

SWANSEA WATER DISTRICT

FINANCIAL MANAGEMENT REVIEW

AUGUST 2021



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

PREPARED BY:

DLS | Technical Assistance Bureau

100 Cambridge Street, Boston, MA 02114

www.mass.gov/dls

Jared Curtis, Project Manager

Dan Bertrand, Project Manager



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Geoffrey E. Snyder
Commissioner of Revenue

Sean R. Cronin
Senior Deputy Commissioner

August 30, 2021

Water Commissioners
Swansea Water District
700 Wilbur Avenue
Swansea, MA 02777

Dear Commission Members,

I am pleased to present the enclosed Financial Management Review for the Swansea Water District. It is my hope that our guidance provides direction and serves as a resource for district officials as we work together to build better government for our citizens.

If you have any questions regarding the report, please contact Zack Blake, Technical Assistance Bureau Chief, at (617) 626-2358 or blakez@dor.state.ma.us.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean Cronin".

Sean R. Cronin
Senior Deputy Commissioner

TABLE OF CONTENTS

OVERVIEW	2
RECOMMENDATIONS	8
1. Policies and Procedures	8
2. Financial Office Structure	11
3. Budget Document	11
4. Capital Planning	12
5. Develop a Capital Asset Inventory	12
6. Utilize Technology to Streamline Financial Practices	13
7. Move to Biweekly Payroll	14
8. Reserve Funding	14
9. Audit, Audit Rotation, and Management Letter Corrective Action Plan	15
10. Performance Reviews and Human Resource Functions	15
11. Training and Professional Development	16
12. Strategize for Succession Planning	17

OVERVIEW

At the Board of Water Commissioner's request, the Division of Local Services' Technical Assistance Bureau completed this Financial Management Review for the Swansea Water District. As part of this review, we conducted interviews with the superintendent, office manager, district treasurer, senior office clerk, and district clerk. We also reviewed various documents, including district bylaws, enabling legislation, policies, annual reports, warrant articles, past audit reports, tax recapitulation sheets, balance sheets, and other financial records.

Founded in 1667, the Town of Swansea sits comfortably in the southeastern coast on the Massachusetts-Rhode Island border between the Taunton and Palmer Rivers. The community has a long, storied history with ties to the surrounding bodies of water that have sustained its fishing and mill industries since its inception. The Swansea Water District was incorporated by Chapter 137 of the Acts of 1949 to meet a need for a public water supply and ensure the health and safety of residents through fire protection for those residing within the Town of Swansea.

The district's enabling legislation and bylaws were unified on May 9, 1949, and allowed for the creation of a Board of Water Commissioners comprised of three members with the authority to "fix just and equitable prices and rates for use of water." The bylaws set the annual district meeting for the second Monday in May. In 1997, a water restriction bylaw was enacted for the purpose of protecting, preserving, and maintaining "the public health, safety, and welfare whenever there is in force a state of water supply conservation or state of water supply emergency." In 1999, a cross-connection control bylaw was enacted to ensure the protection of potable water. Amongst other important provisions contained in this bylaw, formal testing, inspection, and evaluation mandates were created and reporting requirements were codified. In 2002, the district adopted a hydrant protection bylaw for the sole purpose of fire protection and in 2008 adopted a bylaw authorizing the assessment of betterments for the construction and connection of watermains.

The district's daily administrative and operational oversight is managed by the superintendent who reports directly to the Board of Water Commissioners. Additional staff include a part-time district treasurer who maintains the general ledger, an office manager who also serves as assistant treasurer, senior clerk, and clerk. At present, the district has hired a new part-time treasurer. Compensation of the elected officers and water commissioners is set by vote at the annual district meeting.

The district has over 6,000 water connections and 124 miles of pipe with twelve wells (10 active and 2 inactive) and three treatment plants, including a desalinization facility. In the past, the district struggled to meet the water demands of residents. Across the Commonwealth, water districts face numerous challenges related to addressing and maintaining basic infrastructure and service needs and the district has experienced such challenges dating back to depleted groundwater supplies in the

1980's and continuing through the 21st century with shortages and bans. To address growing demand and ensure future access to potable water, construction of an \$18 million desalinization plant, the first publicly held desalinization facility of its kind in New England, was approved by voters in 2004 with groundbreaking commencing in 2007. The project was operational in 2010 and completed in 2015 with the intention of processing 4 million gallons of tidal water from the Palmer River and groundwater from the Vinnicum wellfield and converting it into 2.2 million gallons of drinking water. Unfortunately, the ambitious and costly project has yet to fulfill its promise.

While the district has recently undertaken targeted and successful efforts such as ice-pigging to improve water quality, residents have had to endure manganese-tainted "brown water" and high levels of trihalomethanes. As a result, apprehension and doubt exist within its constituency. District leaders have taken laudable and concrete action to increase accountability, modernize operations, and share information in real-time. However, difficult capital asset management, borrowing, and financing decisions remain, such as the future role of the desalinization plant, water meter replacement program, and a full transition to modern financial management software.

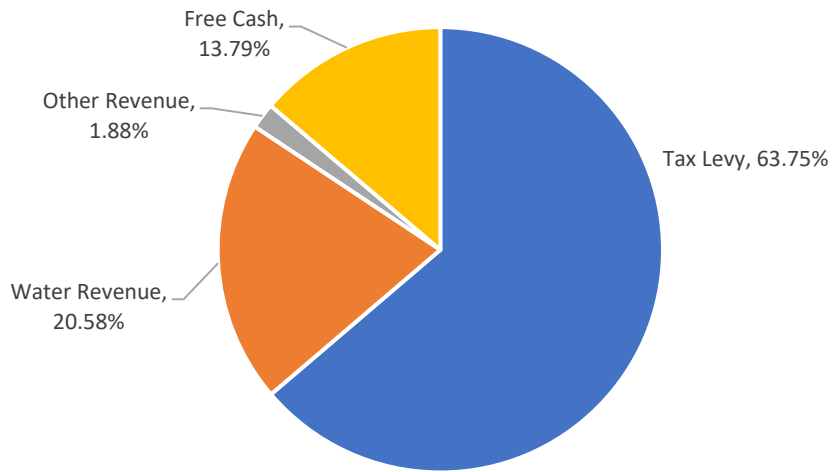
Over the years, the Swansea Water District has faced questions regarding its water management practices, most recently evidenced by lagging consumer confidence due to "brown water" and a lack of trust in the financial stewardship of the district. Doubt within the community has been routinely referenced at district meetings and in broader media reports. Recent district leadership changes such as the transition to a new superintendent in 2018 and a new Board of Commissioners Chair in 2021 have the potential to mollify this contentious dynamic built up over decades.

Recently, the district has made significant efforts toward modernizing operations and increasing transparency and information flow. In addition to televising district meetings, the most forward-facing evidence of a commitment to transparency can be seen in its redesigned website. Where previously there had been limited information and interactivity, the new website is presented in a user-friendly and engaging format. Meeting minutes and agendas are readily available along with absentee ballot, early vote, property transfer and tax approval forms. Users can make payments, sign up for robocalls, input meter readings, and receive real-time updates related to water quality. This commitment to accessible, accountable management, and customer-first service represents a significant step toward addressing lingering and ongoing mistrust. We encourage the district to pursue and implement our recommendations below to codify financial policies, incorporate best practices, and expand the budget document to provide additional transparency related to the state and integrity of financial operations.

Finances

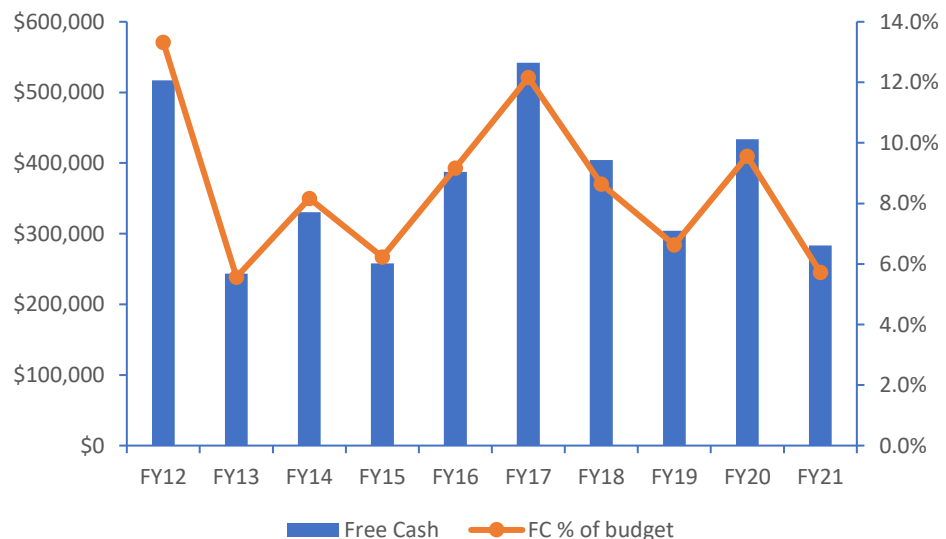
The district operating budget for FY2021 was \$4,956,434 and financed by a combination of taxation,

water user charges, free cash, and other estimated receipts. The tax levy represents 63.75% of the FY2021 budget, water revenue 20.58%, free cash 13.79%, and other local receipts 1.88%. The pie chart to the right illustrates the districts operating revenue sources. Of the \$3.1 million tax levy, 86% is derived from the residential property taxes, 10% from commercial, 3% from personal, and 1% from the industrial class.



As infrastructure ages and capital needs amplify due to growth and increased water demand, the district should focus on building its financial reserves. Financial reserves such as free cash, stabilization, and overlay play a crucial role in the district’s fiscal health. Bond rating agencies review these reserves as part of the rating process and these funds afford the district another revenue source to spend on capital and other one-time purchases.

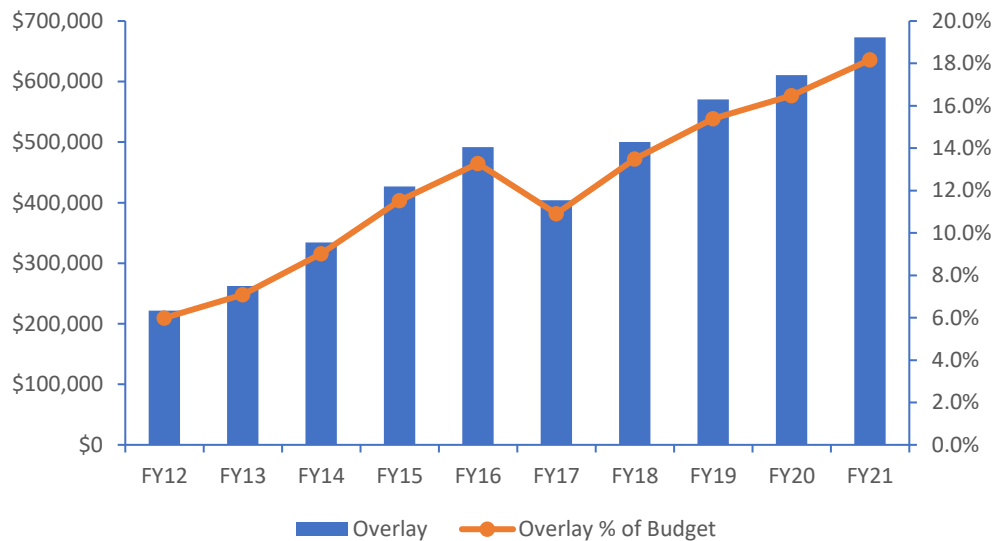
Free cash is the remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash, actual receipts greater than estimated revenue, and unspent amounts in budget line items. Free



cash totals have fluctuated over the past ten years. In FY2021, DLS certified \$283,501 of free cash, which is the equivalent of 5.72% of the operating budget. This amount is down from the previous fiscal year’s total of \$433,527 (9.56% of the operating budget). The graph above depicts the district’s free cash as a percent of the operating budget. The district’s certified free cash continues to remain

above the Division of Local Services (DLS) and Government Finance Officers Association’s recommended balance of 3 - 5% of the general fund budget.

The overlay reserve is an account that funds anticipated property tax abatements and exemptions. The balance in the overlay account can be transferred to overlay surplus and used for any lawful purpose.



The district’s overlay balance has tripled over the last ten years from \$221,931 in FY2012 to \$673,260 in FY2021. In FY2021, the districts overlay balance as a percent of the operating budget was 18%, which is depicted in the graph above. The district’s five-year average for abatements and exemptions is \$25,356 per the FY2021 tax rate recap. The robust overlay balance indicates an untapped reserve that would benefit from a formal policy determining its use, particularly as it relates to building reserves and capital expenditures. For example, a portion of the overlay balance could be utilized as a funding source for the recently defeated water meter replacement program appropriation.

Stabilization reserves are funds designed for emergencies and other capital related purposes. The District’s general stabilization fund has been stagnant and currently has a balance of \$12,555. Creating a reserves policy provides an avenue to save for future and unforeseen emergencies.

Conclusion

Repercussions from decisions that mostly pre-date the election of current commissioners and administrative leadership have placed financial strain on the district. Fall-out has affected public confidence in those who manage district finances. While the current board of water commissioners and the superintendent are credited with having taken positive steps, particularly related to water quality, challenges remain.

The Swansea Water District operates in a manner that is antiquated and therefore creates inefficiencies. Water meters are so archaic and the billing process so labor intensive that 25-30% of

water bills are estimated annually, leaving the district uncertain of actual water usage. For a district that is struggling to maintain sufficient water sources, it is critical that operators accurately quantify the amount of water used annually and bill accordingly. The prior superintendent held the position for 42 years and was reluctant to take advantage of technology to advance the district's financial operations and business practices. There was a long-standing mentality of reluctance to change. The district's financial operations including accounting, utility billing, payroll, and work orders are all manually, paper-driven processes and financial reports are not readily available. The district did not maintain a website until FY2016. There have been no audits in over 10 years. Phase one of the desalinization plant that was completed in 2010 and phase two in 2015 at a total cost of \$18 million to clean water from the Vinnicum wellfield and the Palmer River has failed to produce the necessary portable water the district needs. Given this history of delayed and incomplete initiatives and projects, mistrust among residents of the district's operations is understandable.

In 2018, a new superintendent was hired who brought a vision to modernize the district's operations. The district also benefits from knowledgeable and dedicated staff that understand operations and helped simplify the transition of the superintendent. To overhaul the website, Logic Machine Systems was brought in to increase transparency through the posting of various forms, meeting and agenda minutes, and annual reports. The site also provides capability for residents to input meter reading figures. In addition, the district joined the Town of Swansea RAVE Mobile Safety Systems emergency notification system which allows residents to opt-in and receive alerts from the district.

The district recently entered into an agreement with the City of Fall River to conduct an interconnection analysis as part of a regional municipal vulnerability preparedness grant that also includes Swansea, Somerset, and Dighton. The interconnection could be used during emergencies such as treatment plant failures, contamination, or water shortages. The district located a water supply at the Borge wellfield, and a new well is under construction. A feasibility study is currently under way to acquire the Bristol County Water Authority's old water sources which include the Shad Factory Dam and Upper Warren Reservoir. If the acquisition of the supply is feasible, the district plans on repurposing the desalinization facility to treat the new water supplies to produce additional portable water at a reduced cost.

For this fiscal year, the district budget includes an appropriation to connect to the Somerset water supply. The budget also includes funds to hire an audit firm as well as to purchase and implement a new Vadar financial software for accounting. Lastly, the district had planned to borrow funds to begin the meter replacement program, so it can move away from relying on residents to manually read water meters, but it was rejected at the annual district meeting.

Overall, the Swansea Water District is a relatively small operation with tremendous longevity, experience, and institutional knowledge among staff. There is determination and thoughtful perspectives among commissioners and administrative leadership, who collectively are less tenured.

This mix should provide a foundation for sound decision making and we are confident that there is a genuine interest among all involved in bringing stability to district finances and operations. The following operational and financial best practice recommendations should assist the district in rebuilding public confidence that it functions efficiently and effectively.

RECOMMENDATIONS

1. Policies and Procedures

Based on conversations with district officials, existing district financial planning is guided by informal policies. In recognition of the need to document financial practices and to help guide staff, improve clarity, eliminate risks, and regain the trust of residents, the district should prioritize and pursue the development of formal financial policies.

Well-written policies promote accountability, consistency, transparency and provide instructive guidance for the accomplishment of specific goals. A strong set of financial policies provides its greatest value as a foundational component of the district's system of internal risk management controls. Furthermore, adoption of formal policies promotes good stewardship of district resources and are viewed favorably by credit rating agencies. Formal adoption of financial policies should focus on the following core areas:

Annual Budget Process: An annual budget policy should define a framework for developing the total operating budget, including the general fund and capital budget. Because the budget lays out the district's prioritization of annual and longer-range objectives, the policy should explain how recurring funds are to be raised and allocated for the full costs of service delivery.

The annual budget policy should include:

- Budget goals for the general fund, capital improvement, and reserves.
- Principles for balanced and sustainable budgets including funding levels and sources and circumstances for considering any borrowing.
- A budget calendar that specifies dates for initial revenue projections and updates, departmental appropriation guidelines, capital improvement plan, and the final budget, allowing for hearings, reviews and approvals at different levels, and accounts for the time needed to print and distribute the warrant.
- Requirements for the budget document include the budget's short- and long-term strategic goals, narrative information on departmental and organizational goals, resources needed to meet those goals, and graphical information on revenues, expenditures, and reserves.
- Budget monitoring guidelines for requiring a review of revenue and expenditure reports by the superintendent and commissioners during the year to provide the opportunity to make plans for any corrective actions and to consider advance forecasting into the next year.

Financial Reserves: The purpose of a reserve policy is to maintain a reasonable level of reserves on hand, while also establishing a reliable financing source for smaller, one-time capital or equipment-

related needs and helping stabilize finances and maintain operations during difficult economic periods. Reserves include free cash and stabilization funds. The policy should identify reserve target levels, define acceptable and prohibited uses, and guide any course of action when a reserve falls below or exceeds the desired target.

Free Cash – Free cash is the most widely recognized reserve and is available for appropriation upon certification from the Division of Local Services. Certified annually, free cash is a revenue source resulting from the calculation of a district’s remaining, unrestricted funds from the previous fiscal year’s operations based on the balance sheet as of June 30. Key factors that contribute to the amount of free cash include prior year unappropriated free cash, unexpended appropriations, and local receipts in excess of budgeted amounts. Free cash is offset by property tax receivables and deficits or overdrawn accounts, and as a result, can be a negative amount.

The Swansea Water District should define a policy identifying a sufficient level of free cash to meet its liquidity needs. It should:

- Set an annual free cash target as a percent of the general fund budget to be realized through conservative revenue projections and careful management of the budget.
- Leave a percentage of free cash unappropriated to provide a basis for the subsequent year’s certification.
- Define acceptable and prohibited uses, along with any course of action for when free cash falls below or exceeds the desired target.
- Determine a percentage to appropriate annually to build stabilization reserves.
- Limit free cash use to one-time expenditures unless extenuating circumstances exist.

Stabilization Funds – A general stabilization fund allows a district to set aside money for future or unforeseen purposes, whereas a special purpose stabilization fund is intended to be used as a planning tool for saving money for a designated purpose. The district currently has one general stabilization and no special purpose stabilization funds.

In establishing the stabilization fund portion of the financial reserves policy, the district should:

- Establish a target balance either as a total dollar amount or as a percentage of the general fund budget.
- Restrict the general stabilization fund use to unforeseen and extraordinary expenses.
- Determine an annual appropriation to support the fund.
- Define a plan for replenishing the fund which should include establishing indicators for when to appropriate into the fund, such as a percentage of free cash above a policy target.
- Define the special purpose, funding source and level, and use of each stabilization fund.

Capital Planning: The capital planning policy should provide a framework for planning, reviewing, and coordinating capital purchases. The policy should include:

- Definition of a capital project and what can be funded through the capital plan.
- Criteria used to evaluate, rank, and prioritize projects.
- Financing strategy such as the balance of debt versus cash capital spending, and how much to spend on capital annually.

Debt Management: The debt management policy should provide for the appropriate issuance and responsible use of debt. Good debt management practices protect the district's investment in capital and result in lower borrowing costs by structuring multiple projects together to reduce the frequency of issues, lower issuance costs, and access more competitive interest rates. It should:

- Identify a target for within-levy debt service as a percentage of annual general fund revenue.
- Ensure that bond maturities shall not exceed the anticipated useful life of the capital project being financed.
- Maintain bond maturities at a rate where at least 60% of the outstanding net direct debt (principal) shall mature within 10 years.
- Mandate that the total outstanding general obligation debt shall not exceed 2.5% of the total assessed value of the property.
- Determine that total outstanding general obligation debt per capita shall not exceed a specified dollar amount. This amount should be adjusted annually by the consumer price index.
- Determine that the total outstanding general obligation debt per capita shall not exceed a specific percentage of per capita income, as defined by the Census Bureau of the U.S. Department of Commerce.

Cash and Receivable Reconciliations: A reconciliation policy provides a framework to ensure transactions are in balance, mitigate fraud, safeguard general ledger accuracy, and maximize certifications of free cash. The district treasurer must conduct and document regular reconciliations of their internal accounting records, and these must be reconciled to the general ledger. Source documentation that must be reconciled with the general ledger includes cash in the bank, receivables, and payroll withholdings.

As time allows, we recommend that the treasurer, office manager/assistant treasurer, and senior clerk work together to create procedure manuals. A procedures manual outlines the specific steps required to accomplish the objectives spelled out in the policies, emphasizing the internal controls designed to ensure intended outcomes. Examples include the handling and turnover of cash receipts, reconciliations, water billing, work orders, purchase orders, payroll, and vendor disbursements.

Without these documents, employees are often limited to on-the-job training examples without proper context. A lack of emphasis on the rationale for controls can encourage circumvention. Manuals also help to maintain services when there are unexpected employee absences and play a beneficial and important role in the training of new hires.

The manuals could contain a combination of the pertinent policies, statements of objectives, step-by-step instructions, and related software application screenshots. Once developed, these manuals should be stored electronically on shared drives for easy access.

2. Financial Office Structure

The district financial office consists of two part-time and one full-time staff. The part-time district treasurer is appointed annually and works four to five hours per week. The treasurer's responsibilities include maintaining the general ledger, completing the tax rate recap and balance sheet, bank reconciliations, debt management, and signing warrants and checks. The district recently hired a new part-time treasurer on an annual contract, while the previous treasurer continues to help until the replacement is acclimated.

The full-time office manager/assistant treasurer is appointed by the superintendent and has worked for the district for over 27 years. In addition to managing the daily operations of the office, primary duties include payroll, cash reconciliations, human resource functions, processing invoices, preparing payments, working with vendors, utility billing, and in-person and phone customer interactions. The part-time senior clerk has been employed with the district for over 6 years and works approximately 23 hours per week. The senior clerk's responsibilities include overseeing the utility billing process, construction billing, work orders, water shutoffs, and assisting the office manager.

We recommend moving to a full-time treasurer and promoting the office manager/assistant treasurer to treasurer once the current contract expires. The office manager/assistant treasurer performs most of the district tasks and with additional training could assume added responsibilities.

The senior clerk has shown interest in working full-time. We recommend that the district elevate her to assistant treasurer with full-time status providing her with extra responsibilities to help reduce the load carried by the newly appointed district treasurer. Cross-training staff and splitting various duties is vital to ensure proper internal controls exist with sufficient checks and balances. This will allow the district to continue to function smoothly during periods of staff leaves and vacations.

3. Budget Document

The district's budget is rudimentary and lacks transparency. Prior to the current fiscal year, appropriation amounts were absent from warrant articles. For residents to get a complete

understanding of the district's spending plan, we recommend that a line item budget be posted on the district's website prior to the annual meeting with a synopsis of goals and objectives for the upcoming fiscal year and trend analysis of various financial indicators to better visualize the district's fiscal status. Warrant articles with appropriation amounts and a description of funds used to support the appropriation should also be included to provide clarity and consistency.

The budget should be viewed as a policy document that identifies the district's financial goals and objectives. A financial plan presents the district's existing financial condition, forecasts expected revenues and operational expenses to help educate decision makers. Throughout the budget's development, it is crucial that officials maintain a strong commitment to the process, to a high level of communication, and to reaching consensus.

4. Capital Planning

The district has discussed developing a Capital Improvement Plan (CIP), a necessary and integral step to addressing and prioritizing infrastructure and other investments. A formally agreed upon CIP coupled with a comprehensive financial forecast would allow the district to position itself to further assess the feasibility of completing a meter replacement program that was recently rejected at the annual meeting. Providing the proper financial management tools will help better identify, account for, and strategically plan for those expenditures in advance and potentially defray financial impacts.

We suggest that the district establish a capital planning process in bylaw and maintain a five-year plan to help with the allocation of scarce district resources. As part of the bylaw, the district should identify what constitutes a capital item, including establishing cost and useful life capital thresholds, with a minimum amount of at least \$10,000, and a useful life of 5 years as part of the capital planning policy. The goal to develop a sound capital plan to maintain and upgrade district buildings and address infrastructure is more fitting with these criteria.

5. Develop a Capital Asset Inventory

We recommend that the district's superintendent develop and actively maintain schedules of the capital assets. An effective capital improvement plan requires the implementation of an asset management program, including a detailed inventory of all district-owned structures, fleet, and other large, durable equipment. Without a proper record of what is on hand, it is difficult to develop a strategy for current and future capital needs.

The most valuable asset management schedules include dates of acquisition or last improvement, current conditions, and estimated dates for replacement or expansion. When inventory schedules and capital requests are viewed together, district officials can address both the maintenance and care of existing assets as well as the replacement or purchase of new ones.

Updating these documents should become part of the annual capital budget process and should include cross-referencing these schedules against the fixed asset records and the district's property and casualty insurance policies for completeness.

6. Utilize Technology to Streamline Financial Practices

Adopt Vadar GL: While district staff are both experienced and dedicated, antiquated internal processes and procedures still exist, and the district remains awash in paper-based, manual driven processes. The general ledger is maintained in excel and backed up in a leather-bound book. Basic reports cannot be generated easily or quickly, thereby hindering transparency and limiting data driven decisions and policies. Current operations entail the district treasurer utilizing a personal computer and a temporary, collapsible table to perform duties due to a lack of both proper IT equipment and dedicated office space.

The district recently took initial steps to improve its technology at the most recent annual district meeting by appropriating \$25,000 to implement a new financial software package. The district plans to work with the software vendor, Vadar, to create a chart of accounts and automate the general ledger. This initiative should provide a clear and lasting benefit to financial management operations.

Adopt Vadar Utility Billing: Utility billing is similarly labor intensive and cumbersome. The process begins by reviewing a paper list of over 6,000 accounts and using a typewriter to add new accounts. Next, labels are printed and manually added to meter read cards that are then run through the postage machine. Cards are then stuffed into envelopes, affixed with a label, run through a postage machine, and mailed to residents. Although staff are customer-focused, detailed, and work diligently, the process is extremely inefficient and time consuming. In the current process and despite staff dedication, 25 – 30% of meter read cards go unreturned annually and the district must estimate a substantial amount of water bills. The district allows two consecutive years of estimated bills prior to issuing a shutoff warning and notice. Based on the poor rate of return for meter read cards, the district is unable to determine actual water usage. For a district that struggles to keep up with water demands, not knowing consumption leaves the district at a disadvantage.

We recommend that the district implement a meter replacement program and expand the use of Vadar to include utility billing. All dated meters should be replaced with new meters that allow for drive by and GPS readings. With a new system in place, office staff no longer need to send out meter read cards, customers are removed from the process, and meter read data can be uploaded directly to the system, making billing much more simplified and efficient. The new system would allow the district to track actual usage, detect leaks, promote water conservation, manage consumption, and potentially adjust rates to reward conservation.

Adopt Vadar Payroll: Payroll and time and attendance continue to be completed manually. Payroll is exception based and timesheets are not always used. Once a request for time off is approved, the employee would contact the office and notify staff of the date taken and type of accrual used. A wall calendar in the office is used to track time and then is entered into Access. In addition, the district should also consider ways to leverage new human resources system capabilities to make payroll processing more efficient and provide employees the benefit of current accumulated leave balances, benefit information, and other personnel data. We recommend that the district implement Vadar payroll and time and attendance. Employees would be responsible for entering their time and supervisors would sign off and submit timesheets. This would allow office staff to review time and attendance prior to running payroll.

Adopt Vadar Work Orders: We recommend that the district utilize the Vadar software system to input and track work orders. Currently the operators manually write up work orders and return the slips to the office where the senior clerk types up a bill using MS Word, mails it out and stores it in a file cabinet. To simplify the process, the district should invest in the use of field tablets so that operators and technicians can input the work order directly into the system and maintain notes on the projects status. This way, office staff have direct access to completed work orders and can help reduce the time bills go out. Electronic records allow the district to easily track completed work.

7. Move to Biweekly Payroll

We recommend that all employees receive pay on a biweekly basis, thereby enhancing operational efficiencies, simplifying reporting, decreasing paperwork, and reducing costs and dedicated staff time. A shift to biweekly pay would require advance notice to employees and must be collectively bargained. Ultimately, reducing the time staff must spend performing manual clerical duties increases their availability to perform other professional duties and responsibilities that further the district's strategic and operational goals.

8. Reserve Funding

To help stabilize finances, provide for capital items, and maintain operations during difficult economic periods, we recommend the district create a special purpose capital stabilization fund and annually appropriate into the existing general stabilization fund. In the future, this would help the district increase financial sustainability and provide a funding source for projects like the meter replacement program that are desperately needed.

To fortify reserves, the district should consider tapping into its increasing overlay balance. Over the last five years, the districts overlay balance went from \$403,948, or 10.9% of the operating budget, to \$673,260, or 18.1%. Utilizing a portion of overlay surplus to start a capital stabilization and build upon the existing general stabilization funds, will help provide the district with future financial

flexibility. We feel that the approval of article 10 from the annual district meeting to use overlay surplus in the amount of \$250,000 to establish a permanent water interconnection with the Town of Somerset is a step in the right direction. It appears that there is sufficient overlay remaining to reinforce reserves.

9. Audit, Audit Rotation, and Management Letter Corrective Action Plan

The district has not had a completed financial audit since FY2010. At the May 2021 annual meeting, article 12 was approved in the amount of \$35,000 for a 3-year audit and examination of the district's financial records. At the same meeting, article 13 was defeated which would have resulted in an 11-year audit of the district's records. While this audit will likely play a pivotal role in retroactively reviewing, identifying, and addressing financial management issues, we recommend the district draft a formal policy requiring routine and regular audits every two years as outlined in the advisory committee recommendations in a letter to the commissioners in February of 2021.

The audit process cannot end with the issuance of a single audit and management letter. It is the district's responsibility to review the audit and act on the recommendations. Once the recommendations are prioritized, a plan must be put in place to take corrective actions. Such a plan would indicate what steps will be taken, who will be responsible for them, and when the action will be completed. Addressing management letter findings can help improve the district's financial controls and practices and improve public confidence in government. Requesting and reviewing audits on a recurring and collaborative basis will increase accountability, foster transparency, and reinforce the professionalism of the district and its staff with its constituency.

10. Performance Reviews and Human Resource Functions

The district should consider adopting a performance management program and review its human resources policies. The first step towards formal and comprehensive performance management begins by ensuring that employee job descriptions are up to date. With a current set of job responsibilities in hand, the superintendent would develop targeted work performance goals that provide clarity and direction to staff members. These goals, designed to channel an employee's efforts toward achieving department objectives, should be measurable in a way that confirms whether performance expectations are met. To better ensure success, annual allocations are necessary for staff to attend outside training and continuing education opportunities to help fine-tune skillsets and improve job effectiveness.

Once job descriptions have been finalized the superintendent should use them as the basis for developing performance goals for district staff. Initiating a meaningful employee performance evaluation program is often a difficult task. Managers can be reluctant to embrace the program and

staff can be less than enthusiastic. However, when constructed effectively, the program can be a communication tool that supports organizational objectives by developing employee abilities and proactively improving their talents. Programs we find most effective focus less on rating achievements against job-specific competencies, but rather on the department head's communication with their staff. Designed this way, the program is more constructive and can help to maximize employees' capabilities.

Continued efforts to modernize workplace expectations should be reflected and prioritized through updated human resources policies. For example, the district policy handbook indicates that the sexual harassment policy was adopted over twenty years ago in 1998. As workplace requirements and benefit programs grow in complexity, the district bears an increasing responsibility to provide proper working conditions, ensure consistent personnel policies, and meet minimum compliance standards, otherwise it may be exposed to potentially costly lawsuits or penalties. To lessen various risks and avoid significant penalties, personnel management not only requires highly trained staff but also adequate employee tracking systems to maintain complete and accurate personnel records, develop and implement consistent employee policies, and report required data to regulatory agencies.

11. Training and Professional Development

We recommend that the district develop a proactive and systematic approach to professional development and training for the finance team members. By investing time, energy, and funds into employee development, the finance team can improve customer service, create efficiencies through appropriate delegation, and provide for smooth succession. Expanding training to the water commissioners can foster a team approach within the district by developing an understanding of their responsibilities and interrelationships.

The superintendent should meet with employees individually to discuss the breadth of their skills and identify any gaps in the employee's knowledge. These meetings can then be used as a basis to develop a roadmap for scheduling trainings that will serve as a career ladder to mark progress through an employee's continuing educational development. Time should also be dedicated to hands-on cross-training, especially in critical areas like accounting, payroll processing, billing, and reconciliations.

In addition to in-house training, we recommend the district support attendance at conferences and trainings provided by the associated professional organizations (i.e., Massachusetts Collectors and Treasurers Association, Massachusetts Accountants and Auditors Association, and their regional counterparts). By attending the meetings and trainings of these groups, officials can gain concrete, functional information, learn new best practices, and establish information-sharing relationships with fellow professionals that will ultimately benefit district operations.

12. Strategize for Succession Planning

It should be noted that the district has long benefitted from the willingness of its employees to fulfill varied and shifting job duties and responsibilities, often with minimal support staff. While the institutional knowledge of veteran employees is always an asset, it vanishes upon that employee's retirement or job change if proper succession planning is not embraced. Currently, the office manager is the only individual that can perform several of the district's daily tasks. For example, when going on vacation for two weeks, she ends up completing four weeks of payroll in advance. The need for cross-training and succession planning is vital to maintaining the districts daily operations.

We recommend the superintendent meet with staff to develop succession strategies on how to fill future vacancies due to turnover or retirements. Together, they should discuss and gather information about each role's core functions and legal responsibilities. This would include the position's job description, classification and grade, hours assigned, and any documented procedures.

In addition, we suggest the following steps occur, as appropriate to each position:

- Develop procedure manuals with step-by-step instructions starting with the most critical tasks. Request training materials and instruction from the vendor for the Vadar software system and appropriate funds as necessary for training.
- Identify employees with the skills, aptitudes, and interest in being promoted, including those who might currently work in other departments. Systematically develop the person's knowledge and competencies through mentoring, funding training opportunities, setting up job shadowing practices, and delegating increasing responsibilities within their departments.
- When informed of a pending departure, ensure schedules overlap if possible so that the departing employee can help orient and train his or her replacement.