



Town of Swampscott

Review of Town/School Finance Merger

Division of Local Services / Technical Assistance Section

October 2014



October 8, 2014

Thomas Younger
Town Administrator
22 Monument Avenue
Swampscott, MA 01907

Pamela Angelakis
Superintendent of Schools
207 Forest Avenue
Swampscott, MA 01907

Dear Mr. Younger and Ms. Angelakis:

It is with pleasure that I transmit to you the enclosed report, "Review of Town/School Finance Merger." It is our hope that the information presented will assist the Town of Swampscott and Swampscott School District in making decisions relative to the consolidation of municipal and school financial functions.

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

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

Sincerely,

A handwritten signature in black ink that reads "Robert G. Nunes".

Robert G. Nunes
Deputy Commissioner &
Director of Municipal Affairs

cc: Senator Lori A. Ehrlich
Representative Thomas M. McGee

Introduction

The Department of Revenue's Division of Local Services (DLS) received a request from the Town of Swampscott's Board of Selectmen and School Committee to conduct an analysis of prospects for consolidating their municipal and school financial operations. When our engagement began in late May 2014, the decision to consolidate was still an open question. However, circumstances changed very rapidly, and early on in our review, local officials moved forward with an ad hoc, pilot consolidation and have discussed presenting a related article to town meeting for an authorization vote. Given these developments, the focus of our review has shifted. This report will pay less attention to analyzing conditions that led to this decision point, reporting on the few similar consolidations that have occurred in Massachusetts, and discussing the political climate within town. Instead, we will focus on providing guidance for a successful consolidation.

A team from DLS's Technical Assistance Section conducted the review, which was much enabled by the very cooperative participation of employees and local officials connected with the school and municipal areas. The overall spirit of open-mindedness, collaboration and willingness to innovate that we experienced in interacting with these individuals bodes well for maintaining an environment conducive to an effective consolidation.

In Massachusetts, most school districts maintain business offices to manage a range of finance-related functions, such as forecasting, budget monitoring, payroll processing, purchasing, and reporting data to the state's Department of Elementary and Secondary Education. Only a handful of the 351 communities in the state have ever completed mergers of their municipal and school finances. These include Barnstable, Harvard, Brockton and Winthrop, each of whom developed unique consolidation models. At least one municipality, Reading, consolidated for a time but then reverted to a separate school business office. Some other communities have examined but not pursued the prospect, typically opting against it because of weak central government structures or lack of political will.

Feeling the pressure of constricting revenues, Swampscott's local leaders have looked to the concept of a town/school financial merger motivated by the notion that consolidated resources will increase day-to-day efficiencies, perhaps provide modest short-term cost-savings through economies of scale, and may, in the long-term, improve fiscal outlooks by minimizing personnel-related fixed-cost obligations. Beyond these goals, greater centralized oversight of financial functions will also help strengthen the internal control environment. Furthermore, shifting these specialized and time-consuming tasks to a consolidated finance office permits the local school committee and school administrators to more fully focus their attention on educational concerns.

Town Background

Swampscott is a primarily residential community situated less than 15 miles along the shore north of Boston. With its high proportion of well-educated residents, the town has a greater per capita income than many of its neighbors and other peer towns in eastern Massachusetts. Property values are also comparatively high, but as a small and long-established community, Swampscott has little remaining land to develop. At only three square miles, the town's land area makes it the state's fifth smallest municipality, well below the average community size of 22 square miles. And with an average of 4,564 residents per square mile, Swampscott ranks 5th for population density among towns in the state, 25th when including cities.

As is typical in bedroom communities, Swampscott's business sector accounts for only a small portion of its overall property value, at 7.4 percent. However, it comprises almost 13 percent of the town's annual tax levy due to a split tax rate that assesses \$35.79 per \$1,000 assessed value of commercial, industrial and personal property versus the \$18.70 rate applied to residential parcels. Swampscott's average single family property tax bill of \$8,593 ranks it within the top seven percent of communities statewide.

The scarcity of developable land in town constrains the new growth factor in calculating Swampscott's annual levy limit. Although Proposition 2½ otherwise restricts annual municipal levy increases to a 2.5 limit, it makes provision for adding to this limit an amount based on the value of new development growth in the tax base. This new growth figure, once certified, then becomes a permanent part of a community's levy limit base, which continues to grow at 2.5 percent each year. Swampscott misses out on the kinds of levy increases that less developed municipalities can experience, however, since its new growth impact is mostly confined to expanded or altered existing properties as opposed to new construction. Between FY03 and FY13, the town's new growth portion of its prior year's tax averaged 1.3 percent, while the average statewide was 90 percent higher, at 2.48 percent. The result is more limited future budget flexibility. Based on long-term trends, Swampscott also cannot look to population growth for corresponding expansion in local receipt volumes. Since at least 1990, the town's population has held rather steady, fluctuating slightly up or down on either side of 14,000.

The town's current tax levy is augmented by capital projects for which voters approved debt exclusion funding, including a sewer project, new police station, and new high school. A debt exclusion represents a temporary increase of the tax levy over the annual Proposition 2½ limit, which remains a part of the annual levy until the bond is paid off. On the near horizon are other pressing capital concerns, most prominently, the need to address the town's very aged elementary schools. Based on discussions, the technology condition of the town also needs renewed attention and

investment. As financial pressures have mounted, staffing has been stretched thin in the central municipal government and school department, which is another factor compelling efforts to find new ways to economize resources.

Given this backdrop, the concept of pursuing consolidation to streamline services and minimize costs has been in the air in Swampscott off and on for the past decade. Some citizens have also proposed investigating opportunities to regionalize with neighboring communities for services like emergency dispatch, building inspection, and insurance administration. This resulted in the formation of a volunteer board known as the Article 6 Committee (after its authorizing warrant article). This is an encouraging example of the public's interest in seeking novel solutions for maximizing resources, although the regionalization discussion lies beyond the scope of our review.

Swampscott's town charter and bylaws lay out basic guidelines for its government structure. A five-member board of selectmen functions as the executive, policymaking body. A representative town meeting constitutes the municipal legislative branch. To oversee day-to-day governmental operations, the selectmen appoint a town administrator, whom the charter designates as the chief administrative and financial officer. The town accountant, treasurer/collector and assistant assessor constitute the other primary financial officers.

While overall the charter and bylaws provide sparse information about the roles and responsibilities of most officeholders, there is a detailed town administrator chapter in the charter that provides for a strong, centralized government structure. All department heads (save the superintendent of schools) report to the town administrator. This position also makes recommendations for all department head appointments, subject to approval by the select board.

The current town administrator, who was appointed in 2012, has overseen a recent string of management appointments. July 2014 saw the hiring of an assistant assessor to head up the assessing department that had lacked a long-term manager for about four years. In June 2014, a new treasurer/collector was appointed to replace the longtime incumbent who resigned in March 2014. That officeholder had also been the town's technology manager and benefits administrator. These responsibilities will no longer fall under the treasurer/collector, however, allowing the new manager to focus on the position's typical responsibilities. In July 2014, a part-time benefits administrator position was created and filled to manage insurance and other benefits for all town and school employees.

School Background

A recent, extended period of administrative turnover in the school district has added further impetus to consolidation. Four people have served as the superintendent of schools since 2009. The third of

these was hired on an interim basis in April 2013 and only worked part-time. Before that year ended, the long-serving school business manager left, and some of his duties were performed by a part-time consultant. In January 2014, the school committee hired a new school business manager who lacked experience in the role and only stayed in the position until June 2014. Effective February 2014, the committee hired the latest superintendent, elevating her from the assistant superintendent position she had held for about 18 months.

The current superintendent possesses ample institutional knowledge gained from working in the district for 26 years. In her short tenure as superintendent, her emphasis on accountability and willingness to test longstanding assumptions have helped to garner the respect and trust of local officials. To create stability for the district, the school committee put her under contract until 2019. Coincidentally but conveniently, the town administrator's contract extends to 2017.

The superintendent works at the direction of the five-member school committee. Relatively speaking, the school committee membership is somewhat inexperienced, all of them having served for less than three years. The chair was elected in 2012, two other members in 2013, and the final two in 2014. This means that no one is entrenched with a "business-as-usual" attitude, but rather there is more room to evolve as each determines the best way to fulfill their responsibilities. Based on discussions, there appears to be cautious openness to the idea of consolidation. The greatest concern is that the school committee will relinquish too much of its role as school budget advocate. A countervailing notion is that consolidation, in addition to enhancing fiscal responsibility, can create a greater partnership with municipal government officers, thereby allowing school administrators to take more advantage of their expertise.

With consolidation already being contemplated, at the departure of the last school business manager in June 2014, the superintendent decided to reach out to the town government for temporary help with managing financial operations. Since then, the town accountant has split his time 50/50 between his municipal duties and acting as the interim school business manager. Essentially, this has allowed the town and school to explore instituting a more complete financial consolidation on something like a pilot basis. Already during this interim period, town/school communication and collaboration has been strengthened, and thus far, any apprehensions over potential personality clashes or ownership disputes have not proven valid.

Budget Process

Swampscott's town charter provides the basic outline of the budget process, assigning its coordination to the town administrator and calling upon the school committee to submit a budget for early incorporation into his municipal plan. Practically speaking, the town accountant does much of the budget analysis work, including forecasting, proposing annual budget guidelines, compiling

departmental budget requests, and working with the town administrator to create an annual budget report. After the town administrator presents a budget analysis and proposal to the select board and finance committee, the selectmen vote on and submit their budget version to the finance committee. In the end stage, the finance committee conducts appropriate investigations, makes necessary adjustments, and presents the final version to town meeting for deliberation.

Capital planning for the school department is incorporated within the overall, long-term municipal plan. As laid out in bylaw, the school committee, along with all other town boards and departments, submits an annual report of all anticipated capital projects to the capital improvements committee. The committee then evaluates submissions based on the “need, impact, timing and cost of these expenditures and the effect that each will have on the financial position of the town” and reports its findings to the finance committee.

For the first time this current fiscal year, FY15, the school department created a budget that is site-based. This is a major transition in thinking and will likely cause some initial consternation, but the goal of site-based budgeting is to better analyze how much each school building actually needs and spends. Anxiety about potential infighting between schools notwithstanding, it is a very common budget model, an excellent way to track expenditures, and also corresponds with the Department of Education’s reporting requirements. Although the decision to move to site-based budgeting was made by the superintendent’s predecessor, she fully embraces it as it is in keeping with her objective of creating more accountability. Principals now have complete responsibility for managing their own budgets.

Budgetary cooperation between the school department, town administrator and town accountant, although historically good, has had its ups and downs. The school department has tended to trust forecast figures and accept budget amounts presented by the accountant. However, in the recent years of administrative turnover, that built-up trust waned, and there were some difficult budget struggles. However, last year, both sides recommitted themselves to a good faith collaboration effort, in part due to the realization that either side stands to lose whenever a disunified budget is presented to town meeting to be argued on the voting floor. Accordingly, the most recent budget year went considerably smoother, and better cooperative groundwork has been laid.

To further the collaborative developments, the town has revised a budgetary tri-chair committee. Comprised of the chairs of the select, school and finance boards along with the town administrator and superintendent of schools, this committee had been dormant in recent years. But when active in the past, budget participants felt that regular meetings of the committee helped to support better communication and openness in the process.

Consolidation Environment

Besides financial operations, local leaders have been considering consolidating three other functional areas: human resources, information technology, and facilities. These operations are currently organized as follows:

Human Resources (HR): The town's personnel manager administers HR policies and negotiates with all bargaining units town-wide, but her role in everyday, school-related HR functions is limited to processing workman's compensation claims. Despite the school department's unique HR needs and large personnel contingent, it has no dedicated HR manager, and those functions have been shared in a somewhat unstructured way among a few school employees.

Information Technology (IT): The school has an IT department consisting of a MIS director, network administrator, and tech specialist. Since the March 2014 departure of the former treasurer/collector, no long-term decision on municipal IT management has been made. Until officials decide whether to create a new town IT department or to consolidate with the school's, as an interim measure, the town has arranged to have a school IT employee manage the town's IT functions, paying a portion of his salary for this service.

Facilities: Within the town's department of public works, there is an employee designated to coordinate facility work for four town buildings on a part-time basis, using staff from the department's laborer team as available. The department contracts for weekly custodial services. Within the school business office, there is a facilities department to manage the needs of five school buildings and a field house. A director oversees this group, managing an assistant director, two laborers and 16 custodians. He also functions as the central procurement officer for the school department as a whole.

At Swampscott's annual town meeting in May 2014, voters passed an article to consolidate facilities, but thus far, there has been little forward momentum on this. Based on discussions, both sides seem in agreement that the new facilities unit will be a municipal department, notwithstanding the schools' greater need for facilities support on a day-to-day basis. Whereas the town has more to gain from this merger by getting access to additional and more specialized employees, the lack of progress is puzzling. This highlights the importance of a dynamic leader or leaders taking ownership of formulating the end goal and systematically moving the process through essential milestones, and this similarly applies to the financial consolidation process.

Consolidation Analysis

Numerous conditions and events have coincided to set the stage for a town/school financial merger. In particular, the departures of various officeholders within the past six months put the consolidation movement on fast-forward. As each vacancy happened, there was a practical need to create greater collaboration between various municipal departments and school administration. Vacuums associated

with payroll operations and IT management occurred with the departure of the prior treasurer/collector. Likewise, the last school business manager's exit created an immediate need for a qualified person to oversee the school department's budget management and daily accounting operations.

Fortunately, the pilot consolidation has been eased by the many years of knowledge and experience among the remaining managers and staff and the flexibility they have demonstrated in taking on new tasks as responsibilities shifted. As consolidation continues to move forward, officials are justified in presuming that it should help identify duplicative processes and redundant controls that could be eliminated to thereby maximize process efficiencies while also providing staff with more time to devote to higher-level analytical work.

Another present condition favorable to the merger is the apparent, sincere open-mindedness of the officials on both sides of the equation. For a consolidation effort to be successful, we cannot overstate the importance of it receiving unambiguous support from elected and administrative officials throughout the process. Foundationally, it requires the mutual trust of municipal and school leadership and can be sustained effectively by creating formal policies and procedures designed to buttress the cooperative arrangement. Based on conversations, it appears the essential qualities needed for this relationship have been developing and expanding as the pilot version has progressed.

Unlike some communities, Swampscott is also fortunate that it decided years ago to implement a sole, integrated financial database for the town and school district, establishing a contract with Tyler Technologies Inc. to provide and support its Munis software for that purpose. The former treasurer/collector-IT manager, however, had maintained a policy of tight controls over Munis to the extent that only a bare minimum of managers and staff were provided system access.

In the current absence of a town IT manager, and with the cooperation of the school's MIS director, the town accountant quickly pursued a course of action to expand Munis access and data entry privileges. By the end of August, the software had been installed on the computers of all administrative and management personnel in the school business office and the individual schools. Munis representatives also came to town to provide these new users with training on relevant system modules. The timing of this is especially important since it allows school principals to review their own budgets in real time for this first year of site-based budgeting. This development will also be a key factor supporting consolidation by permitting designated staff to enter data into the system directly, reducing the workload of employees of the newly consolidated office.

While much progress has already been made, as Swampscott continues along the path to full financial consolidation, there are many other considerations that need to be systematically addressed. In the next section of the report, we provide guidance for each of these in turn.

Organizational structure and staffing

The first questions to be addressed for the consolidated finance office are organizational. Where will it fit within the local government structure? And what staffing is required? As noted earlier, Swampscott's charter designates the town administrator as chief financial officer (CFO). Unlike the other Massachusetts communities that have embarked on this type of merger, in Swampscott, the accountant, treasurer/collector and assessing offices are independent departments, not consolidated jointly under a finance director or CFO. The existence of an encompassing municipal finance department is not a prerequisite for shifting school-related financial functions into general government operations, however. This can be achieved by folding these tasks into a new, centralized accounting office, which we will refer to as the CAO.

Presently, the accounting department consists of only two full-time employees, the town accountant and assistant town accountant. Apart from the school facility personnel now involved in a separate consolidation, the school business office also had minimal staffing. It consisted of the former business manager, a payroll manager, an accounts payable manager, and an administrative assistant. However, the school business office did not have oversight of all school-related finance and accounting functions. For instance, in the last couple of years, much of the analysis and data compilation for creating the annual school budget was done by an executive secretary to the superintendent of schools. Additionally, the special education director's administrative assistant has been doing most of the ongoing grant-related accounting work.

One of the new superintendent's early projects was to review the job descriptions of all administrative managers and staff to determine the functions most appropriate to each employee and eliminate duplicative tasks. This has resulted in an inventory of responsibilities that she and the accountant can use to assign all finance and accounting tasks to the CAO and to create new functional job descriptions for employees. Based on the job responsibilities we reviewed, we suggest the CAO could be staffed by four to five full-time-equivalent employees.

Another consideration for the new department relates to employee unions. Most of the school employees who may potentially transfer to the new office are members of the school district's administrative assistants union. Neither the town accountant nor his assistant belongs to a union because their work involves access to comprehensive financial and personnel data that could compromise contract negotiations. It could be argued that this type of data access necessitates that all CAO employees also be confidential, but this could be subject to union negotiation. Furthermore, within the overall government structure, the CAO would be a town, not school, department and therefore the administrative assistant contract signed under the school committee would no longer apply to anyone who transferred to it. We suggest that the town agree to continue to pay any union

transferees at their existing salaries and thenceforth grant them salary increases aligned with those of other personnel bylaw employees.

We envision a CAO overseen by a department head, who reports to the town administrator and whose title could be director of central accounting. The volume and complexity of school accounting tasks, plus the ongoing need for the superintendent and school committee to have access to an individual who can provide them with up-to-date data and analyses for decision making, compels us to advise that one CAO employee be designated as school accountant. The director would still have general oversight of all accounting functions, and school officials could call on either person for high-level analysis. However, on an everyday basis, the school accountant would function as school liaison, and his or her work would focus solely on school-related finances and accounting, including budget development, financial reporting, journal entries, and grant-related bookkeeping. Most importantly for the success of the merger, school officials must feel confident that on budgetary matters they can maintain a trusting and confidential relationship with this person.

Within the merged office, the state's Department of Elementary and Secondary Education (DESE) will require that the person with either delegated or overall responsibility for school finances have a school business administrator license. Obtaining this license involves rigorous standards and a significant time commitment, as laid out in the Code of Massachusetts Regulations, 603 CMR 7.09. As a prerequisite, the aspirant must have an initial license in another educational role and at least three years of employment experience in a districtwide, school-based, or other educational setting. For the educational work experience, DESE may accept three years of business management-related employment as a substitute. The individual must also pass the Communication and Literacy Skills component of the Massachusetts Tests for Educator Licensure.

Furthermore, 603 CMR 7.09 requires the candidate to be knowledgeable in various subject matters, including among others, financial planning, accounting systems, municipal and school finance laws, and personnel matters. The final requirement is the completion of either a post-baccalaureate practicum or internship of 300 hours in a school business administrator role. As an alternative to this last stipulation, a candidate with at least three years of non-school-related management experience can submit to a DESE panel review. The numerous years the town accountant has worked in a senior management role, along his time as interim school business manager, would seem to provide good criteria for the panel review option.

In centralizing school and municipal accounting, we also recommend that the town administrator delegate his role as the town's chief procurement officer to an individual in the CAO. The town currently lacks formal policies and procedures for procurement, although for larger purchases it has a regional agreement with the City of Salem. The school business office, on the other hand,

had been doing all its procurement in-house. Since, conceptually, this consolidation involves the school department transferring all the financial responsibilities of its business office to the new unit, this would include vendor contract negotiation and procurement. We therefore suggest that the town send an employee for training to become a certified public purchasing officer.

One area of financial responsibility that must not be transferred to the CAO is the collection of receipts for programs such as school lunches, student activities, or building rentals. An accounting office must maintain a separation from the receipt and disbursement of funds, because it must be able to impartially review the bookkeeping related to them. Instead, school department employees must receive and deposit these receipts, maintain their own activity records, and submit appropriate turnover reports to the treasurer/collector and report copies to the CAO. The CAO's purview would still extend, however, to advising on relevant internal controls and auditing these activities.

Finally, there is the question of oversight for nonfinancial functions. Traditional school business offices are oftentimes tasked with nonfinancial managerial responsibilities, such as handling everyday issues that could arise in school lunch or transportation programs. And to some extent, this had been the case in Swampscott. The facilities consolidation will transfer some of these nonfinancial tasks away from the school department, but for the others, it would be wise to assign responsibility within the school administration, whose closer position to the operations enables better responsiveness. At the same time, consolidation will relieve the school department of responsibility for vendor contract negotiations. Thus, the town and school sides will need to come to agreement on who will handle the different aspects of contract management (i.e., setting and reviewing adherence with contract terms versus dealing with nonsystemic issues that may arise on any given day).

Budget considerations

We must also consider how consolidation will impact Swampscott's net school spending. Based on each school district's foundation enrollment, DESE annually calculates a minimum required budget for that district, which is known as its net school spending (NSS) requirement. DESE also analyzes a community's socioeconomic data to calculate the minimum amount of money it must contribute to the NSS requirement, with the balance being provided by the state as Chapter 70 aid. Over the years, Swampscott typically appropriates significantly more than the NSS minimum. In the latest data available, DESE credited the district for meeting 143 percent of its NSS obligation in FY14, which provides budgetary leeway for moving to a unified CAO.

In crediting a community for its NSS contribution, DESE considers not only the money directly appropriated by the local governing body to the school department for salaries and expenses. It also factors other municipal expenses associated with the district, such as employee health insurance,

retirement plans for certain categories of school personnel, and the indirect administrative costs associated with activities performed by municipal personnel in support of school functions.

To calculate compliance with NSS for each new school year, DESE relies on data submitted by the school district in end-of-year financial and student enrollment reports, per 603 CMR 10.04. Although the Swampscott school district reports annual figures by cost category of the town's expenditures beyond the school departmental appropriation, there has been no formally documented agreement on how these costs are derived. Instead, the district has accepted figures provided by the town accountant. Technically, DESE requires town and school officials to establish a formal, written agreement on the allocation of municipal costs included in NSS calculations. Although an informal accounting arrangement has worked in the past, we recommend that, as added support for the changes expected through financial consolidation, the town administrator, accountant, and superintendent develop a written cost allocation agreement to be approved by the board of selectmen and school committee.

Moving some school personnel over to a new town department will reduce the school budget by their salaries. At the same time, the extensiveness of school-related work to be conducted in the CAO means that the town can be credited for more administrative expenses. If the unit includes a person who only does school-related accounting work, as we recommend, 100 percent of his or her salary can be credited as an expenditure for the schools (but none of his or her insurance or retirement costs). These examples illustrate the need to work out these kinds of details in a formal agreement that will apply for all the staff working in the CAO and elsewhere in the town government supporting the school's mission. This agreement and its resulting calculations should be reviewed by the parties annually and the documents maintained for audit purposes. In addition, the school department should be sure to annually review the listing of employees being assessed for insurance and retirement costs.

We have already discussed assigning a school-focused CAO position to be a trusted budgetary advisor for the school committee and superintendent. Another way to foster continued faith in a fair budget process is by establishing a formal agreement on the allocation of revenues to the school department and municipal government. This type of agreement has proven effective in many communities with and without town/school consolidations but has been cited as particularly valuable in Barnstable, which has had a very successful financial merger.

In such an agreement, the community establishes a set allocation ratio to apply in every stage of the budget, from the initial phase of revenue projections, to subsequent adjustments occurring in the budget season based on new information, and to any unexpected income that may become available during the fiscal year. All parties must understand and agree that the ratio is not subject to midyear changes for this approach to be effective. The parties should also plan for what will happen in the event of revenue shortfalls. Although NSS requirements somewhat insulate the school's budget, there

is no similar buffer to preserve minimum expenditure levels for town government. It therefore tends to experience the greater impact from budget cuts. Since state law prohibits the earmarking of general fund revenues, a community would typically document this type of agreement as either a written policy or memorandum of understanding.

To determine a proper ratio, a small joint committee should be formed to do an analysis of spending over a ten-year period with any revenue or expenditure aberrations being factored out. The goal is to find a fair middle ground that will provide equal prospects for future gains. It also makes sense to net out or extract off the top the revenues needed to cover fixed costs, such as debt principal and interest, bond costs, pension contributions, unemployment compensation, employee benefits, and property and liability insurance. Otherwise, the task becomes complicated when amounts attributable to town and school personnel or operations must be assigned.

Finally, the revived tri-chair meetings can also help facilitate the consolidation by affording a forum to air viewpoints, provide direction, and review progress. In these early phases, it would be most effective to establish a set schedule of frequent meetings, and as each meeting approaches, create and distribute agendas. Later in the process, the meetings could be less frequent and more aligned with the annual budget season. Since these meetings only involve committee chairs (along with the town administrator and school superintendent), it is also important that the chairpersons commit to sharing their feedback on the tri-chair meetings with their fellow committee members by including updates as agenda items for their own meetings.

Location of the CAO

Planners must also decide where to locate the CAO. Most central town departments, including the two-person accounting office, are situated in the Elihu Thomson Administration Building, which functions as Swampscott's town hall. Based on conversations though, this converted Victorian mansion is unfortunately close to administrative capacity. Certainly, there is no room for additional staff in the accounting office area. School business office personnel, along with other central school administrators, have been working in the middle school, whose unused space is also limited. The police department moved to a newly constructed building in October 2013, which left a vacant building with fairly recent updates and wiring. There is also a vacant, former senior center that could be considered.

Factors that will influence the site choice include the amount of money and effort needed to create a well-functioning office environment and the proximity to central school and town administration. In considering reusing any vacant building, decision makers will also have to weigh that option with any other potential future plans. A building could be selected because of its capacity to house other potential consolidated departments besides the CAO, like facilities or IT. Alternatively, one may be

ruled out because it makes more sense for the town to sell it. In any case, the new department will realize greater cohesiveness and efficiency once all team members are physically brought together.

Munis expansion

As mentioned previously, an early objective of the pilot consolidation was to extend Munis view and edit permissions to more employees. It is our understanding that an attempted August 2014 rollout hit some snags, but a new effort is forthcoming. Presently, certain personnel in each school building can access site-connected budget data, but the vendor must do more programming and on-site training before plans for greater data entry decentralization can be implemented. Once that happens, designated employees in each location will begin entering purchasing information in Munis, replacing a process that had relied on paper purchase orders and duplicative data entry.

Under the new process, certain school employees will key in electronic purchase orders that the CAO's accounts payable (AP) manager can review and approve online. Subsequently, those same school employees will also enter invoice data associated with the purchases. After reviewing the data online, the AP manager can contact specific Munis users about any questionable entries. Then, after approving the invoice entries, the AP manager will use the data to create payment warrants for approval by the director of accounting, superintendent, and school committee, and submission to the treasurer/collector to disburse the funds.

After this automated AP process has been implemented satisfactorily, we recommend that officials consider decentralizing other data entry functions on a staggered schedule. Munis can be programmed to allow entry of receipt information at the department level, and Swampscott's treasurer/collector is open to this change. The school department already does its own bank deposits, providing the treasurer/collector with turnover reports and deposit slip copies. Instead of treasurer/collector staff redundantly keying in data that had already been input to turnover spreadsheet reports, this information can be entered only once, at the school building level. Then treasurer/collector personnel can compare the information received in hard-copy with data school employees input to Munis prior to approving it as valid in the treasurer's receipts module. The efficiencies created by this will go far to improve the timeliness of reconciliations between the treasurer/collector, schools and accountant. Historically, these had lagged for months, and we commend the new treasurer/collector on his plan to institute a weekly reconciliation schedule, which this new procedure would facilitate.

The treasurer/collector's office is also responsible for processing payroll each week. Munis is already populated with every regular employees' pay rates and standard work hours, so that only exception data needs to be entered into it weekly (biweekly for most school personnel). This task had already been somewhat decentralized to the school department, since the school business office's payroll

manager does Munis payroll entries for all school employees. Establishing the CAO does not necessarily need to impact this arrangement. However, sometime in the future, town and school administrators could consider further decentralizing this responsibility out to the school building level.

Another future consideration for maximizing Munis capacity involves fully implementing the features and tools of its budget module across town departments and right down to the school level, since principals will be managing their individual site budgets. Doing so can simplify the compilation and submission of annual budget requests. It would also allow CAO staff to load approved budgets directly into the appropriation ledger without rekeying information.

Implementing the Financial Consolidation

For a town to consolidate certain municipal and school operational functions, state law requires the community to locally accept M.G.L. c. 71, §37M by majority votes of its school committee and town meeting. Any consolidated operation can be subsequently dissolved by a majority vote of either party. In August 2014, the school committee voted to allow the financial consolidation to proceed, but no consolidation article has been presented to town meeting yet.

Beyond the legal requisites for consolidation, to assure the best results for an effective and lasting merger, we recommend that the town and school formalize it in a memorandum of understanding (MOU). Given the fast pace of the financial merger, a committee should be formed without delay to begin working out the details of the MOU. As guidance for framing a comprehensive MOU, we suggest that it include the following:

1. Statement of purpose. This spells out the goals of consolidation.
2. Legal references and limitations. Among items in this section could be a reference to the acceptance of M.G.L. c. 71, §37M and a statement about the continuing budgetary authority of the school committee.
3. Time period. When is the consolidation effective? Does the MOU need to be reapproved, by whom, and at what junctures?
4. Implementation plan. This section provides an implementation time frame, assigns responsibilities, establishes procedures for reporting progress to the selectmen and school committee, and states the cooperation expected from school and municipal personnel. The

MOU committee may also choose to set out a schedule of consolidation meetings between the town administrator and superintendent of schools.

5. Structure and personnel. Here the MOU establishes the department head title, provides a high-level statement of responsibilities, and cites his or her reporting position within municipal government. Other key positions can also be identified. The appointing authority can be spelled out: Should these be joint town-school appointments, or the town administrator's with school committee approval? The MOU committee may also want to provide details on the hiring process, supervision, and training needs.
6. Statement of services to be provided. Categories to consider include:
 - Procurement and accounts payable approvals
 - Vendor contract negotiation
 - School payroll coordination
 - Warrant assembly
 - Budget preparation assistance
 - Ongoing budget oversight
 - Internal financial reporting
 - External reporting to DESE
 - Grant accounting
 - Collective bargaining analysis
7. Statement of services that will not be provided. This list could include:
 - Budget policy
 - Routine purchasing
 - Revenue collection and turnover to the treasurer/collector
 - Obtaining grants
 - Supervising the school transportation or lunch programs
 - Supervising Medicaid billing
8. Budget considerations. Here it is important to state which budgets will be expended for the salaries of personnel in the new department, both in the initial year and subsequent ones. This section can also incorporate net school spending and revenue allocation agreements by reference.

9. Process for resolving disputes. Disputes between the parties to the MOU may arise, and therefore the agreement should provide a process for resolving disagreements, including escalation guidelines.
10. Process for amending MOU. This section should acknowledge that the MOU is a working document subject to change through a stated amendment process.
11. Process for dissolution. The MOU needs to explain the steps and notice needed for either party to dissolve the consolidated accounting department.
12. Signatures and dates.

Conclusion

Swampscott's local officials and employees have taken many constructive and prudent actions in the initial stages of financial consolidation, but more needs to be done to bring about a successful merger. Whereas the momentum until now has been driven by expediencies, we hope that the guidance presented in this report will help illuminate the path forward, which will require intensified planning, collaboration, and leadership. To keep it on track, at minimum, we recommend that the town administrator and school superintendent commit to meeting on a standard, regular basis. This will help to establish a clear process to air potential issues and formulate solutions, which will be vital to fostering an effective collaboration that meets the needs of both parties.

APPENDIX

ADDITIONAL RECOMMENDATIONS

Below we offer some suggestions for improving existing practices and policies as well as prospective ones related to the financial merger.

- 1. Develop policy and procedure manuals for financial operations.** Swampscott's new treasurer/collector has plans to develop cash management policies and circulate them to municipal and school departments that handle money. We commend him in this objective, and we suggest other financial managers also consider creating policy and procedure manuals for their staffs. This will be especially helpful within the CAO as its full set of responsibilities begins to coalesce. The manuals should state policies, outline specific tasks required to accomplish policy objectives, and explain the internal controls designed to assure the intended outcomes of activities. Creating the manuals helps managers to identify redundant controls and make risk assessment decisions about the cost of sustaining certain controls or adding new ones.
- 2. Improve grant recordkeeping.** While the CAO will be responsible for day-to-day grant-related accounting, obtaining the grants will remain a school administration function. It is therefore very important that school administrators forward grant documents to the CAO timely. We suggest that the CAO director and superintendent jointly issue a memorandum directing school personnel who manage grants to create portable document format (PDF) versions of them upon receipt and email them to the CAO's school accountant. The school administrators should also maintain electronic databases of the PDFs for their own records.
- 3. Establish an ongoing internal audit function within the CAO.** With more staff on hand in the new CAO and the efficiency dividends that will eventually accrue post-consolidation, we suggest that, down the road, the CAO director integrate a series of internal audits into his department's annual work plans. Complementing the independent audit in supporting strong fiscal oversight, internal audits seek to verify the existence and effectiveness of internal controls. These controls, which can be preventative or detective, include examples such as segregation of duties, approvals, authorizations, verifications, physical asset security, reconciliations, inventories, and policies and procedures. The program could be initiated by a memo from the CAO director and town administrator declaring the intent to reaffirm internal controls and cash handling procedures through periodic reviews of departmental records.
- 4. Channel technology purchasing decisions through the MIS director.** Although site-based budgets give school principals full authority over their technology purchases, we advise the

superintendent to establish a policy requiring them to refer their purchase intentions to the MIS director first for his review. This will help to ensure department-wide compatibility of hardware, software, and auxiliaries. Referring purchases to the MIS director can also help minimize expenditures because he may know about effective options that are less expensive or existing purchases that can be shared or expanded. He can also seek discounts through group purchases, and his procurement experience can help ensure adherence with state purchasing regulations.

5. **Consider purchasing software for managing the scheduling of substitute teachers.** Software exists that allows school personnel to report absences online and designate specific substitute candidates, then auto-dials them, and generates time and attendance updates. We recommend the MIS director research the options and do a cost-benefit analysis that weighs the expense against the possible efficiency impacts on this otherwise time-consuming process.
6. **Implement a biweekly payroll cycle town-wide.** Doing so will reduce paperwork, simplify reporting, and ease workloads for treasurer/collector and CAO staff. It takes no more effort for departments to report two weeks of payroll data versus one, but eliminating the associated processing work for the central financial staff every other week will allow them to spend more time on other tasks. Biweekly payroll is the most common standard in the public and private sectors because of its accounting, cash flow, and productivity advantages. Any payroll cycle change would need to be bargained with the town's unions, however.
7. **Maintain one, centralized database of employee leave time balances.** Between the town and school operations, staff use at least four databases to track employee leave time accruals and usage, which is an inherently inefficient system. This set-up also leaves the town with no definitive source for corroborating or challenging any employee claims of sick or vacation balances. The failure to maintain a reliable database on an ongoing basis also complicates the town accountant's annual task of reporting the municipality's leave balances.

In place of the two databases maintained by the school department and the Excel workbook used by the personnel manager, we suggest that the town convert these records into Munis. The treasurer/collector's office already uses Munis to process payroll weekly, including recording the use of sick, vacation and personal time. When an employee receives a Munis pay advice, it displays any leave time used in the period but not his or her current balances because that data has never been added to Munis. We advise the town IT consultant to consult with Tyler Technologies about this conversion and schedule training on doing Munis updates, both individually and aggregately based on contractual changes, to make Munis the single, reliable source of current leave time data.

ACKNOWLEDGMENTS

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