22.7%
Hanover	871	80.3%	80.3%	4,088	1,355,389	856,063	356,441	59.3%	18.9%
Holliston	723	89.6%	89.6%	4,007	2,000,000	10,170	572,947	54.8%	29.4%
Hopkinton	441	81.4%	81.4%	4,801	2,124,368	967,040	1,540,135	67.7%	13.8%
Ipswich	384	91.0%	91.0%	3,301	1,398,508	3,272	405,180	53.2%	22.3%
Longmeadow	1,623	94.9%	94.9%	4,223	1,383,707	957,290	133,219	62.9%	15.5%
Lynnfield	1,120	90.9%	90.9%	4,304	1,678,588	421,971	158,484	69.1%	13.9%
Medfield	814	93.7%	93.7%	5,190	2,188,756	262,742	410,746	64.7%	17.3%
North Reading	1,005	83.6%	83.6%	3,782	577,516	474,736	615,087	57.3%	16.8%
Northborough	731	79.4%	79.4%	3,657	2,701,879	1,633,446	610,268	65.5%	16.6%
Norwell	481	82.0%	82.0%	4,806	1,587,543	53,778	347,571	64.2%	12.2%
Seekonk	722	72.3%	62.8%	2,508	649,459	204,179	272,737	65.5%	20.7%
Sharon	718	93.6%	93.6%	4,733	1,702,072	5,727	606,215	64.9%	19.3%
Wayland	808	95.0%	95.0%	6,190	4,696,787	137,716	698,830	70.7%	11.1%
Westborough	743	59.0%	59.0%	3,850	2,299,577	1,149,590	1,174,187	59.8%	10.4%
Westport	270	89.7%	89.7%	1,837	575,147	856,977	326,736	57.7%	24.6%
Average (of 20 comps.)	795	84%	82%	3,964	1,959,021	898,897	562,472	61%	17%

Sources: DOR's Data Bank

Appendix B
Comparable Towns Based on Populations and Property Values

	Proposed 2000 EQV/capita (99)	Est. 1999 Population	FY2001 Budget	Form of Government	Finance Director	Collector & Treasurer
Swampscott	104,006	13,768	34,609,236	Selectmen-Executive Secretary		elected
Ashland	85,155	13,845	33,611,591	Selectmen-Town Manager		appointed
Bedford	130,058	13,799	45,982,966	Selectmen-Town Administrator	yes	appointed
Bellingham	77,772	15,992	39,100,345	Selectmen-Town Administrator	yes	appointed
Duxbury	121,849	15,534	42,069,629	Selectmen-Town Manager		appointed
Foxborough	81,451	16,436	38,690,104	Selectmen-Town Administrator	yes	appointed
Hanover	90,498	13,472	35,227,541	Selectmen-Town Administrator	yes	(1)
Holliston	86,641	13,669	36,574,593	Selectmen-Town Administrator		appointed
Hopkinton	134,024	11,650	38,825,136	Selectmen-Executive Secretary		appointed
Ipswich	103,432	12,758	31,095,877	Selectmen-Town Manager	yes	appointed
Longmeadow	89,022	14,655	39,996,632	Selectmen-Town Administrator		elected
Lynnfield	116,665	11,444	26,448,501	Selectmen-Town Administrator		appointed
Medfield	112,901	11,753	30,919,440	Selectmen-Town Administrator		appointed
North Reading	108,492	13,326	35,790,317	Selectmen-Town Administrator	yes	appointed
Northborough	96,634	13,509	30,772,159	Selectmen-Town Administrator		appointed
Norwell	129,031	10,092	30,373,528	Selectmen-Town Administrator		appointed
Seekonk	81,511	13,447	29,525,493	Selectmen-Town Administrator	yes	appointed
Sharon	94,542	16,936	44,012,119	Selectmen-Town Administrator		appointed
Wayland	160,351	12,359	43,085,677	Selectmen-Executive Secretary (2)	yes	appointed
Westborough	135,688	15,649	50,472,204	Selectmen-Town Coordinator		appointed
Westport	94,272	14,316	22,459,932	Selectmen-Adm. Assistant		elected

(1) The treasurer is appointed and the collector is elected.
(2) Town meeting will be considering an article to establish a town government study committee.
Sources: DOR's Data Bank and US Census

Appendix C
Reserve Balances as a Percentage of Budget

	Total Budget (Amount raised on Tax Recap)	Free Cash Certification	Percent of Budget*	Stabilization Fund balance**	Percent of Budget
FY1992	22,634,878	120,172	0.5%	0	
FY1993	24,766,905	491,667	2.0%	0	
FY1994	24,938,948	462,620	1.9%	200,000	0.8%
FY1995	27,112,209	209,709	0.8%	131,655	0.5%
FY1996	27,258,702	285,510	1.0%	33,664	0.1%
FY1997	28,484,848	704,192	2.5%	41,403	0.1%
FY1998	29,542,885	547,286	1.9%	49,338	0.2%
FY1999	31,022,480	1,082,490	3.5%	370,511	1.2%
FY2000	33,385,641	1,213,980	3.6%	620,798	1.9%
FY2001	34,609,236	816,689	2.4%	641,500	1.9%

* Free Cash is certified as of 7/1 of each year based on the community's balance sheet as of 6/30.
** The Stabilization Fund balance is as of 6/30 of each year from the Schedule A and
is available for use in the fiscal year beginning 7/1.

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