



Town of Swansea

Financial Management Review

June 2004

INTRODUCTION

At the request of the Swansea Board of Selectmen, the Department of Revenue's Division of Local Services (DLS) has completed this financial management review of the town.

We have based our findings and recommendations on site visits by Municipal Data Management & Technical Assistance Bureau (MDM/TAB), Bureau of Accounts (BOA), and Information Technology (IT) staff members, and consultations with field representatives of the Bureau of Local Assessment (BLA). During these visits, the staff interviewed members of the board of selectmen and advisory & financial committee, the town administrator, accountant, collector/treasurer, principal assessor and other municipal office staff and committees. 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 important recommendation, involving the town's governmental structure, will require special legislation or the adoption of a charter.

EXECUTIVE SUMMARY

Located on the Rhode Island border and the shore of Mount Hope Bay, Swansea is a suburban bedroom community (approximately 25.5 square miles) in Bristol County. It is a community of approximately 15,900 persons and a budget of \$27 million (FY05). It is also a community that has battled long-standing financial problems, which came to a head in FY02.

Prior to FY02, Swansea formulated its operating budget without consideration of its revenues. This is contrary to revenue-driven budgeting practices in Massachusetts since the implementation of Proposition 2½. Consequently, this expenditure-driven budgeting practice requires the town to reconsider its annual town meeting actions, generally making downward adjustments, in the fall to balance the budget. This was frustrating to residents and it contributed to a growing conflict among departments, which are independent by virtue of the town's organizational structure (Appendix A) and were willing to fight for their own agenda without consideration for the town's financial position and overall needs. The combination of Swansea's budgeting practices and the lack of reserves (Appendix B) often resulted in operating deficits and negative free cash certifications, which culminated when the town received state bailout legislation in FY02.

Upon taking office in the fall of 2001, the new administrator reviewed the town's budget in preparation for setting the FY02 tax rate and beginning the subsequent year's budget process. He found a \$2.5 million structural deficit, resulting from the town's historical budgeting practices and lack of communication among officials. Chief among the sources of the deficit was the town's health claims trust fund. An insurance consultant handled the town's health claims; the employees contributed about 25 percent through payroll deductions and the town contributed the remaining 75 percent. The consultant annually calculated the town's estimated contribution based on actual claims and a reasonable estimate of costs incurred but not processed by year's end. Despite the recommended contribution amounts, Swansea annually appropriated less in order to balance its budget. Often at year's end, this resulted in an operating deficit (ranging between about \$118,000 - \$432,000) that was raised on the subsequent year's tax recapitulation sheet (Appendix C). What was not addressed were the health claims that were incurred but not processed by year's end and rolled over into the next fiscal year. After years of not providing for the unprocessed claims and with the rapidly rising cost of health insurance, this budget-funding scheme had become a serious problem by 2001, representing \$2.05 million of the structural deficit.

Without a balanced budget, Swansea could not set its FY02 tax rate or mail enforceable FY02 third-quarter tax bills, forcing the town to issue short-term notes to meet its cash flow needs. To address this imbalance, town meeting had to cut departmental budgets upwards of 7.5 percent, forcing layoffs in some departments and decreasing hours of operation in others. Despite these tough decisions, the budget was still out of balance by a significant amount.

In consultation with DLS, town counsel, and Swansea's financial advisor, it became clear that the town needed to borrow to finance its deficit. After lengthy heated debate, town meeting approved a home rule petition asking the legislature to grant Swansea the authority to borrow up to \$5 million for a term of ten years, becoming one of only ten Massachusetts' communities that have had to do this.

A home rule petition, Chapter 93 of the Acts of 2002, was enacted April 17, 2002. As a condition of the act, Swansea must prepare and submit quarterly revenue and expenditure reports to DLS for review, and the town's annual independent audit must be completed and filed with DLS before the subsequent year's tax rate is approved or free cash is certified. The act further required the establishment of a supplemental reserve, in which an annually calculated minimum balance must be maintained. By June 1 each year, the town must submit a pro forma tax recapitulation sheet for the ensuing year, demonstrating all requirements are met and the budget is in balance. If the town fails to prepare a balanced budget in any year, a state-appointed control board with significant oversight powers would be established. With the passage of the act, the town elected to authorize and issue only \$2.5 million in deficit bonds, balanced the budget, and finally set the FY02 tax rate at the end of May.

The infusion of cash eliminated the accumulated deficits and balanced the FY02 budget, but it did not put an end to Swansea's fiscal problems. In FY03, Swansea was faced with growing health and retirement costs and, because of the declining regional economy, the state reduced aid to communities. Seeing that Swansea's FY02 average single family tax bill was \$1,825, which was well below the state median bill of \$2,577, officials proposed a \$2.5 million property tax override to eliminate the budget gap and avoid further cuts in services. The override failed overwhelmingly (1,428 to 3,531). Consequently, the town was forced to endure another round of difficult budget cuts in most departments (excluding schools) and to establish a self-supporting solid waste enterprise funded with \$1.1 million in new trash fees to balance the FY03 budget. FY04 proved to be equally difficult with the economy still in a slump and further state aid cuts. In response, Swansea considered options to replace its self-insurance health program, choosing to join a collaborative and reducing its FY04 health insurance budget by about \$500,000 from FY03. This savings along with an \$800,000 cut in the previously spared school budget and higher than anticipated new growth offset a \$1.5 million state aid cut, enabling Swansea to balance its FY04 budget.

As the town entered its FY05 budget process, some town officials expressed a sense of mild relief. While fiscal challenges remain for the town, Swansea did not make large scale budget cuts, was able to fund some small operating increases, and appropriated \$714,000 (from the defunct health claims trust fund) to a general-purpose stabilization fund. Reportedly, this turn around is due in part to officials being forced to work together to avoid a state control board. The officials learned the value of presenting a balanced budget based on realistic revenue estimates and reviewing their budget-to-actual revenues and expenditures in an effort to control spending and to ensure that additional problems did not occur. They also recognize the town administrator was vital in their road towards recovery, working to keep officials and boards fully informed and building consensus on financial decisions. Yet, despite the increased communication and cooperation, there is no guarantee that this community accord will continue because its governmental structure remains decentralized.

Under the current organizational model, many of the town's officials/department heads have an impact on the town operations and development, but are elected, or appointed and supervised by independent committees. As such, these departments have no reporting relationship with the selectmen, who are ultimately responsible for the overall management and financial well being of the community, or the administrator. In fact, the town administrator's position and responsibilities (per his

job description) are not recognized in the town's bylaws. Decentralized operations include the collector and treasurer positions that are responsible for taking in the town's revenues and making prudent investment decisions and the town planner who is responsible for growth, development and zoning matters. This also includes the principal assessor who recently has been the focus of controversy in town and is responsible for administering the tax levy, the largest single revenue source. The controversy stemming from this office has raised questions about its ability to make accurate and timely assessments, has led to concerns about citizen confidence, and has contributed to strife within the town and between the boards of assessors and selectmen. The town had requested a financial management review by DLS that was scheduled to commence in early 2004, however, given the growing problems and the selectmen's inability to intercede, a request was made to Commissioner LeBovidge to conduct a specialized audit of the assessing office in October 2003. Upon consideration of the information presented by the selectmen and assessors, Commissioner LeBovidge informed Swansea that the financial management review would go ahead as planned and the resulting report would provide guidance to the community in the pursuit of efficient and effective property tax assessment and other financial operations.

Increasingly, communities are changing their organizational structure so that financial officials are no longer elected and all department heads operate under the management of one full-time administrative position. To improve accountability, government is placing greater attention on written job descriptions with goals, performance expectations, and annual employee evaluations. Centralizing the reporting structure allows the town to funnel its business through the manager who is responsible for coordinating services and financial operations. This improved coordination eliminates duplication of effort or boards working at cross-purposes and provides a more effective management model. Recent examples of this are the towns of Bourne, Abington, and Longmeadow. Bourne changed its operation from full-time selectmen running the town to a part-time board and a strong administrator with appointment and supervisory control of all departments and boards except the schools. Similarly, Abington and Longmeadow moved away from weak administrators, with numerous elected officials, to strong town manager forms of government.

Compounding its fiscal and organizational problems, Swansea has no financial or capital planning. The town does not prepare a multi-year revenue and expenditure forecast which is commonly used in many communities. Also, the town has a capital planning committee bylaw, however, the committee has been defunct for many years because of the lack of reserves or other available resources. Consequently, the town has not maintained any data on the condition of its capital assets and replacement needs, nor does the town prepare a report of Swansea's capital needs that are deferred due to financial constraints. As such, capital requests are proposed by departments as separate warrant articles, which are recommended by the advisory & financial committee on an ad-hoc basis. According to officials, Swansea's growing list of capital needs include, but are not limited to, at least \$20 million for a conventional sewer system in densely populated areas with failing septic systems, \$4 million for a new town hall, \$4 million for a new police station, \$5 million or more for schools, and \$1.5 million for senior center.

In recent years, Swansea has made some changes to improve its operations. In 2002, the town voted to eliminate the financial officer position from the treasurer's responsibilities and created a separate

accountant position. The combined treasurer and accountant position is an outdated office structure from the early 1900s and was a very unusual structure for modern government. Under the standards established by the American Institute of Certified Public Accountants, a combined treasurer and accountant office is considered a reportable condition because there is no segregation of duties and may result in errors in the financial records. With the separation of these offices, the town's resources are in the custody of one office while the other keeps the financial books, creating a system of checks and balances designed to safeguard the community's assets. Swansea also has proposed special legislation to combine the elected offices of treasurer and collector because of the similarity of these operations.

While these changes are encouraging, the town remains decentralized, an environment where coordinated solutions are not easily developed. As the town's fiscal condition improves, the old practices of independent boards and officials advancing their own agendas, which may not be compatible with the town's overall best interest, could resurface. For this reason, we believe that the town should adopt a strong town administrator or manager form of government through a charter commission or by special legislation. With the elimination of many of the elected boards and offices, the town may establish a cohesive management structure that can improve accountability and ensure cooperation. More importantly, a strong administrative position will help the town maintain the improvements made to date and navigate through the financial challenges that still exist for Swansea such as growth, service levels, and capital improvements.

Below is a summary of our financial management review, followed by a more detailed discussion of our observations and recommendations.

Overall Financial Management & Budgeting (page 7) – Swansea's governmental structure is very decentralized. In part, the lack of central accountability has contributed to its financial problems. Increasingly, communities are reviewing their structure and moving towards a more centralized form of government. Therefore, we recommend that Swansea adopt a strong administrator or town manager form of government. Under this model, the administrator/manager would be responsible for overseeing all town operations, supervising department heads and coordinating financial management, including the budget process. We also recommend that the town establish a financial team to assist the administrator/manager.

Management Information Systems (page 11) – Swansea's computer systems also are decentralized. Not all offices have computers, electronic mail and/or Internet access and there are various versions of Microsoft Office installed on personal computers (PC). PCs are not connected via a network and shared data is repeatedly entered by different individuals. Also, there is no one with a strong technology background available for support or training purposes. The town recently received dedicated funding from its cable provider for technology needs and Internet access, forming a technology study committee to develop a plan. We recommend that the town hire an MIS coordinator to oversee the non-school computerized systems and participate in the planning process. We recommend that staff receive computer training and that the town explore ways to transfer shared data more efficiently. We also recommend that the town develop user policies for back-up procedures, proper use of the Internet and electronic mail.

Accountant's Office (page 13) – This office maintains the general ledger and performs accounting functions; manages the payroll system and personnel records; oversees active employees' benefits; and prepares numerous reports and reconciliations for financial management and tracking purposes. Historically, many of these reports and reconciliations were not prepared timely or until the end of the fiscal year, if at all. Upon taking office, the current accountant closed the books for the interim contractor and filed the Schedule A with the state. Due to the workload of the office, the accountant has not been able to prepare cash, receivable and overlay reconciliations during FY04, but hopes to perform them routinely beginning in FY05. We recommend that the new accountant make every effort to complete and submit reports and reconciliations timely. We also recommend that an assistant accountant be appointed to act in the accountant's absence.

Assessing Office (page 16) – This office is responsible for maintaining data on real estate parcels, personal property, motor vehicle and boat excise, and for administering the tax levy. Because of problems in this office, it is significantly behind in its FY05 revaluation and the assessors recently proposed spending an additional \$57,000 on appraisal services to perform the residential portion of this project. We recommend that the office focus its attention on getting the project done without delay and revise its FY05 revaluation workplan to reflect reasonable deadlines. We also recommend that the clerks receive additional training on the CAMA system and all board members meet minimum state qualifications. We recommend that the principal assessor review data collected by contractors and that he inspect all sale properties because they represent the most current information available about the local real estate market and serve as the basis for adjusting property values. We recommend that the town maintain its cyclical re-inspection program and reject the supplemental assessment statute (MGL Chapter 59 §2D), focusing on its FY05 revaluation instead. We also recommend that the assessing office annually track and reconcile with the accountant the overlay balances and that the office commit boat excise bills annually.

Collector/Treasurer's Office (page 22) – These are two separately elected offices that are currently filled by the same individual. This office is responsible for collecting the town's property taxes, excises, and trash receipts, and for the management of the town's retired employees' benefits, cash, investments, disbursements and borrowings. We found departmental receipt turn over reports vary in presentation. We recommend that the town standardize these reports for all departments and boards. We found that the deputy collector deposits in an account listed in the town's name but he pays all banking fees, retains any interest, and receives the statements. We recommend that the collector establish an account for the deposit of all amounts collected by the deputy collector and that the deputy be paid his fees by check signed by the collector once the tax payments have cleared. We also recommend that all cash and receivables be reconciled with the accountant monthly. We also recommend that the collector/treasurer research outstanding receivable balances, seek the services of the deputy collector to pursue personal property tax and boat excise amounts, and contact the assessors about abating any uncollectible amounts.

SUMMARY OF REPORT FINDINGS AND RECOMMENDATIONS

1. Overall Financial Management & Budgeting (page 7) – Adopt a more accountable government structure
 2. Overall Financial Management & Budgeting (page 10) – Establish a financial team
 3. Management Information Systems (page 11) – Enhance technology centralization and support
 4. Management Information Systems (page 12) – Develop user information guidelines and policies
 5. Accountant's Office (page 13) – Timeliness of reports and reconciliations
 6. Accountant's Office (page 14) – Appoint an assistant accountant
 7. Assessing Office (page 18) – Conduct FY05 revaluation promptly
 8. Assessing Office (page 19) – Maintain current values
 9. Assessing Office (page 20) – Reconcile overlay balances frequently
 10. Assessing Office (page 21)– Commit boat excise bills
 11. Collector's & Treasurer's Offices (page 22) – Customize & automate departmental receipts reports
 12. Collector's & Treasurer's Offices (page 23) – Establish deputy collector bank account
 13. Collector's & Treasurer's Offices (page 24) – Reconcile cash and receivables promptly
 14. Collector's & Treasurer's Offices (page 24) – Pursue receivable balances
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OVERALL FINANCIAL MANAGEMENT & BUDGETING

FINDING 1: ADOPT A MORE ACCOUNTABLE GOVERNMENT STRUCTURE

Swansea's government is organized under a combination of state statutes and local by-laws. The selectmen are a part-time, three-member board, which as the primary policymaking board, is ultimately responsible for the town's financial well-being. For day-to-day management responsibilities, the town employs a full-time, professional town administrator under the provisions of MGL Chapter 41 §23A. According to his job description, the administrator oversees the personnel system and records; negotiates contracts; serves as chief procurement officer, supervises departments under the selectmen's control; and keeps the selectmen fully informed of all administrative and fiscal matters. He also participates in the budget process, from preparing preliminary revenue estimates and a balanced budget proposal for the selectmen's approval to attending advisory & financial committee meetings and hearings to provide assistance and analysis. The town also has an appointed fifteen-member advisory & financial committee that is responsible for considering and making recommendations on all warrant articles presented to town meeting. The most important of these articles is the annual town budget.

The town's budget process generally begins in the fall. Since FY02, the town administrator, with assistance from the accountant, has prepared the preliminary revenue estimates, which are updated as new information becomes available. Based on this information, the administrator holds a department heads meeting to discuss the subsequent year's budget (e.g., estimated revenues, timeline, forms and supplemental information for any increased funding). Budget requests are due to the town administrator by mid-January. The budget requests are data entered in an Excel spreadsheet and the administrator prepares his budget recommendations for the selectmen. The selectmen review the recommendations and submit a final budget proposal to the advisory & financial committee. Historically, Swansea budgets on a year-to-year basis with no reserves, financial or capital planning. Because the town's capital planning committee is defunct, the advisory & financial committee handles capital requests on an ad-hoc basis as funding becomes available. The advisory & financial committee holds departmental hearings between February–April and submits its budget recommendations by May. Prior to annual town meeting, the advisory & financial committee meets with the selectmen on its budget recommendations with the intent of reaching consensus and presenting a united proposal.

As stated earlier, the town experienced a financial crisis beginning in FY02. While the town financed its accumulated deficit with special legislation bond proceeds, Swansea was faced with making difficult budgeting decisions given its limited recurring resources. Consequently, between FY02-FY04, town budgets were cut, personnel were laid off, hours of operation were reduced, and a \$1.1 million trash fee was instituted. Historically, the town has lacked communication, cooperation and accountability because of its decentralized governmental structure. However, when confronted by residents angry over the fiscal crisis, independent officials and departments put their personal agendas aside and worked together to develop a reasonable spending plan that did not cripple town operations.

Central to this newfound cooperation was the town administrator. While he has limited supervision of only departments appointed by the selectmen and none over the financial offices of the treasurer, collector and assessors (and until 2002 the accounting office), the administrator was able to work with all officials, appointed and elected, to communicate the urgency of the town's financial position and build consensus on how to proceed in the future. He monitored the revenues and expenses, highlighting potential problems and averting the need for a state-appointed finance control board. Consequently, departments have adapted to operating within the financial constraints of the community and the town is working on establishing reserves, setting aside funds into a general-purpose stabilization fund.

Just as the town's financial position is showing improvement, the administrator announced he does not wish to renew his contract and will be leaving the town's employment in August. The town already has begun the process of searching for the administrator's replacement. If hired by September, the new administrator will have a period of adjustment, becoming acquainted with operational set-up and financial make-up of Swansea, and will have to initiate the budget process almost immediately. If the position remains vacant for an extended period of time, Swansea does not have a professional position with institutional knowledge to coordinate the FY06 budget process. Under either scenario, the town is at risk of reverting to its old financial practices and lack of cooperation given the decentralized government structure that still exists. As many communities have learned, it may be necessary to change the town's organizational structure to streamline operations, to formalize lines of communication, and to establish accountability. Adopting a centralized reporting structure allows a town to funnel its business through a strong administrator who is responsible for coordinating the multi-million dollar town operation.

RECOMMENDATION 1: ADOPT A MORE ACCOUNTABLE GOVERNMENT STRUCTURE

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 communities have in providing coordinated financial management with an administrator or manager, we believe this type of strong, centralized government is appropriate to meet the needs of the town.

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:

- Town operations – He should oversee town operations to ensure all services are provided in a coordinated manner and are as cost effective as possible. He should also be responsible for appointing, supervising, and evaluating all department heads, except the schools, to create a more accountable town government.
 - Employee evaluation systems – To improve efficiency and accountability, he should develop a program of employee performance reviews. The administrator should develop guidelines,
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procedures and timeframes for establishing annual departmental goals and job performance expectations. Based on these criteria, an annual review would be performed by the administrator for all department heads and by department heads for all employees (subject to collective bargaining agreements).

- Budget process – He should manage the budget process. He should solicit technical and financial information from financial team members (see below), prepare a balanced budget proposal, and present it to the town’s policymakers. The administrator should provide updated revenue and budgetary information as it becomes available and provide managerial and analytical support to the advisory & financial committee so they may review proposals and focus on decisions and planning that will impact future budgets. The advisory & financial committee would continue to make budget recommendations to town meeting.
- Forecasting and costing of services – He should be responsible for preparing a multi-year forecast of revenues and expenditures, including analysis of labor and service contracts or other expenditures with multi-year impacts. Commonly used in many communities, a multi-year forecast is a financial planning tool that can be useful in revealing budget problems and formulating long-range plans such as capital funding decisions and developing reserves. As a part of the annual budget process, he should also coordinate user fee coverage analysis and rate setting decisions by reviewing service costs and revenue information to ensure current rate structures are sufficient for full cost recover.
- Financial reserves and other financial policies – He should be responsible for recommending to policymakers methods of building up reserves such as free cash and stabilization funds for emergencies and unanticipated expenditures. He should prepare financial analyses or scenarios for resolving issues with the goal of assisting policymakers in developing cohesive policies. Reserves and other financial policies should be reviewed annually as a part of the budget proposal.
- Capital planning – He should be responsible for directing and coordinating the capital planning process. He should prepare an annual capital budget and multi-year plan for presentation to the policymakers and town meeting. These documents should: (1) prioritize the various proposed capital projects; (2) estimate project costs; and (3) list the proposed method of payment (current revenue, debt or debt excluded from the limits of Proposition 2½ for each project).

To accomplish this proposed change in government structure, we recommend that the town consider creating a government study committee or pursuing a charter commission (MGL Chapter 43B). The difference between these two methods is a matter of timing and legal requirements. Generally, a study committee is established by vote of the selectmen or town meeting, and conducts a review of the current organization. The resulting proposal would require town meeting action (and voter approval if stipulated) to submit it to the state legislature for approval as a special act. Alternatively, a charter commission may be initiated by town meeting or by petition, with the voters electing the charter commission members. In this process, both the preliminary and final charter report must be submitted to the Attorney General (AG) and the Department of Housing and Community Development. While the AG does not have the authority to approve or disapprove a charter, the AG

has four weeks to furnish an opinion on any conflict between the proposed charter and the constitution or general laws of Massachusetts. The commission should re-examine those aspects referenced in the AG's opinion. The final proposal requires a 2/3-majority vote of town meeting to submit it to the voters and a majority approval of the voters is required to implement it. Because of the legal requirements of MGL Chapter 43B, the charter commission process generally takes a longer time to complete.

FINDING 2: ESTABLISH A FINANCIAL TEAM

According to officials, the town administrator provides assistance and coordination relating to numerous financial activities, including participating in the budget process, monitoring departmental expenses, and preparing user fee and other analyses. Generally, he gathered large volumes of information and prepared analyses with limited input from financial officials. In most communities, a financial team does these important activities collectively.

RECOMMENDATION 2: ESTABLISH A FINANCIAL TEAM

We recommend that the town establish a financial team through the adoption of a bylaw. The financial team should be a permanent committee. It should be chaired by the administrator/manager and meet on a regular basis throughout the year. Its membership should include at least the accountant, collector/treasurer, principal assessor and school superintendent. A bylaw would formalize the participation of the above officials in the financial team process, however, the bylaw would not be necessary if a strong administrator or manager form of government is adopted.

The purpose of the financial team is to assist the town administrator in compiling comprehensive financial information from a variety of sources to assist the town's policymakers in their decision-making process. The team can help develop financial analyses, explore the financial impact of future events, and offer early strategies to deal with anticipated problems. Meeting at least monthly, it will provide input into the town's cash flow analysis, including the timing of major purchases and the issuance of new debt. Collectively, this committee reviews financial documents (e.g., revenue and expenditure reports, balance sheet, audits, tax recapitulation sheet and town share costs for the schools) for completeness and accuracy. This information would provide a comprehensive picture of the town's financial health at any point in time. More importantly, the financial team's participation in general financial and budget activities will ensure that more than one person knows all facets that need to be gathered, analyzed, and monitored continually. Hence, the financial team will provide institutional continuity in the event any one of the town's financial officials left.

MANAGEMENT INFORMATION SYSTEMS (MIS)

The town's financial offices have used Data National (DN), an integrated financial system that resides on a SCO UNIX server in the accountant's office, since 2001. The DN system modules used include financial management (general ledger and accounts payable); treasurer's receipts; tax and excise billing and collections; tax titles; and a report writer. The DN system also has a payroll and personnel management system, but the accountant uses ADP software to produce payrolls and Excel spreadsheets to keep personnel data instead. The collector uses Excel spreadsheets to track daily bank deposits and water district collections. The assessing office uses a computer assisted mass appraisal (CAMA) system to value and manage property accounts, which resides on a server in the assessing department. The town also has a Geographic Information System (GIS) that resides on the planning department's stand-alone computer (one license). Lastly, the school department uses Unifund system, submitting reports to town hall for manual entry into the DN system.

FINDING 1: ENHANCE TECHNOLOGY CENTRALIZATION AND SUPPORT

Like the town's general operation, its computer systems are decentralized. Most offices have stand-alone personal computers (PCs), while a few are connected via local area networks (LANs) because of shared software systems like Data National. Because there is no townwide network, data used by more than one office must be repeatedly keyed by different office staff. Most PCs have Microsoft Office products, but the operating version varies and most staff have had little or no training on these applications. Reportedly, most PCs have virus protection software that may not be routinely updated. If an office has specialized software, staff received training on the application when it was acquired, and, unless provided free of charge, new or subsequent training is limited due to the town's fiscal constraints. When users have computer issues, the town administrator, with occasional assistance of the school business manager/computer person, handles some user support and hardware issues, which often takes them away from their primary responsibilities. Unfortunately, lack of time or knowledge may prevent them from resolving some issues, requiring them to contact the vendor for assistance and generally incurring unplanned expenses. Few departments have access to the Internet or electronic mail, and there is a privately sponsored town website.

The town recently renewed the local cable provider's operating license for 10 years. Under the new agreement, the cable provider will pay an estimated \$82,000/year for the town to assume the responsibility for running and maintaining the town's public access stations as of June 1, 2004. During deliberations, the town tried to secure free Internet access, but the cable provider refused. Instead, the provider agreed to pay an additional \$225,000 that may be used to purchase Internet access and other data technology needs (i.e., servers, PCs, modems, cabling, and developing a townwide network). With the availability of these funds for technology purposes, the town would like to design and install LANs in each town building and a wide area network (WAN) for communication between town buildings and town hall; install a secure central file server in town hall; and develop a website. The town appointed a technology study committee to develop a plan, addressing the public access and technology needs of the town.

RECOMMENDATION 1: ENHANCE TECHNOLOGY CENTRALIZATION AND SUPPORT

We recommend that the town hire an MIS coordinator who would report to the town administrator.

The town should hire a person with a strong technology background to serve as the MIS coordinator, responsible for centralizing and managing the non-school computerized systems. The coordinator would monitor systems, provide network and software support, install upgrades, purchase supplies, and provide internal training or arrange outside classes. The coordinator also would work with the town's technology study committee, assist in the analysis, purchase, and installation of equipment and technology for departments, and be the single point of contact with vendors. However, due to budget constraints, it may not be practical for the town to create a new position with benefits, therefore the town will have to consider other options. An alternative is to engage in offsite contractual assistance. Many communities use a consultant to provide basic maintenance and support tasks on a specified hourly or part-time basis. In order for the town to move forward with its technology, it is necessary to increase technology support to make each office function more efficiently.

We recommend that the town hall staff receive formal Microsoft Office training. With formal training along with ongoing refresher courses, staff members will become more familiar with applications and will be able to organize records, automate report data using spreadsheets, and share information without the need to re-key it.

We recommend the town survey office staff on the data that is shared or repetitively entered and explore ways to transfer this information more efficiently. The town should review data transferability between software applications or develop a database available to more than one office. Given the limited staff and resources, exploring ways to operate more efficiently can free up valuable staff time.

FINDING 2: DEVELOP USER INFORMATION GUIDELINES AND POLICIES

Information residing on the LANs is routinely backed-up. However, some users store vital information on the hard drive of their PC which may not be backed-up. By failing to consistently back-up computerized systems, users run the risk of losing important and potentially sensitive information if the PC crashes or becomes infected with a virus.

RECOMMENDATION 2: DEVELOP USER INFORMATION GUIDELINES AND POLICIES

We recommend the town establish a backup policy for all users. In the absence of a network, each user should perform a backup of the PC hard drive routinely. The town should develop instructions on how often a backup should be performed and where the information should be stored. After the network is installed, staff should be instructed not to save files to the hard drive or to backup the work stored on a PC to the network, which is automatically backed up nightly.

We recommend that the town establish electronic mail and Internet policies. It is advisable to develop a written guideline outlining the proper and allowable use of Internet and electronic mail applications. The town could contact their counterparts in other communities that have established these written policies for examples.

ACCOUNTANT'S OFFICE

Since 1998, the town has had three different individuals fill the town accounting officer position. Originally a combined, elected town treasurer/accounting officer, the position was split in 2002 when the town accepted MGL Chapter 41 §55, creating a town accountant position appointed by the selectmen. A search was conducted in the summer of 2002 without success, and the former treasurer/accounting officer resigned in December 2002. A contractor was hired in February 2003 to fill the vacancy until August 2003 when the current accountant took office. Upon taking office, the accountant found the town's FY03 funds were not in balance or closed as of June 30, 2003. With the assistance of an accounting consultant, the accountant balanced all accounts and closed the FY03 books while performing the FY04 daily activities of the office. The accountant filed the town's FY2003 Schedule A with DLS and plans to submit the balance sheet before year's end.

An accountant, accounts payable clerk and payroll clerk staff the accountant's office. The primary responsibility of the office is to maintain the town's general ledger and perform the accounting functions. Typical accounting functions include preparing warrants; producing trial balances, revenue and expenditure reports; maintaining information on town debt; and reconciling cash and receivables with the collector/treasurer. In Swansea, the accountant is also responsible for management of the payroll, oversight of the personnel records, and active employees' benefits. The accountant prepares annual reports required by DLS including the town's Schedule A and balance sheet.

The accounting office also is responsible for implementing the Government Accounting Standards Board (GASB) Statement 34. GASB Statement 34 is an accounting and reporting standard that requires all governments to maintain a capital asset and infrastructure inventory that is reported on the entity's financial statements. The town hired a consultant to collect and value the capital assets and infrastructure information, and a software application was purchased for the accountant to track and maintain the fixed assets in the future. As of this writing, the capital assets program has been completed and will be included in the final FY03 audit¹.

FINDING 1: TIMELINESS OF REPORTS AND RECONCILIATIONS

Annually, the accounting office prepares reports required by DLS. The accountant prepares the town's annual Schedule A, a year-end fiscal statement of revenues and expenditures. Since FY99, Swansea's Schedule A has been filed about five months after the due date. Because of the backlog of work in the office, the new accountant did not file the FY2003 report until May 2004, about seven months after it was due in October. Per Swansea's deficit bond act, the accountant also prepares quarterly revenue and expenditure reports for DLS.

The accountant also generates internal reports. She generates monthly revenue and expenditure reports for the administrator and advisory & financial committee and monthly expenditure reports for department heads. The accountant performs monthly closings and trial balances. Historically, the office reconciles cash, tax receivables, and trash receivables with the collector/treasurer annually after the books are closed, and it does not reconcile the overlay account with the assessing office.

¹ A preliminary FY03 audit (missing the GASB 34 fixed assets reporting) was accepted so the FY04 tax rate could be set timely.

Because of the backlog of work in the office, the accountant has not had the time to perform these reconciliations, but plans to do them regularly in FY05.

Failure to complete or file certain reports timely can have an adverse effect on a community. Failure to file the Schedule A timely can result in the withholding of state aid distributions. Failure to reconcile cash and all receivables as of June 30 can result in free cash not being certified or certified but the amount approved by the Director of Accounts is adjusted downward for non-reconciling tax amounts. Failure to reconcile the overlay can result in granted abatements and exemptions not being credited to a taxpayer's account or possible overlay account deficits occurring.

RECOMMENDATION 1: TIMELINESS OF REPORTS AND RECONCILIATIONS

We recommend that a priority be placed on the achievement of in-house financial activities and on the completion and timely submission of required DLS reports. In-house expenditure reports, revenue reports and trial balances, as a rule, should be completed on a monthly basis within 15 days of the close of the month. Subsequently, the accountant should reconcile the cash and receivables with the collector/treasurer. Regular reconciliations enable these offices to verify that revenues reported and resulting receivable balances are accurate, thereby ensuring the cash and assets of the community are safeguarded. Similarly, the accountant should perform regular reconciliations of the overlay account with the assessing office. Frequent reconciliations make it easier to locate and correct posting errors, minimizing the additional workload at year's end. Finally, the accountant should make every effort to file the Schedule A with DLS by the October 31 annual deadline, avoiding future delays in state aid distributions.

FINDING 2: APPOINT AN ASSISTANT ACCOUNTANT

Under the previous office structure, an assistant served in the treasurer/accounting officer's absence. Now, the accountant has two clerks. The accounts payable clerk's responsibilities include examining original bills and vouchers for accuracy and legal authority, preparing the warrant for the selectmen's approval, and responding to any inquiries regarding payments. She prepares analysis of account expenditures, produces the Form 1099s annually, and assumes additional responsibilities as requested. The payroll clerk's responsibilities include reviewing payroll submissions for accuracy and legal authority, data entering and transmitting payroll information to an outside vendor, reconciling the vendor's payroll confirmation sheets. She also prepares the warrants for withholdings and other deductions, responds to benefits inquiries of active employees, and keeps track of attendance records and available leave balances.

According to the accountant, the clerks do not to make general ledger and journal entries, and do not participate in any external office reconciliation activities. Consequently, in the absence of the accountant—for either a brief or extended period of time—no one is trained to assume the responsibilities of the accountant, including signing the warrants. In the event the accountant is absent, the warrant would go to the selectmen unsigned until the accountant is able to return to the office or the selectmen appoint a temporary replacement. To have an assistant accountant who is authorized to assume the department head's duties and to sign the warrant, the accountant must appoint an assistant with the approval of the selectmen (MGL Chapter 41 §49A).

RECOMMENDATION 2: APPOINT AN ASSISTANT ACCOUNTANT

We recommend that the town create an assistant accountant's position in accordance with MGL Chapter 41 §49A. Given the growing complexities of municipal finance, increasingly communities are appointing assistant accountants, trained in all aspects of the office. With proper training, an assistant would be able to supervise and/or perform the work of other staff and would have the authorization to act in the accountant's absence, including signing the warrant.

ASSESSING OFFICE

Reporting to an elected, three-member board of assessors, a principal assessor and two clerks staff the assessing office. It is responsible for maintaining assessment data on approximately 6,960 real property parcels², 415 personal property accounts, and 19,800 motor vehicle excise accounts. In addition, the office processes approximately 100 abatements (220 in a recertification year), 350 exemptions, 400 building permits, and 450 deed changes annually.

Over the last several months, DLS has become concerned that the assessing office is seriously behind in completing the scheduled FY05 property revaluation. Specifically, the principal assessor has not been able to complete the requisite and critical tasks necessary to value residential properties and ensure that the town-wide revaluation is completed on schedule to set a timely tax rate. Although the principal assessor had completed the residential portion of the FY02 revaluation and it was the board's expectation that he would also complete this piece of the FY05 revaluation, for the reasons detailed below, this expectation has not been met. The town's selectmen and assessors also became concerned about the lack of progress on the FY05 revaluation and requested a meeting with the Chief of the Bureau of Local Assessment (BLA). The solution that emerged from this meeting was that the town needed to move immediately to hire an appraisal firm to complete the residential portion of the revaluation. In order to proceed as quickly as possible, the assessors proposed spending an additional \$57,000 for appraisal services and the selectmen agreed to fund about \$50,000 of this cost from the town's supplemental reserve fund.

According to the assessing office, the loss of a staff position, turnover in clerical staffing, and a brief vacancy in one of the clerk's position have contributed to operational delays and the subsequent public concern. Because of the town's financial problems in FY02, the office lost one of three clerk positions. The clerks data-enter property descriptions and legal information into the CAMA system and respond to public inquires. One clerk is responsible primarily for data-entry on the CAMA system (e.g., deed transfers, subdivisions, and sketches) and maintains town maps. The other clerk is responsible for handling exemption and abatement applications and entering them into the DN system, as well as handling the motor vehicle excise accounts. Since FY02, four different persons have filled the clerk's position historically responsible for CAMA data-entry. In part, this turnover is the result of disputes between the principal assessor and staff. Currently, one of the clerks has temporarily been relocated to another office down the hall, pending the outcome of an employment dispute. From her location, she has an office telephone extension and PC, enabling her to continue with her duties. The second clerk was on medical leave between November 2003-April 2004, and no one performed the majority of her data-entry duties in her absence. The remaining clerk received some CAMA training to help input accumulated data (i.e., deeds, sketches, and building permits) so the FY05 preliminary bill file could be generated.

Because of the staffing issues, the principal assessor has focused his time on office coverage and less on fieldwork. Consequently, the town has hired appraisal consultants. For the FY02 revaluation,

² Of this total, about 6,580 parcels, or 94 percent, are residential and the remaining are commercial, industrial or mixed-use parcels. Within the residential classification, there are roughly 5,400 single family, 150 multi-family or apartments, 940 vacant parcels, and 90 other residential properties.

Swansea hired appraisal consultants to update the commercial, industrial and personal (CIP) property values while the principal assessor updated the residential values in-house. Since then, Swansea annually has budgeted about \$10-15,000 for consultants to measure and list new and improved properties and to inspect about 1,500 properties in order to complete the town's nine-year cyclical re-inspection program. While the inspections performed by the consultants assisted the office in completing its workload over the last couple years, it has contributed to the local controversy. In more than one year, the data collection was incomplete on numerous parcels. Without complete data, the CAMA system cannot generate an assessed value, resulting in the assessors creating "sound" or a preliminary estimate of value and preventing the town from realizing all of its new growth in the levy timely. According to records, these sound valued properties were subsequently re-inspected, and the property value adjusted.

The town is scheduled for a revaluation of properties in FY05. According to the assessors, the FY04 budget request assumed the CIP properties were to be updated by appraisal consultants and the residential values were updated in-house by the principal assessor. Due to financial constraints, the town held off until spring 2004 to appropriate funding (\$43,000) for the CIP work and the temporary hiring of clerical assistance to help the office. In the meantime, the principal assessor has accomplished very little towards updating the residential values. Reportedly, the last three months of 2003 deed information was entered into the CAMA system only recently and none of the analysis on the current data has been performed. Given the volume of work to be done in a revaluation and the potential impact of final certification being granted after December (i.e., third quarter estimated tax bills), the assessors have hired one consultant to do the CIP and residential work at a proposed cost of \$100,300.

The combination of employee disputes, delays in tax assessments, and concerns over eroding taxpayer confidence put the board of assessors at odds with the selectmen in the fall of 2003. Because the boards are separately elected, there is no reporting relationship and the selectmen could not intervene to help resolve the situation. However, now that the town is confronted with significant delay in the FY05 revaluation and is faced with more than \$57,000 in unanticipated consultant costs, the two boards are putting their differences aside to address the problem together. They jointly met with BLA to discuss the status of the FY05 revaluation and BLA advised Swansea that the town should anticipate issuing third-quarter estimated tax bills.

FINDING 1: CONDUCT FY05 REVALUATION PROMPTLY

Triennially, assessors are required to revalue the community's property. This begins with an evaluation of the current data and uniformity of assessments. Based on the analysis, a community proposes a workplan necessary to achieve full and fair cash values that meets state requirements and submits it to BLA. Typically, a community performs the vast majority of work in the year preceding the scheduled revaluation year, so it may set its property tax rate timely. The timetable should adequately provide for data collection and inspections; data processing; analyses and data studies; field reviews; and public disclosure. Because Swansea is a quarterly community, DLS recommends that the final certification of values be completed by November 15 in order that the property tax bills are issued

timely by December 31, hence the work generally commences the year before the scheduled certification year.

As of this writing, a FY05 revaluation workplan was faxed to DLS on June 23, 2004. However, none of the revaluation work has been started and many of the deadlines indicated have already passed. More importantly, BLA already advised the town that the proposed completion of the whole project by the end of October is unrealistic and that Swansea should plan to issue a third-quarter estimated tax bill. Also during our site visits and subsequent assistance/training from the IT staff, we found the principal assessor could not assure us that all the data (i.e., building permits, lot splits, deed and name changes) had been entered into the CAMA system and reviewed for accuracy. As such, it is unclear if the town's preliminary FY05 tax billing file is complete.

Adding to these issues, only one assessor is currently qualified pursuant to MGL Chapter 58 §1 and 830 CMR 58.3.1. DLS requires that a majority of the board must be qualified to classify to set a tax rate. Also, to be qualified, there are minimum standards for assessing personnel that must be successfully completed within two years of election or appointment. In Swansea, two board members are not qualified, one member did not complete the requirements within two years and the other was elected recently.

RECOMMENDATION 1: CONDUCT FY05 REVALUATION PROMPTLY

We recommend the office revise its FY05 workplan, reflecting reasonable deadlines for each of the project's stages. DLS will work with the town to make sure that the timetable is adequate and make every effort to accommodate the town's needs, but will not perform the work for the town. We also recommend that the board closely monitor the project's progress, ensuring that deadlines are met and the finished product meets the state's standards.

With the hiring of a consultant to update all the town's values, we recommend that the principal assessor focus his attention on overseeing the contractors' work. He should review all work performed by the contractors for accuracy and completeness. He also should make sure that the data collected and pricing or other value-generating source tables are input into the CAMA system so that the real and personal property values may be generated in the system. With the requirement to perform interim year value adjustments (see Recommendation 2) beginning in FY05, the town's CAMA system must be able to update values easily or Swansea risks not getting preliminary certification of values.

We recommend that both clerks be trained fully on all aspects of data entry on the CAMA system. Both clerks have received some training on most of the modules, however, since they do not consistently use the system they may require some refresher training.

We recommend that the two assessors fulfill the state's minimum requirements of the office immediately. Both members need to successfully complete *Course 101, Assessment Administration: Law, Procedures, Valuation*. This course is offered at locations around the state three times a year.

FINDING 2: MAINTAIN CURRENT VALUES

The assessing office hires contractors to inspect new construction and sale properties because the principal assessor inspects only some of these parcels. Some of the inspections were incomplete and resulted in estimated properties values having to be used. Subsequently, these properties were re-inspected, correct values generated, and the collector was notified of the revised billing amount to be issued. The new growth relating to these parcel adjustments was picked up in the subsequent year, but not reported as an omitted or revised assessment (MGL Chapter 59 §75) to DLS.

In 1991, Swansea adopted accelerated new growth (Chapter 653 of the Acts of 1989), which allows the town to value and assess new growth (e.g., new construction or other physical additions to real property) occurring by June 30 in each fiscal year. A community also may make pro rata assessments on the value of improvements that are greater than 50 percent of the billed value when an occupancy permit is issued after January 1 (MGL Chapter 59 §2D), referred to as the supplemental tax assessment on new construction. Since 1998, this law was optional, however, as a result of Chapter 46 of the Acts of 2003, this is now mandatory unless rejected by the selectmen. As of this writing, the selectmen have not rejected this statute and the assessors have not issued any supplemental tax bills.

The town established a nine-year (1995-2004), cyclical re-inspection program, which is an interior and exterior inspection of all town property over a multi-year period. This program allows the community to spread out the workload and cost as opposed to performing the work in a brief period. The primary benefit of this program is to provide the assessors' office with current, accurate data. From these inspections, any changes in the properties are entered into the CAMA system, which updates the parcel data and may result in additional new growth for the town. Because the principal assessor was not able to perform the cyclical inspections in recent years, he hired a contractor in 2003 to conduct these inspections. As of this writing, there are no plans for future cyclical inspections.

Beginning in FY05, all communities will be required to undertake and complete a valuation adjustment program annually rather than the historical practice of updating values once every three years. Referred to as an interim year adjustment, assessing offices must prepare detailed analysis of sales data and income & expense statements, making adjustments in property values in order to maintain full and fair cash values. Failure to make interim year adjustments that reflect changes in the real estate market may cause inequities among property classes. When values are not updated annually and there is an appreciating real estate market, taxpayers are often shocked when their community is re-certified in the third year. In a declining market, this lack of flexibility can cost a community a considerable amount of property tax revenue when the assessors grant abatements. In order to maintain the most current values, it is necessary that the assessors inspect all sales and perform cyclical inspections annually.

RECOMMENDATION 2: MAINTAIN CURRENT VALUES

We recommend that the principal assessor closely review the data collection before having the clerks enter it into the CAMA system. The principal assessor should review the collection submissions immediately for accuracy and completeness. Immediate review of these submissions will help the

office minimize the number of sound valued parcels. In the event a parcel is sound-valued and subsequently revised, the office must submit a report of omitted and revised assessments to DLS in compliance with the general laws. The principal assessor also should perform periodic field reviews to see the inventory first hand and ensure data collection quality.

We recommend that the principal assessor regularly inspect the interior and exterior of all sale properties. Often, a sale property may have been upgraded without a permit or allowed to deteriorate to an extent that the assessors' files are not accurate regarding the characteristics or condition of the property. Not being aware of the exact condition of sale properties negatively affects the assessors' ability to value other properties accurately.

Because it is so late in the fiscal year and Swansea has not issued any FY04 supplemental assessment bills yet, we recommend that the selectmen vote to reject MGL Chapter 59 §2D. While the community would generate additional tax revenue from this provision, it is more important that the assessing office focus its attention on getting the FY05 revaluation done timely. Once the revaluation is completed and if it is the town's intent to pursue this statute, the selectmen may vote to rescind the rejection vote, expressly stating the fiscal year the statute is to take effect.

We also recommend that the assessing office maintain its cyclical inspection program. By re-inspecting properties over a multi-year period, the principal assessor will be able to verify and update existing data, avoiding a potentially costly revaluation program performed by outside contractors once every nine years. The collection and maintenance of current and accurate property inventory data is a critical element in the development of uniform, fair market values. This activity will also assist the office in monitoring changes in the real estate market, ensuring equity between and among property classes, and complying with the new interim year adjustment requirement.

FINDING 3: RECONCILE OVERLAY BALANCES FREQUENTLY

Annually, the assessors establish a reserve to fund anticipated tax abatements and exemptions. As abatements and exemptions are granted or Appellate Tax Board cases are settled, the principal assessor turns over the information to the clerk. In turn, the clerk enters the abatements and exemptions into the Data National system, prints a report from the system, and notifies the collector and accountant. The collector reviews entries and printed reports before posting the abatements and exemptions to the taxpayer accounts.

According to officials, the assessing office does not maintain running balances of overlay accounts (by year); hence, the overlay balances not are reconciled with the accountant. During our review, we were shown an abatement that was granted in FY03 was not reflected on the taxpayer's account. This came to the attention of the collector when the taxpayer inquired about the refund that was due him because of the abatement. To ensure proper checks and balance, the assessing office should maintain its own records of overlay balances and periodically reconcile them with the accountant's records.

RECOMMENDATION 3: RECONCILE OVERLAY BALANCES FREQUENTLY

We recommend that the assessing office develop and maintain a simple electronic spreadsheet to track the balance in the overlay accounts by fiscal year. These records should show the opening balances as the amount raised on the tax recapitulation sheet. Abatements and exemptions should be entered in chronological order by date of issue, resulting in a running available balance.

We recommend that the assessing office regularly reconcile the overlay account throughout the year with the accountant. At least quarterly, the assessing office should reconcile its overlay balances (by year) with the accountant. If there are any variances, the two offices should meet to determine the source of the difference and make the appropriate adjustments.

FINDING 4: COMMIT BOAT EXCISE BILLS

Annually, motorized boat owners register their watercraft with the Executive Office of Environmental Affairs' Registration and Titling Division. As a part of the application, the owner must declare the principal mooring or location as of July 1. This information is compiled and distributed to communities annually (via printout or CD-ROM) for boat excise purposes. In addition, Swansea has a harbormaster that patrols the waterways and issues mooring permits. For every mooring, the harbormaster obtains boat information through a mooring application form (e.g., owner name and address and boat size). The combination of these two sources of information are sufficient to comply with MGL Chapter 60B, the statute imposing excise on boats, ships and vessels. However, according to town officials, the town has not issued boat excise bills since FY01.

RECOMMENDATION 4: COMMIT BOAT EXCISE BILLS

The assessors must assess the annual boat excise in compliance with MGL Chapter 60B (IGR 88-219). This is not an optional assessment. Neglecting this annual assessment results in a loss of revenue for the community and inequitable system of taxation of boat owners throughout the state.

COLLECTOR'S & TREASURER'S OFFICES

Currently, the town has separately elected collector's and treasurer's positions, with one individual serving in both capacities. As collector, she first was elected in 1999. Consequently, she also serves as the Swansea Water District Collector (Chapter 137 of the Acts of 1949). As treasurer, she was appointed in January 2003 to fill an unexpired term and later elected in April 2004 for a three-year term. Recognizing the similarity of the two offices, the town meeting has voted to combine the elected positions, creating one department head. However, because the offices are elected in different years, the town is seeking special legislation to combine them.

On the collection side, an assistant collector and a clerk staff the office. The office is responsible for collecting approximately 7,370 property tax bills³ quarterly, 19,800 motor vehicle excise bills annually, and 5,500 trash bills annually. In addition, this office prepares about 600 municipal lien certificates annually⁴ using the DN system. DN prints and mails the tax and trash bills and the town's deputy collector prints and mails the excise bills. The town receives payments by escrow service, mail, and at the counter. According to the collector, approximately 80 percent of all real estate payments are received from escrow companies, reviewed and then posted electronically to the DN system. On the treasurer's side, there is one staff member, an assistant treasurer. The office is responsible for retired employees' benefits and cash management, including the investment, disbursement and borrowing of cash. The treasurer prepares a monthly report of all receipts taken in for the accountant.

FINDING 1: CUSTOMIZE & AUTOMATE DEPARTMENTAL RECEIPTS REPORTS

The treasurer maintains the cashbook on 3-column ledger paper in a 3-ring binder. The cashbook reflects town receipts and deposits, and payroll and accounts payable summarized by warrant. Included in the cashbook are subsidiary ledgers for all bank accounts (which reflect all deposits, payments and/or transfers by account). A cashbook provides control that enables the treasurer to reconcile with bank statements, cash on hand, and the general ledger cash balance on a monthly basis. As entries are made, each is dated and the source or purpose identified. Because it is manually prepared, there are no totals listed automatically. Recognizing the shortcomings of the current manual system, the treasurer purchased Quickbooks and will be transferring the cashbook to this application as soon as possible.

Generally, departments turn over all receipts with a detailed report weekly. Departmental turnover reports vary in format, provide vague descriptions of the types of receipts reported, and sometimes provide operating fund and the revenue account codes. The treasurer reviews each turnover, verifies the revenue source, and deposits the funds. Historically, receipts⁵ were posted to the Data National system monthly after bank statements are received and reconciled (so deposits are verified and interest income may be included), thereby delaying the monthly treasurer's receipts report to the

³ With the exception of about 50 accounts, all real and personal property tax bills include a district water tax that is collected by the collector and turned over to the district treasurer weekly.

⁴ This figure more than tripled in FY03 when mortgage refinancing rates were low.

⁵ Excluding the collector's tax, excise and trash receipts which are posted electronically via the collection module.

accountant. At our suggestion, the treasurer's office is posting receipts immediately and turning over her monthly report with 15 days after the close of each month.

During our review, it came to our attention that the treasurer did not have all cash⁶ reflected in the cashbook and that she did not have legal custody of all town accounts. It seems the town did not have copies of certain bank account statements, so the treasurer requested copies. In some instances, the treasurer's request was refused because she had not obtained proper signature authorization and, in fact, the last signature authority on the account(s) was the treasurer who resigned in 1998. Consequently, the treasurer has acquired signature authority over all town bank accounts and is working on including the missing funds to the cashbook.

RECOMMENDATION 1: CUSTOMIZE & AUTOMATE DEPARTMENTAL RECEIPTS REPORTS

We recommend that the town customize its departmental turnover sheets using a spreadsheet application. For each department, a turnover sheet should be created in a 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 to post the revenues efficiently and serve as backup documentation to the entries in the treasurer's cashbook.

FINDING 2: ESTABLISH DEPUTY COLLECTOR BANK ACCOUNT

The town uses the services of a deputy collector to obtain outstanding motor vehicle payments. According to the collector, the deputy collector is depositing funds to a dual signature, interest-bearing bank account in the town's name. However, the deputy collector is reportedly assuming the monthly fees on said account, the interest income is not turned over to the town, and the statements are not mailed to the collector. In addition, based on copies of turnover reports and corresponding deposit checks from the deputy collector, he turns over collections net of service fees and only his signature appears on the check.

A deputy collector may not receive checks for tax payments, which are made out to him as payee, nor may he endorse any instrument, which he receives as a payment for taxes. In addition, a deputy may not deposit municipal funds in a personal bank account nor may he maintain a personal bank account in the name of a community (MGL Ch. 60 §92). A deputy collector must turn over to the collector at least weekly, all amounts he collects or deposits into the community's deputy collector bank account. Each turnover should be accompanied by a detailed report⁷ of all funds deposited.

RECOMMENDATION 2: ESTABLISH DEPUTY COLLECTOR BANK ACCOUNT

We recommend that the collector establish an account for the deposit of all amounts collected by the deputy collector. As a town account, the statement of activity should be addressed to the collector. Complying with MGL Ch. 60 §92, this account should be a joint signature account so that deputy collector fees may be paid by check to him once the tax payments have cleared, provided that the withdrawal check is co-signed by the collector.

⁶ According to repeated auditor's management letters, all trust accounts and certificates of deposit are not reflected in the treasurer's cashbook or the general ledger.

⁷ This report should include the bill number and taxpayers name, amount of excise, date of collection, interest calculated through date of collection, and all fees.

FINDING 3: RECONCILE CASH AND RECEIVABLES PROMPTLY

According to officials, when the receipts report is turned over, the accountant reviews the activity posted to ensure everything is reflected in the general ledger, however there is no formal reconciliation of cash being performed. Similarly, we found that the collector/treasurer's office is internally reconciling its receivable balances with a receivable control⁸ routinely and forwards a report to the accountant. However, the office does not reconcile receivables with the accountant's general ledger until after the close of the fiscal year.

RECOMMENDATION 3: RECONCILE CASH AND RECEIVABLES PROMPTLY

We recommend that the treasurer and the accountant conduct prompt, monthly cash reconciliations.

After the monthly closing, the treasurer should internally reconcile the cashbook with all bank statements and externally reconcile the cashbook with the accountant's general ledger. Prompt and frequent reconciliation is essential in order to maintain control over cash.

We also recommend that the collector/treasurer and accountant conduct prompt, monthly receivable reconciliations. It is best that these activities be prioritized and completed immediately after the close of the month rather than putting them off to a later time, potentially facing non-reconciling items that could delay and/or impact the certification of free cash.

FINDING 4: PURSUE RECEIVABLE BALANCES

As of June 30, 2003, the town's balance sheet includes almost \$1 million in receivables, some dating back a few years. These include real estate (1999), personal property (1996), motor vehicle excise (1986), boat excise (1988), and trash fees (2003).

In an effort to collect payments and/or reduce some of these receivables, the collector uses statutory remedies and outside services when necessary. For real estate, she issues demand bills, initiates tax takings, and uses the services of an attorney to pursue foreclosure remedies. The town also uses the services of a deputy collector for delinquent motor vehicle excise. The town gives the deputy collector a warrant and he completes online license and registration markings for non-renewal status with the Registry of Motor Vehicles. The collector, however, has not used the services of a deputy collector to pursue outstanding personal property taxes or boat excise. For overdue trash bills, the town charges late interest and may lien the outstanding charges on a homeowner's property tax, but has not initiated any liens as of this writing. The collector has made written requests of the assessors to abate older motor vehicle excise determined to be uncollectible (MGL 60A§ 7) and verbal requests to abate some duplicate real estate and personal property bills created in error.

RECOMMENDATION 4: PURSUE RECEIVABLE BALANCES

We recommend that the collector research the real estate receivables. For any amounts that could be placed in tax title, the collector should act before the town's automatic lien expires. For any receivables where the property owner is in bankruptcy, the collector should notify the court trustee of

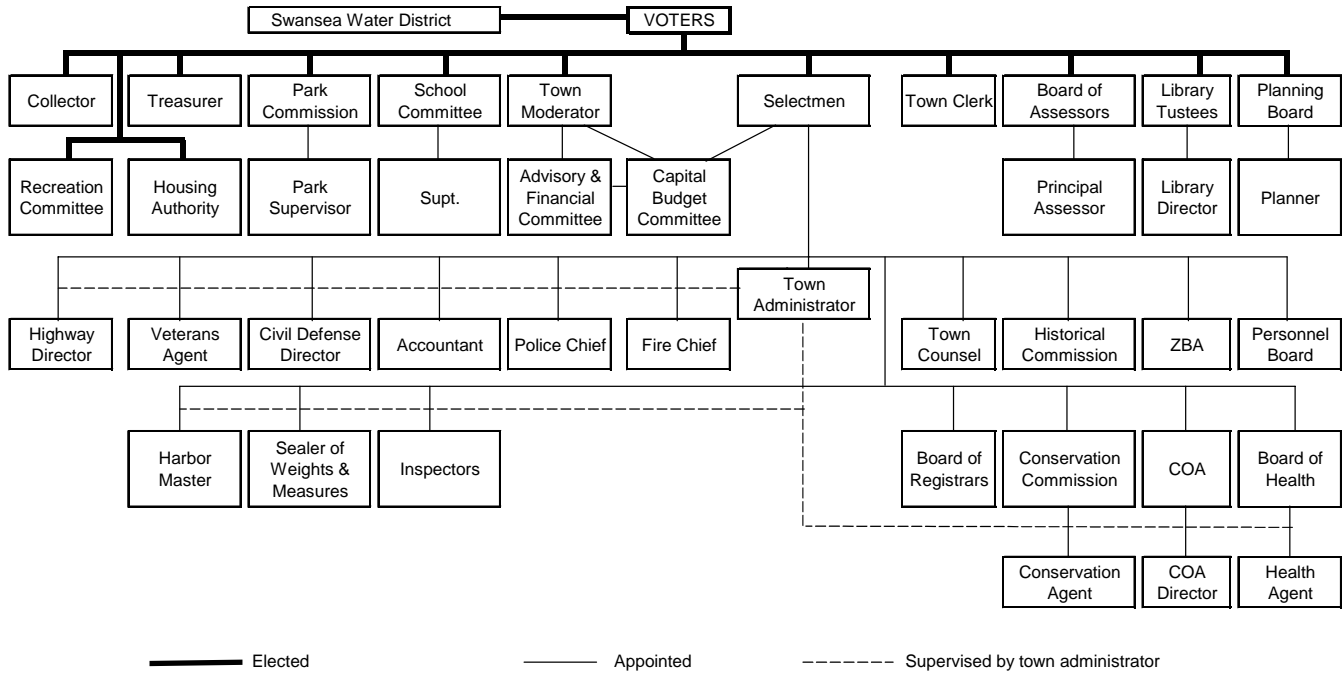
⁸ The receivables control is a record of original entry where the initial tax commitment is reduced by total collections (turnover reports), abatements, exemptions (from the assessors) and tax title transfers, and increased by total refunds.

the claims and if necessary file continuation of liens with the Registry (MGL Chapter 60§ 37A). For those amounts that are determined to be uncollectible, the collector should work with the assessors and Commissioner of Revenue to have them abated and cleared off the town's books. If overlay accounts exist for the years in question, the abated amounts should be charged to them, otherwise they may have to be raised on the tax recapitulation sheet or appropriated at town meeting.

We recommend that the collector use the services of the deputy collector to pursue outstanding personal property tax and boat excise accounts. The deputy collector may be able to obtain money owed the town or provide evidence (e.g., death, absence, poverty, insolvency, or other inability of the person assessed to pay) that the accounts are uncollectible. Being reasonably sure that the accounts are uncollectible, the collector should work with the assessors and Commissioner of Revenue to have them abated and cleared off the town's books.

We recommend the collector contact the assessors about abating motor vehicle excise determined to be uncollectible. Abating the older amounts will help clean up and reduce the town's receivables on its balance sheet. Having previously committed all outstanding amounts to the deputy collector, any amount that may eventually be collected and turned over to the town may be easily recommitted by the assessors on a special warrant so the collector may accept the payment.

APPENDIX A: TOWN OF SWANSEA ORGANIZATIONAL CHART



APPENDIX B: AVAILABLE RESERVES

Fiscal Year	General-Purpose	
	Free Cash July 1	Stabilization Fund June 30
1990	\$ 70,013	n/a
1991	(709,703)	n/a
1992	(794,123)	n/a
1993	(691,909)	n/a
1994	(1,047,033)	n/a
1995	(512,281)	n/a
1996	(503,266)	n/a
1997	(467,387)	n/a
1998	(282,990)	n/a
1999	226,041	n/a
2000	492,881	n/a
2001	395,680	n/a
2002	120,026	0
2003	(217,317)	0
2004	n/a	0

APPENDIX C: HEALTH INSURANCE DEFICITS (RAISED ON THE RECAP)

Fiscal Year	Deficit
1993	\$117,827
1994	178,266
1995	0
1996	170,112
1997	389,468
1998	220,347
1999	0
2000	332,006
2001	432,248
2002	2,050,769

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Gerard D. Perry, Acting Deputy Commissioner

The project staff included

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Paul Corbett, CAMA Support Specialist
Information Technology Bureau

In preparing this review, DLS interviewed or had contact with the following persons:

Wayne Gray, Selectman (former)
Andrew Prete, Selectman
Greg Barnes, Town Administrator
Lynn Macedo, Senior Clerk
Douglas Fiore, Advisory & Financial Committee
Frank Kingsley, Advisory & Financial Committee
Sheila Samson, Accountant
Marilyn Dube, Accounts Payable Clerk
Jane Piccerelli, Payroll Clerk
Elizabeth Leonardo, Collector & Treasurer
Renee Collins, Assistant Collector
Elaine Moulson, Assistant Treasurer
George Hague, Board of Assessors (former)
Harold Higgins, Board of Assessors
Scott Howard, Board of Assessors
John Donahue, Principal Assessor
Joan Casilli, Assessing Clerk
Richard Flanagan, School Superintendent
Richard Burgess, Harbormaster
Scott McIntire, CPA, Melanson Heath & Company, PC
Daniel Sullivan, CPA, Sullivan, Rogers & Company LLC
