



Town of Walpole

Financial Management Update

Division of Local Services / Technical Assistance Section

March 2014



March 27, 2014

Board of Selectmen
135 School Street
Walpole, MA 02081

Dear Members of the Board:

At the request of the Walpole Board of Selectmen, the Department of Revenue's (DOR) Division of Local Services has assessed the town's progress in implementing the recommendations contained in the financial management review completed by the Division in September 2002. As part of this update, we conducted a field visit and interviewed the assistant town administrator, finance director/collector/treasurer, town accountant, IT director, town appraiser/assistant assessor, and human resource administrator. We also conducted telephone interviews with two members of the board of selectmen, the town administrator, the finance committee chair, the private auditor and sought follow-up information from finance officials. We reviewed various documents as well, including the town's annual audit and management letter comments, reconciliation reports, charter and bylaws, the balance sheet and tax recapitulation sheets.

The town has completed or made progress on all areas that were of concern in 2002. In the following paragraphs, we discuss some of the town's successes. We then focus on those recommendations that are not complete, but are considered as priorities for the town moving forward. An overall scorecard of progress on each of the recommendations contained in the 2002 report follows this letter. This ranks each recommendation based on its level of importance, completion status, future action needed, and the parties responsible for taking action.

We were pleased to see that the town has adopted a financial reserve policy and established enterprise funds for the water and sewer operations. The reserve policy has helped the community to build up its reserve levels for non-recurring and unanticipated expenditures and for use during difficult fiscal times. With the adoption of enterprise accounting for the water and sewer operations, the town monitors the total cost of each service, reviews the rate structure annually, and develops reserves for each service that is restricted in use.

The town corrected the timing of its payroll. Timesheets are submitted with actual time and attendance information, eliminating the need to make edits in the following pay period. Consequently, the accountant has time to scrutinize submissions before producing the warrant for the selectmen's approval.

The collector's role was expanded with the adoption of GL c. 41, §38A, authorizing him/her to collect all accounts due the town. Consequently, fire and police department miscellaneous receipts are now billed and collected by the collector/treasurer's office, enabling the office to identify and follow-up on amounts not paid timely. The collector/treasurer's office also now runs frequent refund reports, which allow the staff to identify credit balances that may be promptly researched and verified before being paid through the warrant process. Similarly, the collector/treasurer's office follows up on insufficient funds notices, reversing the receipt internally, notifying the accountant, and alerting any affected department.

The information technology (IT) department continues to improve and upgrade the town's computerized hardware, software, networking, and communications systems. IT centrally oversees and coordinates all technology software, hardware and consulting contracts. IT is actively involved with technology acquisitions, with software implementations, and provides user support. While a formal users group was not established, training has been provided upon request and when new applications were implemented. The town is about to implement a critical Munis update and IT is working closely with the finance offices to ensure that they have ample opportunity to work with the updates in a test environment. Once the Munis upgrade is completed, the town plans to pursue changes to its chart of accounts in response to one of the private auditor's FY2012 management letter recommendations. The current chart of accounts was established over two decades ago and the town cannot accurately and efficiently generate year end reports from the Munis system for DOR or the Massachusetts Department of Elementary and Secondary Education (DESE). Implementation of this change will require funding for outside consulting.

The assessing office implemented the 2002 recommendations. The town appraiser compares sale properties' information from the Massachusetts Multiple Listing Service and online virtual tours to property record cards for differences and then conducts field visits as necessary. The assessing office analyzes sales data and income and expense statements, making interim year value adjustments to properties and thereby maintaining current property data. The town appraiser also performs most of the permit inspections, using a contractor for some. The town appraiser reviewed data collection changes made in the computer assisted mass appraisal (CAMA) system and then assigns the grade to the property.

The town complies with the Governmental Accounting Standards Board (GASB) Statement 34. The accounting office maintains the town's capital assets and infrastructure inventory, updating it annually for additions and deletions. While not part of the original 2002 review, the board of selectmen requested that DOR comment on the town's response to other post employment benefits (OPEB), which primarily stem from future health insurance obligations. Based on an actuarial valuation (as of July 2012), Walpole had an accrued liability of between \$44.9 million (pre-funded) and \$84.5 million (pay-as-you-go). The town adopted M.G.L. c. 32B, §20, creating an OPEB trust fund, which has a balance of \$488,541 (6/30/2013). We recommend that the town make meaningful and manageable contributions to the OPEB trust fund as a part of the annual budget process in order to offset mounting liabilities. This will help sustain a good bond rating

for the town and enable it to minimize interest costs for future borrowing. The also should seek approval from the Health Care Security Trust (HCST) Board to participate in the State Retiree Benefits Trust Fund (SRBTF). The SRBTF is invested in the Pension Reserves Investment Trust (PRIT) Fund's General Allocation Account (GAA), also known as the PRIT Core Fund. This fund is professionally managed and is one of the best performing state pension funds in the country.

As for the recommendations regarding the cash book and reconciliation of cash, positive steps were taken, but then obstacles arose. The former finance director developed and maintained the cash book in Excel. However, upon his departure in March 2013, no one was fully versed on maintaining it. When the new finance director arrived in July 2013, she discovered that the cash book was not current and that in fact the general ledger and trust funds were kept in separate Excel files. Over the past eight months, the new finance director has become familiar with the organization of the cash book records and brought them up to date. She also has been working on reconciling cash with the accountant, which had been completed through December 2013 as of this writing. Going forward, the finance director plans to consolidate and simplify the operation of the cash book, as well as train her assistant collector/treasurer on how to maintain it. She and the accountant will continue working on the cash reconciliation to bring it up to date and make it a priority to complete promptly after the close of each month.

We were encouraged by the appointment of an assistant accountant, but discovered that she has not received training to perform responsibilities of the accountant in her absence. To help address this issue, the assistant accountant has just completed her first year at the Massachusetts Municipal Auditors' and Accountants' Association (MMAAA) school at the University of Massachusetts Amherst. We recommend that the assistant accountant attend the school each year and complete the certification program as well as attend other professional development opportunities when available. She should be trained to carry out all responsibilities of the accountant, thus potentially avoiding delays and interruptions in the critical work of the office in the event the accountant is not available.

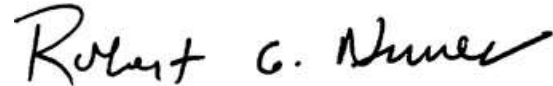
Walpole also followed DOR's recommendation by establishing a charter review committee in 2003, but the end result of a two-year process was a series of title and wording changes. The committee reported that it lacked consensus on a clear charge. Some members felt it was solely tied to DOR's recommendation while others thought it should take a broader view and look at all committees, boards and departments. It also was reported that some members of the committee were of the opinion from the start that the current governmental structure had served the town well and should not be changed.

After meeting with officials, DOR believes there are some lingering issues with regards to the charter and the town's organizational structure. In many communities, the charter has an automatic provision for the periodic appointment of a charter review committee, who would initiate a comprehensive review of said document to determine the charter's ongoing utility and accuracy. Walpole's charter does not have this provision. Given the elapsed time, growth of the community and increasing challenges facing it, DOR believes that the town would benefit from

the periodic review of its charter. A committee would be appointed to hear reports and gather information with the goal of identifying constructive recommendations that will help the town operate efficiently and effectively going forward.

We hope that this financial management update is useful to the town as it develops its financial plans and considers a future course. If we can be of any further assistance on these matters, please do not hesitate to contact Rick Kingsley at 617-626-2376 or kingsleyf@dor.state.ma.us.

Sincerely,

A handwritten signature in black ink that reads "Robert G. Nunes". The signature is written in a cursive style with a long, sweeping underline.

Robert G. Nunes
Deputy Commissioner &
Director of Municipal Affairs

cc: Senator James E. Timilty
Representative Louis L. Kafka
Representative Shawn Dooley
Representative Paul McMurtry
Representative John H. Rogers

Overall Financial Management & Budgeting

1. Review the Town Organization

Importance of Recommendation: High
Implementation Status: Partially Complete

Future Action: While the town conducted a charter review process in 2003, DOR believes there are some lingering issues that may warrant reconsideration. First, unlike other communities' charters that include an automatic provision for the periodic review of said document, Walpole's charter does not. This is one provision that a new committee should consider adding to the town's charter. It also would make sense for the committee to revisit the town's organizational structure. The committee would meet with departments and boards to: 1) hear about their missions, challenges, strengths and weaknesses; 2) contact other communities with alternate governmental structures about their experiences when putting them into place; and 3) hold public meetings and conduct surveys that would provide resident input. The committee should be made up of a mix of residents with different backgrounds and with a good knowledge of how local government works. Members should be open-minded and objective to new or different operational styles and not be predisposed to being for or against change. The committee should work towards developing recommendations that are supported by the committee as a whole and should present a written proposal to the selectmen and town meeting.

Responsible Parties: BOS, Town Meeting

2. Establish Financial Reserves

Importance of Recommendation: Medium
Implementation Status: Complete

Action Taken: The town has adopted a financial reserve policy that seeks to increase and maintain its reserves at sufficient levels to satisfy the credit rating agencies and investors in general. The policy directs the use of its reserves for capital and non-recurring expenditures, but allows its use for non-recurring revenues during extraordinary times caused by falling revenues failing to meet increasing costs. It is the town's goal to achieve a certified free cash level of not less than five percent of the operating budget. Walpole met this goal in FY2014 with a certified free cash figure of over \$5.35 million or about 6 percent of FY2014 budgeted revenues of \$88.59 million. Adding to its free cash, the town has roughly \$1.56 million in the stabilization fund, \$2.12 million in sewer retained earnings, \$1.85 million in water retained earnings, and \$488,541 in an other post employment benefit (OPEB) trust. Town officials hope to continue to maintain health reserve balances and contribute to its stabilization and OPEB funds annually.

3. Adopt Enterprise Funds for Water and Sewer Operations

Importance of Recommendation: Medium
Implementation Status: Complete

Action Taken: The town adopted enterprise accounting (GL c. 44, §53F½) for the water and the sewer operations in 2004. The town reviews user fees regularly to ensure the total cost of each service is fully funded. It maintains current listings of the fixed assets for each service. Lastly, officials monitor each service's financial position and plans for sufficient retained earnings each year for capital and operating needs.

4. Correct the Timing of the Payroll

Importance of Recommendation: High
Implementation Status: Complete

Action Taken: The town corrected the payroll process so that all employees are paid upon the completion of the work week. Timesheets are submitted that reflect actual time periods worked. The accountant now has sufficient time to review the payroll before sending the warrant to the selectmen for approval. As an added benefit, accrued available personal time is displayed on the paystub.

Information Systems

5. Make Network Manager Responsible for Contract Oversight

Importance of Recommendation: Medium
Implementation Status: Complete

Action Taken: In 2002, the information technology (IT) department (formerly information systems) had a new network manager (now called the IT director), who was improving and/or upgrading the network and reviewing applications for adequacy and compatibility. As problems and issues arose, IT became aware of them when notified. There was no central reporting requirement to IT and many technology vendor and consulting support contracts were initiated at the department level. IT was not always aware of these contracts. Today, IT now centrally administers the town's computerized systems, including the assessors' computer assisted mass appraisal (CAMA) system, is involved in technology purchasing decisions, and oversees software implementation. IT is the first "point of contact" with vendors, responds to and tracks reported issues, and obtains outside assistance for training and other issues as needed.

6. Establish a Users' Committee

Importance of Recommendation: Medium
Implementation Status: Complete

Action Taken: While a formal users group was not established, the IT director works closely with departments to streamline data entry and the exchange of information. He oversees the installation of existing software upgrades and explores new applications that may assist departments and be

compatible with the current network. He also provides training in-house or with the assistance of outside services.

Tax Collector/Treasurer's Office

7. Create and Maintain a Comprehensive Cash Book

Importance of Recommendation: High
Implementation Status: Partially Complete

Future Action: We recommend that components of the cash book be consolidated into one file or application and that the assistant collector/treasurer be trained on the maintenance of it. The cash book is a critical permanent record that documents deposits by account and date and disbursements by warrant. At the end of each month, the treasurer should internally reconcile the cash book balance against bank statements, and then externally against the accountant's general ledger. With an up-to-date, comprehensive cash book, the town will be able to identify its cash position easily at any time. With training, the assistant collector/treasurer could maintain the cash book and continue timely bank and cash reconciliations.

Responsible Parties: Finance Director and Assistant Collector/Treasurer

8. Reconcile Cash Promptly

Importance of Recommendation: High
Implementation Status: Partially Complete

Future Action: We again reiterate the second part of the original recommendation that the assistant collector/treasurer should be fully trained to assume the role and responsibilities of the finance director/collector/treasurer in her absence. In addition, we recommend that the assistant accountant also be trained in the reconciliation process so she also would be able to assume this essential duty in the accountant's absence.

Responsible Parties: Finance Director and Accountant

9. Report Insufficient Funds Timely

Importance of Recommendation: High
Implementation Status: Complete

Action Taken: When the collector/treasurer receives notice of insufficient funds (NSF) from a bank, the staff uses all remedies to collect the payment, including attempting to redeposit it and contacting offenders by letter notifying them that the payment did not clear and that an additional \$25 fee has been added to the amount due. The collector/treasurer's office reverses the tax revenue or departmental receipt payment amounts in the cash book and Munis system. In addition, the office now notifies the accountant as well as the affected department upon receipt of the insufficient funds notice.

10. Expand the Collector's Office Authority

Importance of Recommendation: Medium
Implementation Status: Complete

Action Taken: Town meeting accepted GL c. 41, §38A, creating a town collector position. As town collector, she now has the authority to collect all amounts due the town, including payments for water and sewer usage, ambulance service, and police work details.

11. Prepare Refund Reports Frequently

Importance of Recommendation: Medium
Implementation Status: Complete

Action Taken: The collector/treasurer's office regularly runs credit balance reports, which enables it to identify amounts that are then researched. Where over payments are evident, the collector/treasurer initiates refunds through the warrant process.

12. Streamline Miscellaneous Departmental Receipt Responsibilities

Importance of Recommendation: Medium
Implementation Status: Complete

Action Taken: The police and fire departments are no longer responsible for billing and collecting miscellaneous receipts, including parking tickets, ambulance receipts, and work detail accounts. As town collector, these amounts are now committed to her office and she bills and collects them. She makes sure amounts received are entered into Munis, dual recordkeeping is no longer done, and funds are deposited in the bank immediately. She monitors the age and amount of the receivable balances and pursues past due amounts through collection remedies such as license/permit denial, revocation or suspension (GL c. 40, §57) and small claims court.

Accountant's Office

13. Review & Approve Payroll Warrant

Importance of Recommendation: High
Implementation Status: Complete

Action Taken: As a result of the changes to the payroll process, the accountant has time to review the submissions before the production of the warrant.

14. Implement the GASB 34 Statement

Importance of Recommendation: Medium
Implementation Status: Complete

Action Taken: The town implemented GASB Statement 34. Annually, the accountant updates its capital assets and infrastructure inventory, which is reported in the town's financial statements.

15. Appoint an Assistant Accountant

Importance of Recommendation: High
Implementation Status: Partially Complete

Future Action: Walpole followed DOR's recommendation by upgrading the assistant to the accountant's position to an assistant accountant. However, the current assistant accountant does not yet possess the knowledge or training to fulfill the role of the accountant. The assistant accountant just attended her first year at the Massachusetts Municipal Auditors' and Accountants' Association (MMAAA) annual school. She should complete the certification program and attend other professional trainings when available. Together with instruction from the accountant, she should, over time, be better able to keep the office running in the accountant's absence as well as assume responsibility for tasks/projects that will enable the accountant to focus on higher level matters. As noted in the cash reconciliation recommendation, the assistant accountant also should be trained on the process.

Responsible Parties: Accountant and Assistant Accountant

Assessing Office

16. Inspect Sale Properties to Gain Insight to Local Market

Importance of Recommendation: Medium
Implementation Status: Complete

Action Taken: The town appraiser reviews property listings on the Massachusetts Multiple Listing Service, where he takes virtual tours of the property, reviews all photographs, and compares data to the town's property record card. He conducts field visits of new construction, any properties that have not been inspected in a while, and those with questionable sale prices.

17. Maintain Current Values

Importance of Recommendation: Medium
Implementation Status: Complete

Action Taken: Annually, the assessing office measures and lists new construction and properties having had a building permit issued, updating the parcel data that may result in additional new growth for the town. In addition, the office maintains a cyclical inspection program that involves completing an interior and exterior inspection of all town property over a nine-year period, again updating parcel data where necessary. As recommended in 2002, the assessing office also now analyzes sales data and income and expense statements in the years between the required triennial certifications and makes interim year value adjustments that reflect changes in the real estate market from the previous year. This is done in compliance with the Bureau of Local Assessment's guidelines and GL c. 59, §2A.

18. Data-Enter Property Changes In-House

Importance of Recommendation: Low

Implementation Status: Complete

Action Taken: In 2002, the bulk of the data collection work was being done by the town's appraisal contractor, who data entered changes and completed the sketches as necessary. This arrangement was convenient because the contractor was more familiar with the CAMA system. Since that time, the town appraiser now inspects the vast majority of the permits issued annually and changes are entered into the CAMA system in-house. He uses a contractor to supplement the data collection. The contractor lists, measures, and photographs the property, entering any data changes into the CAMA system. The town appraiser reviews the contractor's work and assigns a property grade to the property in CAMA.