



Town of Wales

# Financial Management Review

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Division of Local Services / Technical Assistance Section

February 2010

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## INTRODUCTION

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At the request of the Wales 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 a site visit and telephone conversations by a Municipal Data Management & Technical Assistance Bureau (MDM/TAB) staff member and in consultation with the Bureau of Accounts (BOA) and the Bureau of Local Assessment (BLA). The staff interviewed the selectmen, executive secretary, finance committee chair, accountant, assessor, tax collector, town clerk and treasurer, and other municipal office staff.

DLS staff examined such documents as the tax rate recapitulation sheet, annual budgets, cash and receivables reconciliation reports, and statements of indebtedness. The town also provided us with warrants, debt schedules, town by-laws, and other assorted financial documents.

The purpose of this review is to assist Wales officials 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 that exists between and among boards, officials and staff involved in the financial management function; (3) the performance of financial operations in such a way as to maximize resources and minimize costs.

We encourage the selectmen, when formulating overall strategies for improving the town's financial management, to consider the observations, analyses, and recommendations contained in this report. These are recommendations only and can be implemented, at the town's option, provided there is sufficient cooperation among the various boards, committees, and officials.

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## EXECUTIVE SUMMARY

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Wales is a rural, hilly town located midway between Worcester and Springfield on the Connecticut border. It occupies a land area of about 15.75 square miles and has a population of 1,881 persons (2008 US Census). Incorporated as South Brimfield in 1775, the town was renamed Wales in 1828. It began as an agricultural community that attracted mills due the rapid flow of the local rivers from the highland areas. By 1880, the town's population swelled to over 1,000 persons, many of whom were drawn to the area to work in the mills. However, after the turn of the century, many of the mills relocated or closed, resulting in a decline in population to less than 400 persons during the Depression.

Due in part to the creation of state roads and federal highways after World War II and the availability of open, undeveloped land, Wales attracted development and grew in population. However, Lake George also has played a large role in the growth of the town. Lake George evolved into a recreational area that had summer cottages built around it. Because of the location and attractiveness of the area, many of the seasonal structures were converted into year-round housing and other residential development has been built. Today, Wales is a predominantly residential community with few business establishments. Almost half of the town's total land area is open, undeveloped, and non-taxable because it is state-owned forest and wildlife management properties or possessed by the non-profit organization Norcross Wildlife Foundation, Inc.

Since 1990, single-family residential development in Wales has grown from 560 (FY1990) to 704 parcels, an increase of 144 or 25.7 percent. This development contributed to the population growth in the community. During this same period, the Wales population grew from 1,566 persons (1990 US Census) to an estimated 1,881 (2008 US Census) persons, an increase of 315 people or over 20 percent. To support its growing population, Wales' budget has grown. Since 2000, Wales' budget has increased from about \$2.77 million (FY2000) to \$3.85 million (FY2010), an increase of over a million dollars or almost 39 percent. The largest expenditure in the town's budget is education. In the FY2010 budget, combined local and regional education costs total about \$2.28 million.

Annually, the budget is funded by four general sources of revenue—tax levy, state aid, local receipts, and reserves. State school aid (Chapter 70) for the elementary school together with tuition-based vocational students and non-education state funding (e.g., unrestricted general government aid, property tax exemption reimbursements, state owned land, and library aid) account for about 25 percent of the town's FY2010 estimated revenues. Local receipts, including motor vehicle excise, departmental fees, fines, payments in-lieu of taxes, investment income, and transfer station offset receipts combined are \$316,000 or about 8.2 percent in FY2010. Generally, Wales uses reserves (i.e., stabilization fund, overlay surplus, and a Norcross Foundation gift account) and free cash to fund one-time purposes, balance the budget, or replenish the stabilization fund. In the FY2010 budget, Wales used one-time revenue sources that accounted for a little over three percent. The remaining budget, almost 64 percent, is funded by property taxes.

In addition to its operating expenses, the town has capital improvement needs. Wales has a number of municipal structures, some of which are old and require significant repairs such as the town hall and library buildings. Each also has very limited parking and problems meeting safety and accessibility codes. The town has created a capital improvement planning committee through the adoption of a bylaw, but it is dormant because of a lack of funding.

Given limited resources and heavy reliance on the residential taxpayer, any increased or unanticipated costs can be devastating. To their credit, Wales officials appear to propose annual budgets that are mindful of property tax increases. They pursue grant funding and community volunteer projects whenever possible to augment traditional means of financial support and more importantly, look to initiatives that would result in potential long-term savings or improvements.

In an effort to save money and limit as much duplication as possible, Wales participates in a number of regionalized services. Currently, Wales is a member of a regional middle/high school district and shares the cost of a fueling center, ambulance service, veterans' agent and emergency dispatch. The town also is considering further regional efforts such as combining the Wales and Holland elementary schools, joining a regional dog pound, and forming a regional police force.

As a result of the current economic times, town officials have taken a more cautious approach to budgeting by working on improving their understanding of the town's fiscal position and increasing communication among all officials and boards. The town has conducted an orientation for newly elected and appointed officials, holds biannual department head meetings, and recently created a financial team that has begun meeting. A member of the selectmen and the finance committee also participate in a tri-town group that meets monthly with Holland and Brimfield officials to share and discuss experiences and future possibilities.

In meeting with the financial departments, we found the staff to be dedicated and hard-working. Each operation runs fairly well and they work well with each other. Given its limited resources, officials have made changes in operations to improve efficiency and potentially reduce costs. One recent change is the implementation of the Vadar Systems financial applications in all the offices and use of Vadar's "host" service. With this service, the software applications are housed on Vadar's server and Wales' officials can access remotely its secured data and operate in a fully integrated environment despite not having networked computers in town. This eliminates repetitive, manual keying by staff, provides for consistent backups, and ensures full recovery in case of a disaster.

Further exploring other potential savings and improvements, the selectmen requested that the Division of Local Services (DLS) conduct a comprehensive review of the town's financial offices. The recommendations in this report are based on best management practices that comply with state laws and regulations. They are designed to further improve communication and establish fiscal planning and coordination. Chief among these is expanding the recently created financial team's purpose to better coordinate current and future fiscal activities as well as posting more information on the town's website to improve communication with the public at large. With increased coordination and good financial practices in place, Wales will be able to plan for the future and position itself for whatever lies ahead.

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## OVERALL MANAGEMENT, BUDGET AND FINANCIAL OPERATIONS

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During the course of our review, we looked at the town's overall management, including its governmental structure, by-laws, budget and fiscal practices, personnel functions, as well as financial department operations. What follows is a summary of our observations and recommendations.

Wales does not have a charter. Its government is organized under a combination of state statutes, special acts, and local by-laws. State statutes generally provide allowable methods of governance and often offer guidance on minimum requirements, while special acts and by-laws enable a community to establish specific authority and procedures by which it operates.

The elected offices that oversee departments or specific operations include the selectmen, moderator, treasurer, tax collector, town clerk, assessors, school committee, library trustees, cemetery commission, highway commissioner, board of health, planning board, council on aging, tree warden, and constables. All other staff, boards and committees are appointed by and report to the selectmen, Wales's chief executive officers. The elected and appointed positions are codified in the by-laws, which identify the number of members, term, and responsibilities. Wales does not have a personnel by-law that would address uniform compensation schedules, policies on sick and other leave options, and rules governing employee conduct. However, an ad-hoc committee, appointed by the selectmen, is updating job descriptions and drafting an employee handbook to be presented to the annual town meeting in 2010 instead.

Because the selectmen are a part-time board, Wales has an executive secretary. She holds a salaried position and works a minimum of 25 hours per week. She is available during regular town hall business hours, Monday through Thursday (town hall is closed on Fridays), and attends the selectmen's biweekly meetings. According to her job description, the executive secretary prepares the selectmen's agenda, minutes and correspondence, town meeting warrant, and annual report; follows up on matters for the board; posts and updates the community cable access information, and assists the public and other departments. She prepares budget proposals, handles payroll and accounts payable, and monitors department accounts under the selectmen's oversight. The executive secretary also pursues grant programs, oversees property and fleet insurances, keeps the public officials' bonds, coordinates state bid contracts, and monitors trends, costs and practices in surrounding communities.

Typically, the annual budget process begins in the fall when the finance committee distributes appropriation request forms with a cover memo and schedule of deadlines to all departments and boards. Completed forms are submitted to the finance committee, which reviews requests, holds hearings, and prepares a balanced budget proposal. Because the selectmen attend the finance committee's hearings and deliberations, the selectmen are aware of all components of the budget and generally concur with the committee's recommendations. Most often, the selectmen place the budget proposal on the town meeting warrant without changes.

According to officials, the budget process generally follows the above procedures, but from time to time changes occur as finance committee membership turns over. Generally, revenue estimates are not prepared at the onset of the budget process and the finance committee has intermittent contact

with the accountant, assessors, collector and treasurer. For the FY2011 budget process, the finance committee required budget requests in November. This caused a lot of concern from department heads because the town had not set the FY2010 tax rate, it was unknown what the FY2011 state aid estimates would be, and it was yet to be determined if the town's FY2010 budget would have to absorb mid-year state aid cuts.

In an effort to improve communication and better organize itself, the town recently formed a financial team that included only town officials and policymakers. This team held one meeting in the fall of 2009 and is next scheduled to convene in March 2010. In regards to the operating budget, there is no long-term revenue and expenditure forecasting. Capital requests are handled by the finance committee on an ad-hoc basis upon request from departments when resources are available because the town's capital improvement planning (CIP) committee is not active.

The accountant is a part-time staff member, who has evening hours because she works full-time in another community. She is available by telephone and electronic mail during the day and has a junior accountant, who works regular business hours in town hall on Thursdays and is trained to perform the duties of the office in the accountant's absence. The accountant oversees financial activity of the municipality and maintains the town's general ledger. Typical financial activities of the office include reviewing invoices and payroll; preparing biweekly warrants; producing trial balances, revenue and expenditure reports; and maintaining information on town debt. She reconciles cash monthly with the treasurer, receivables monthly with the tax collector, and grant accounts semi-annually with the school department. At the close of each fiscal year, she prepares and submits the balance sheet and year-end report of revenues, expenditures and fund balances (commonly referred to as the Schedule A) to DOR timely.

Because of the small size of the community and the low level of federal funding received, Wales is not required to have regular audits. However, the town has appropriated funding to have a FY2009 audit performed. For this engagement, the accountant has a schedule of assets that is updated annually and she is working with other town officials to compile infrastructure data, complying with the Government Accounting Standards Board (GASB) Statement 34. In addition, funding has been appropriated for an actuarial analysis to determine Wales' other post employment benefits (OPEB) potential liability in compliance with GASB Statement 45.

The assessing office is operated by an elected, three-member board of assessors, who have part-time office hours on Mondays and Wednesdays and meet Tuesday evenings. The board determines the full and fair cash valuations and classification of all property, assigns tax payments to owners, and generates the property tax and excise commitments for the tax collector. The board members conduct permit and abatement inspections, maintain the town's assessment records, process exemption and abatement applications, manage the motor vehicle excise accounts and respond to public inquiries. The assessing office maintains assessment data on approximately 1,250 real and personal properties and 3,000 motor vehicle excise accounts. In addition, the office processes approximately 50 abatements, 30 deed transfers, 20 building permits for inspections, and 20 exemptions annually.

They hire an appraisal consultant to conduct triennial revaluations for about \$2,000 and prepare interim year valuation adjustments at roughly \$500 per year. The assessors do not have a long-term cyclical re-inspection program. Instead, they complete a full measure and list of all property toward the end of every nine years based on DOR's guidelines. This was last completed in FY2005 at cost of about \$30,000.

The tax collector is an elected official. She is in the office Monday through Thursday, but does not have public hours on Thursdays so she is able to work without interruptions. She has a part-time clerk, who helps maintain the collector's receivable spreadsheets and cash book, reconciling the latter to bank statements monthly, but does not handle or post payments because she also serves as the junior accountant for the town.

The collector processes approximately 1,250 property tax bills quarterly and 3,000 motor vehicle excise bills annually and prepares about 100 municipal lien certificates each year. The collector prints and mails the property tax bills and the demand notices. She receives about one-quarter of the property tax payments through Internet and escrow (real estate taxes via mortgage companies) collection services, some motor vehicle excise payments via the Uni-Bank on-line service, and receives the remainder by mail or at the counter. All payments are posted upon receipt. Using an easy deposit machine, check payments are scanned in the office, a file is sent electronically to the bank where totals are verified and credited to the collector's account that day. Weekly, the collector prepares a turnover for the treasurer that includes a report.

Once a real estate tax bill becomes past due, the collector issues a demand notice. If the demand notice does not result in payment, the collector contacts the property owner, which generally results in payments or agreement to a payment plan contract. For the remaining outstanding parcels, she does a tax taking and turns the accounts over to the treasurer, who then uses the services of an attorney to pursue foreclosure options.

The collector uses a deputy collector to pursue delinquent motor vehicle as well as real and personal property accounts. The deputy collector also prints the motor vehicle excise bills, which are delivered to town hall for the collector to stuff and mail. All delinquent collections are deposited to the tax collector's bank account and weekly turnover reports are provided. Fees for the outside services are then paid once the payments clear at the bank.

Currently, one person serves as the elected treasurer and elected town clerk. She is available in town hall four days a week and splits her time between the two offices. She is assisted by an individual, who is sworn in as the assistant town clerk and assistant treasurer and may perform the duties of both offices in the absence of the town clerk and treasurer.

The treasurer is responsible for cash management (including the investment, disbursement and borrowing of cash), preparing the town's biweekly payroll, and administration of employee benefits. Employee files are kept in the treasurer's office but there is no central accounting of earned time of eligible employees. According to the treasurer, departments turn over revenues when received, which are then counted, deposited in the bank, and posted into the cash book. Monthly, the treasurer submits a statement of receipts to the accountant, who matches it up to the department reports and posts the

revenues to the general ledger. After receiving the monthly bank statements, the treasurer reconciles her accounts and then reconciles with the accountant's general ledger.

Because Wales does not have a formal computer services department, it uses an outside contractor for hardware and system related issues as needed. The financial offices have stand-alone systems that have Microsoft Office applications. While the computers are not networked, each has access to the Internet and e-mail services, enabling them to communicate electronically. For the use of computers, Internet and email, the community does not have user policies. The financial offices also use specialized software applications. The accountant, treasurer, and collector use Vadar System financial applications. Because the town's financial data resides on Vadar's "host" system, it is regularly backed-up and information electronically transferred between these offices. The treasurer keeps the cash book in an Excel spreadsheet. The assessing office uses the Vision computer assisted mass appraisal system. The town has virus protection for all the computers and back-ups of non-Vadar system data are conducted periodically.

The town has a website ([www.townofwales.net](http://www.townofwales.net)), which is managed and maintained by a volunteer. He relies on staff and officials to provide materials to post on the website and has instructed some to post repetitive information (e.g., selectmen's agendas) on their own. Currently, the site has forms and some policies, contact information, bylaws, on-line bill payment options, links to the regional and elementary schools' websites, only the recent annual town meeting minutes, and the next scheduled selectmen's agenda. Because some departments, boards and committees do not have their own web page and contact information and minutes are not posted, town hall staff have to field questions and respond to inquiries by telephone and at the counter.

Overall, we found the offices operate well given their limited resources and small staff. Therefore, we had few recommendations that focus more on global issue facing the town like expanding the role of the town financial team and having them meet more frequently as well as formalizing a municipal calendar for key deadlines that need to be accomplished annually. For financial planning purposes, Wales should develop a revenue and expenditure forecast, reactivate the capital improvement planning committee, and contemplate establishing special purpose stabilization funds. We also recommend that the town expand its website's content as a communication vehicle for the public and adopt a personnel by-law to formalize the framework for uniform compensation schedules for non-elected and non-union employees, policies on sick and other leave options, and rules governing employee conduct.



## RECOMMENDATIONS

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### RECOMMENDATION 1: EXPAND AND CODIFY THE FINANCIAL TEAM'S ROLE

We recommend that the town expand the role of the financial management team and codify it through the adoption of a by-law. The financial management team should include at least a selectman, finance committee member, executive secretary, accountant, tax collector, treasurer, an assessor and representative from the school business office. This team should meet at least quarterly or more frequently as issues require. The meetings should be held at a convenient time and when an agenda is set and sent, in advance with backup materials to meeting participants.

The financial team should participate in the budget planning process. Because of the limitations of Proposition 2½, the budget process should begin with initial projections of revenues. The financial team members would collectively develop preliminary revenue estimates, which would be the basis of the budgetary guidelines drafted jointly by the selectmen and finance committee for departments and boards. The financial team would revise the revenue estimates as new information becomes available. The team also should discuss contingency plans (e.g., revised spending proposals and scheduling override/debt exclusion votes) and ensure necessary actions are completed timely.

Beyond the budget process, the financial management team would compile and present comprehensive financial information to the town's policymakers, both selectmen and finance committee, on topics such as the prior year's performance, year-to-date activities, and issues as they come up. While one person would be selected to coordinate this, the members of this committee collectively should review financial documents (e.g., revenue and expenditure reports, balance sheet, cash flow statements, tax recapitulation sheet, and assets and infrastructure schedules) for completeness and accuracy.

The financial team also would ensure ongoing communication among the financial officers and institutional continuity if someone leaves. The 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. Beyond the budget process, this team would exchange information, coordinate departmental functions, discuss progress on finance-related deadlines, and identify and resolve critical issues.

### RECOMMENDATION 2: DEVELOP A MULTI-YEAR REVENUE AND EXPENDITURE FORECAST

We recommend that the town develop a multi-year revenue and expenditure forecast. One member or a sub-committee of the town's financial team should be responsible for producing the forecast, which would be based on a collection of information from all the financial offices. The forecast should span between three and five years and be updated routinely as new information becomes available. Forecasting used in conjunction with a capital plan will enable officials to evaluate

budget requests with multi-year impacts, identify programs that may not be funded or capital requests that will have to be deferred, and develop long-range financial plans. DOR has developed and made available on its website a revenue and expenditure forecasting application (see Financial Management Assistance at [www.mass.gov/dls](http://www.mass.gov/dls)) to help municipalities.

### RECOMMENDATION 3: ESTABLISH A FORMAL MUNICIPAL CALENDAR

We recommend that the financial team develop a municipal calendar that identifies key roles and deadlines that need to be accomplished each year. It would be a useful document that should be posted on the town's website for the public and given to new officials so all may become familiar with each office's responsibilities, requirements, activities that occur throughout the year. It also would help standardize the budget planning process dates. An example of such a document may be found on DOR's website in the Municipal Knowledge Base under the DLS Newsroom's Publication section at <http://www.mass.gov/Ador/docs/dls/publ/misc/municipal.pdf>.

### RECOMMENDATION 4: REACTIVATE THE CAPITAL IMPROVEMENT PLANNING COMMITTEE

We recommend that the town reactivate the capital improvement planning (CIP) committee and develop a formal multi-year capital plan for annual presentation to town meeting. As a part of the budget process, departments currently make capital requests, which are reviewed and recommended to town meeting based on available resources. A formal report of the needs and the committee's prioritized recommendations, clearly identifying deferrals due to lack of resources, should be annually updated and presented to keep residents informed. DOR has developed and made available on its website a capital improvement program planning manual (see Publications and Other Useful Links under Financial Management Assistance at [www.mass.gov/dls](http://www.mass.gov/dls)) to help municipalities.

### RECOMMENDATION 5: CONSIDER ESTABLISHING SPECIAL PURPOSE STABILIZATION FUNDS

We recommend that the town consider establishing special purpose stabilization funds under M.G.L. c. 40, §5B. Specialized funds could be created by two-thirds vote of town meeting for large projects or ongoing anticipated expenditures like the maintenance and repair of municipal buildings, creation of a vehicle replacement program, or a financing tool to fund cyclical revaluation and/or cyclical inspection programs. Given the town's limited resources, funding could be annually appropriated into one or more special purpose stabilization fund by two-thirds vote of town meeting as a part of the budget process. This would enable the town to build up the balance, encourage the town to plan long-term, and help the town to offset future debt issuances.

A second funding option is referred to as an override, but, in fact, has characteristics of both a Proposition 2 ½ override and exclusion. With a two-third vote of town meeting and subsequent voter

approval in a referendum (by majority vote), additional tax revenue can be raised above Proposition 2½ limits to fund a special purpose stabilization fund. In the years after the initial approval, the same or a lower amount can be raised again, if “appropriated” by two-thirds vote solely by the board of selectmen. After the first year, a referendum is not required, except to change the purpose of a stabilization fund, to divert a balance to another fund, or to increase the amount to be raised. This is like an override because the additional tax revenue can be raised year-after-year without further town-wide referendum votes. However, like an exclusion under Proposition 2 ½, the levy limit increase need not be permanent. It can be continued, lowered, or removed through action by the selectmen, who must make this decision every year.

Ultimately, special purpose stabilization funds are most efficient as a revenue source, or savings account, for particular purposes identified and supported by the community. For more information on multiple purpose stabilization funds, see Information Guideline Release (IGR) 04-201 under the Municipal Finance Law Bureau’s section on DOR’s website ([www.mass.gov/dls](http://www.mass.gov/dls)).

#### RECOMMENDATION 6: EXPAND THE TOWN WEBSITE’S CONTENT

We recommend that Wales populate its website with additional data and useful information. Financial and other helpful information that should be posted on the website includes, but is not limited to, the town’s budget and monthly expenditure reports, audit results, town reports, board and town meeting minutes and external Internet reference links. In addition, each department and board should post staff or committee contact e-mail addresses, hours of operation, meeting times and places, a general statement of responsibilities, forms, applications and frequently asked questions. A comprehensive and up-to-date website would help generate public awareness and confidence in government. In other communities, user-friendly and informative websites have proven successful in reducing the amount of time that town employees spend fielding questions in person or on the phone.

#### RECOMMENDATION 7: ADOPT A PERSONNEL BY-LAW

We recommend that the proposed employee handbook that is scheduled to be presented to town meeting be adopted and codified as a personnel by-law. The current proposal includes much of which is typically found in a personnel by-law. It defines different types of positions; it outlines the recruitment, hiring, discipline and termination processes; it provides the amount, duration and uses of benefits and available leave from service; and identifies standards of conduct and consequences of violations. It also includes an ethics and conflict of interest policy, complying with the new state law, and requires written acknowledgement of town personnel policies by employees and officials.

While still a work in progress, a few additional matters should be considered for inclusion. All town positions, other than those filled by election, doing similar work or having equal responsibilities should be grouped into separate, ranked classifications. Based on these groupings, a compensation

table should be adopted. This table should include minimum salaries or wage rates, provide periodic step increases based on length of service, and set the maximum compensation allowed. Increasingly, communities also are including performance evaluation procedures and acceptable Internet and e-mail use policies. And lastly, the town should specify who will maintain personal employee information in a secure and, ideally, central location. This includes the central accounting of earned leave time that should be verified before paid through the payroll and/or in the event that an employee leaves the town's or school's service and the accrued balance needs to be verified before paying it out.

## ACKNOWLEDGEMENTS

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This report was prepared by The Department of Revenue, Division of Local Services.

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