



Town of Watertown

Financial Management Review

Division of Local Services / Technical Assistance Section

August 2013



August 15, 2013

Michael J. Driscoll
Town Manager
149 Main Street
Watertown, MA 02472

Mark S. Sideris
Town Council President
149 Main Street
Watertown, MA 02472

Gentlemen:

It is with pleasure that I transmit to you the enclosed Financial Management Review completed by the Division of Local Services for the Town of Watertown. It is our hope that the information presented in this report will assist the town in improving its financial management practices, addressing areas of concern and meeting its long-term planning needs.

Our technical assistance team welcomes the opportunity to present the report at a public meeting. As an added service, we are willing to meet with staff, earlier on the same day, to discuss implementation of the report recommendations.

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

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

Sincerely,

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

Robert G. Nunes
Deputy Commissioner &
Director of Municipal Affairs

cc: Senator William N. Brownsberger
Representative Jonathan Hecht
Representative John J. Lawn

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Introduction

At the request of Watertown's Council President Mark Sideris and Town Manager Michael Driscoll, the Department of Revenue's Division of Local Services (DLS) completed a financial management review of the town. The recommendations contained within this report are based on site visits by a team from the DLS Technical Assistance Section and Bureau of Accounts and in consultation with the Bureau of Local Assessment.

The scope of this review focused on the town's financial offices and on the practices, procedures and policies that guide municipal decisions. We examined the duties and responsibilities of finance officers and the degree of coordination and communication that exists between and among the various boards, committees and officials involved in financial management. We comment on the effectiveness of financial checks and balances and on compliance with state laws and regulations that govern fiscal matters. The municipality's technology condition was assessed and the impact of organizational structure on financial operations was evaluated.

To complete the report, we interviewed and received information from the town manager, town council members, town auditor, town assessor, information technology manager, personnel director, purchasing agent, treasurer/collector, school business services director and others. A full list is available in the Acknowledgements section of this report.

Included as part of our review, we gathered and examined information from various documents including the Tax Recapitulation Sheet, Schedule A, Balance Sheet, and Watertown's annual budget, warrants payable and revenue and expenditure reports, and reconciliation reports. We reviewed the town's charter and ordinances, locally accepted statutes, special acts, as well as the outside audit report completed by Melanson Heath & Co, and the independent credit rating reports by Moody's and Standard & Poor's.

Overview

Watertown is a suburban community on the banks of the Charles River and is bordered by Boston, Newton, Belmont, Waltham and Cambridge. Watertown is one of two communities with a land area of 4.1 square miles, making them the seventh smallest in Massachusetts. With 31,915 people (2010 US Census), it ranks as the 13th most densely populated municipality in the state.

Accessible by Interstate 90, state Routes 20 and 16, and a network of MBTA buses, Watertown is within easy commuting distance to downtown Boston and adjacent communities. Being well-located and accessible, Watertown has become a predominantly residential community (94 percent of the real estate parcels). Since 1986, condominiums were the fastest growing market and constitute the largest share of the town's housing stock (35.0 percent), followed by multi-family structures (33.4 percent), some of which were converted into condominiums (see Appendix). Single family homes comprise about 30.2 percent of the town's residential parcels, and the balance are apartment buildings (1.4 percent).

Watertown was first settled in 1630. Originally known as Saltonstall Plantation, it was incorporated in the same year and renamed Watertown. It began as an agricultural community. However, the power of the Charles River's flow attracted grist and manufacturing mills to the town. With jobs to be filled, immigrants began settling in the community. As the town developed and grew, some residents petitioned the legislature to secede. Portions of the town were annexed by neighboring Cambridge, while other parts formed the towns of Weston (1713), Waltham (1738), Lincoln (1754) and Belmont (1759). Today, Watertown's acreage is only a fraction of its original expanse.

While known as a town, Watertown's local government is structured as a city. In 1980, the Town of Watertown adopted a home rule charter, creating a council-manager form of government. A nine-member town council is elected every two years and serves as the legislative body. There are four at-large seats and four district councilors. Elected separately on the town ballot, the council president is the presiding officer of the council, is a member of the school committee, and is the official head of the town for all ceremonial purposes. The council appoints and supervises a town auditor, a clerk of the council, and a town manager, who is the chief administrative officer. The town manager is responsible for the administrative and financial affairs of most departments and non-elected boards and committees (see Organizational Chart on page 5).

As the chief administrative officer, the town manager has an extensive list of duties. He appoints staff responsible to him, subject to confirmation by council, and oversees departmental operations. He coordinates activities with agencies and elected offices not reporting to him. With the assistance of the personnel director, the manager oversees the administration of human resource matters and civil service issues. He prepares the annual budget (which includes goals and performance measurements for each department), revenue and expenditure forecasts and multi-year capital

planning programs with the assistance of the town auditor and treasurer/collector. He approves warrants, giving the treasurer the authority to release payments. He advises and keeps the council informed, making recommendations on matters he deems necessary, providing financial and administrative reports at least monthly, and publishing an annual town report. He is responsible for the maintenance, repair and use of non-school and non-library facilities, and he executes contracts and deeds, which may be subject to council approval.

The town council adopts the annual operating budget and capital outlay program, approves supplemental spending, and authorizes debt. The council has nine subcommittees¹ that review items referred to them and report recommendations back to the full council. The council has adopted policies for the administration of town government and its programs. Its financial policies include funding budgets with current revenues, using conservative revenue estimates, having reserves on hand that are seven to ten percent of the budget, and making annual capital expenditures (including debt but excluding enterprise funds) that are at least 7.5 percent of budget. These policies are supplemented with a set of annual budget guidelines ranking the council's cost-saving and spending priorities that the council adopts after the manager briefs them in the fall on Watertown's fiscal condition and provides the five-year revenue and expenditure forecast.

To ensure that fiscal stability is maintained while essential services are provided, Watertown has established strong financial management practices. The town manages its budget well and has tight financial controls in place. As required, the town annually engages a private accounting firm to conduct an independent audit of its financial statements. As a prudent measure, the town puts its audit services out to bid every three years. The council's budget and fiscal oversight subcommittee reviews the annual audit findings. In compliance with Governmental Accounting Standards Board (GASB) requirements, the town annually updates the capital and infrastructure inventory data (Statement 34) and biannually initiates the actuarial analysis of Watertown's liability for other post-employment benefits, or OPEB (Statement 45).

Watertown has had success in generating free cash and building reserves for general and dedicated purposes. Since FY2000, certified free cash has averaged over \$4.8 million annually, and only once was it below \$3 million. As of June 30, 2013, the town has a general stabilization fund (\$1.22 million). Five special purpose stabilization funds for capital acquisitions, the OPEB liability, the unfunded pension liability, the energy service company (ESCO) capital costs, and collective bargaining have a combined balance of \$5.77 million (see Appendix). With the recent conclusion of FY2013, the town is in the process of closing its books and preparing for an audit. When the balance sheet is completed, the town will seek certification of free cash, which typically occurs in the third quarter of the fiscal year.

¹ These include Budget and Fiscal Oversight, Rules and Ordinances, Economic Development and Planning, Education and School System Matters, Human Services, Personnel and Town Organization, Public Safety, Public Works, and State, Federal and Regional Government.

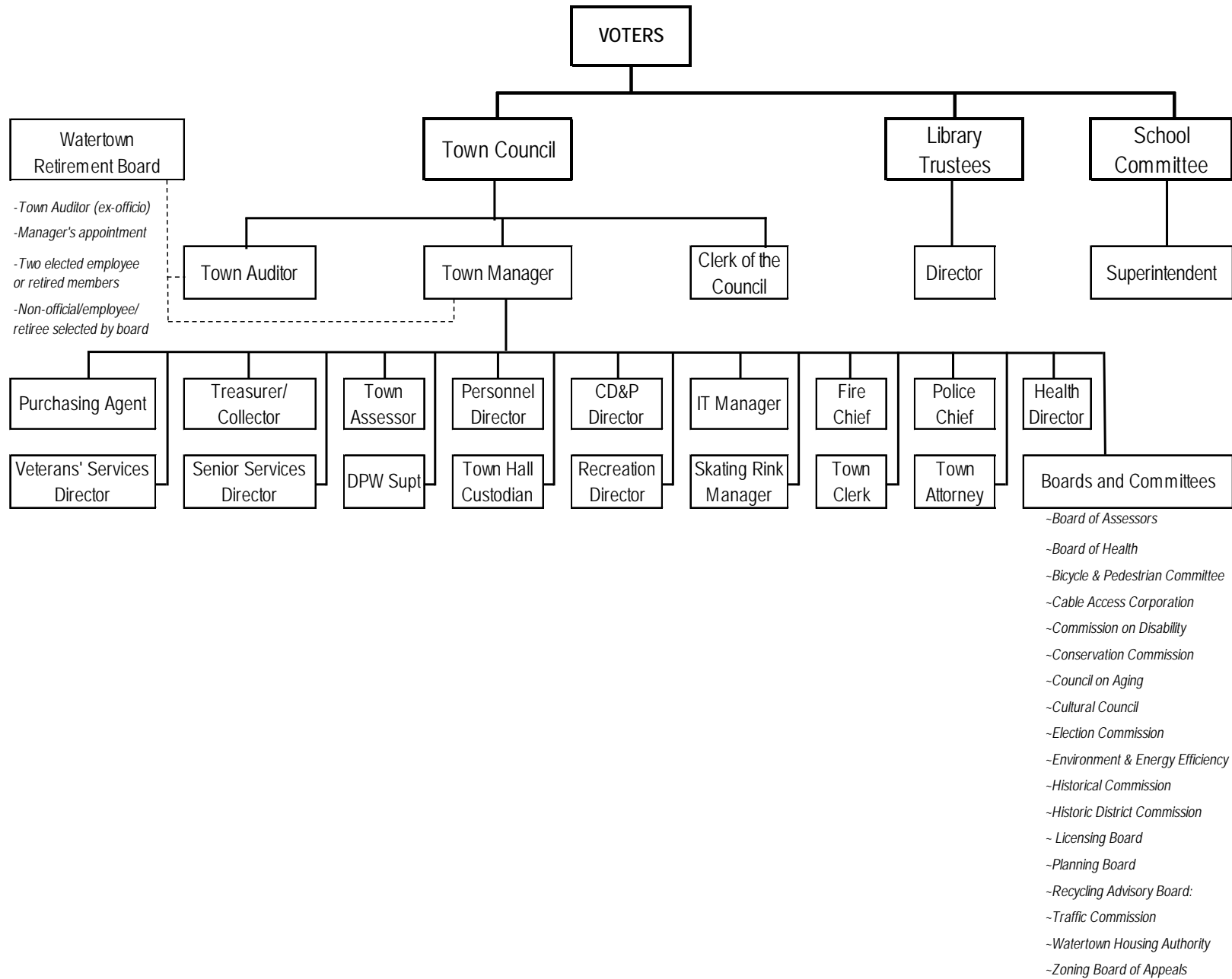
The combination of sound business practices and accumulation of reserves has resulted in ratings of Aa3 from Moody's and AA+ from Standard & Poor's. Both rating agencies cite the community's stable economic base, strong household income levels, good financial management policies, conservative budgeting practices, and manageable debt burden as positive factors. Watertown also has an accelerated pension contribution schedule that is projected to achieve full funding in FY2022, subject to future market performance, and the town has rapid debt amortization.

Since the charter was adopted, it has been reviewed every ten years. Twice, modifications have been made. However, none have involved substantive changes to the organizational structure (see Organizational Chart on the next page). More recently, the council commissioned a series of management and organizational studies. A public safety study was conducted to assess the current police, fire and dispatch services to identify potential operational improvements. The consultant, Matrix Group, prepared a report having more than 20 recommendations. Another consultant, The Collins Center for Public Management, was hired to perform two studies: one was a review of the administrative organization of the town and the other was a staffing and operational assessment of the public works department. The organizational study recommendations have been presented to the town and the public works report was recently received though not reviewed. The town also requested that the Division of Local Services prepare this financial management review. The public safety, personnel and public works subcommittees are reviewing these studies and will be reporting back to the full council.

Overall, we found that the department heads and their staff are capable and experienced. There are financial procedures and controls in place that are followed. There is long-term planning that is continually updated as new information becomes available.

In this report, our primary recommendations are to create a deputy town manager position and to consider organizing a finance department, preferably run by the proposed deputy manager. In addition, we offer other financial management recommendations aimed at fine-tuning overall and departmental operations. We recommend that the town expand the remote entry access by departments to the financial system to enter payroll, vendor payments and departmental receipts. The town's personnel ordinance should be revised, all job descriptions reviewed, and the personnel action form automated. We recommend that a third assessing board member be appointed and cyclical inspection be conducted. The treasurer/ collector's office should complete weekly statements of receipts for the town auditor, and the town should consider improvements to the accounting and oversight of the police detail agency fund.

Watertown Organizational Chart



Primary Recommendations

1. Consider Creating a Deputy Town Manager Position

We recommend that the town consider creating a deputy town manager's position. The current town manager has been employed in the town since 1977 and was appointed as the town manager in 1993. When the new form of government was implemented in FY1982, the town manager's office had an administrative assistant and oversaw a budget of over \$32 million. Today, the town manager has two confidential secretaries in his office, and the FY2013 budget was over \$115.7 million, more than tripling in size over the last three decades (see Appendix). In addition, seventeen department heads and eighteen standing committees report directly to him.

Despite budget growth and the continually increasing challenges facing municipal management, the structure of the town manager's office remains relatively the same, with only one professional position. Unlike the auditor, treasurer/collector, and assessor, the town manager does not have an assistant, who is trained on all the responsibilities of the office. In his absence, the manager appoints either the community development & planning director or the treasurer/collector to serve for brief periods of time. Of added concern are the responsibilities performed by the manager. While he has not given any indication of leaving the town's service, the council may be hard-pressed to find a replacement, who would perform all the manager's current duties without another professional position to assist in handling the workload of the office.

Adding a deputy town manager position would require creating a new position and adding the requisite salary and benefit costs to the town manager's budget to attract a professional with the necessary experience and skills to serve in this role. The deputy town manager would assist the town manager and should be assigned specific management responsibilities. For example, he/she would oversee departments or offices with similar responsibilities and services. This would improve the coordination of departments and reduce the number of direct reports to the town manager.

2. Organize a Finance Department

We recommend that the town consider organizing a finance department. Currently, the finance-related offices—assessing, auditing, collection, treasury, and purchasing—operate independently and all, with the exception of the town auditor, report directly to the town manager. A more efficient organizational model would be to have these offices combined into a finance department. The deputy town manager could be assigned the responsibility for managing the finance department operations, coordinating activities, and supervising staff. This would reduce the number of direct reports to the town manager and ensure the coordination of financial services.

Some officials have raised concerns about having the town auditor included in a finance department that falls under the town manager's oversight. They expressed apprehension because it would

eliminate perceived checks and balances between the town manager and town auditor. However, we would argue that the town auditor actively participates in the manager's budgeting and financial planning processes and therefore does not have true independency. The auditor has significant responsibilities, which if not coordinated with the other financial activities, would impact the town's operations and fiscal position. As such, the office of the town auditor should be included in the finance department. If the town were to pursue this recommendation, the inclusion of the auditor's office in the finance department would require special legislation to amend the town's charter.

However, if the town does not want to pursue the new deputy town manager position, DOR still supports the creation of a finance department. While not preferable, it would be feasible for one of the finance-related department heads to be promoted, adding the role of the finance department director to his/her current responsibilities. This would require creating the new position, but the impact of the salary increase on the town's budget would be significantly reduced.

Overall Financial Management Recommendations

During the course of this engagement, we reviewed Watertown's overall financial management practices and procedures. This included interviewing staff, observing operations, and reviewing documentation in the information technology, personnel, assessing, purchasing, treasurer/collector's, town auditor's, and school business services departments.

The information technology (IT) staff consists of a manager and a computer systems analyst. IT administers Watertown's wide-area fiber network and oversees the network security, offsite back-up systems, and a disaster recovery plan. IT offers advice on proposed software and capital purchases, provides training and computer support, and responds to hardware and software problems. IT also manages the telephone system, the website (www.watertown-ma.gov), and the wireless Internet access in council's chambers, enabling councilors to view electronically distributed information on town-issued laptops during meetings. Town departments have email capability and Internet access, employee use of which is subject to written policies. Microsoft Office applications and other specialty software also are installed on desktops. The town and school departments use Munis, a Tyler Technologies integrated financial system. The assessors use Patriot Properties' AssessPro computer assisted mass appraisal (CAMA) system for real estate and personal property. IT manages the geographic information system (GIS) in cooperation with the planning department.

The personnel department is comprised of a director and an administrative assistant. In addition, there is an intern, who provides support to the Watertown Commission on Disability. The personnel department is responsible for maintaining the official town personnel files, job descriptions, performance evaluations, and the compensation and classification plans. The department oversees the town staff attendance records, which have historically been kept manually but will be automated this year using the Munis time and attendance module. The director provides assistance and advice to department heads on personnel matters, including recruitment, selection, training, discipline, and contract interpretation. She participates in collective bargaining negotiations along with the town auditor, and she prepares personnel and compensation worksheets for town departments during the budget process. The office also oversees workers compensation and unemployment benefits as well as the sick time buyback program.

The assessing office is staffed by the town assessor, who also serves as the chair of the board, an assistant assessor, a full-time clerk, and a part-time clerk. In addition, there is a full-time clerk whose time is split with the treasurer's office. Great care is taken to limit her access in the AssessPro and Munis systems, and her work is reviewed by supervisors in order to preserve the independency and checks and balances between the two offices. The assessing office is responsible for determining full and fair cash valuations, classifying all property, assigning tax payments to owners, and generating the commitment authorizing the treasurer/collector to collect property taxes

and excise. Field work (e.g., inspections of building permit, sale and abatement properties), interim year value adjustments, and AssessPro data table updates are done in-house. Watertown contracts with Patriot Properties to collect commercial, industrial and personal property class data and to provide some assistance to the town assessor in the triennial revaluation review and analysis. The assessors' maps are digitized, updated annually by the planning department, and posted on-line along with the property record cards.

The town's purchasing department has a staff of two, the purchasing agent and her clerk. The office is responsible for overseeing town purchasing practices, disposal of unwanted surplus property, and maintenance of the town's copiers. Town departments complete a quote form for \$1,000-\$25,000 purchases and remote enter the requisition into Munis. The purchasing agent reviews each to make sure the community gets the highest quality at the best price and, if approved, forwards it to the town auditor's office, where the purchase order is produced and the funds encumbered. The purchasing agent prepares bids for construction projects and directly handles all requests that are greater than \$25,000 for both the town and school departments. The purchasing agent also serves on the town's environment & energy efficiency committee and manages the town energy service company (ESCO) project, which included an energy audit, mechanical systems upgrades, and installation of solar panels on town buildings.

The treasurer/collector's department oversees treasury, collection and parking enforcement. The office staff consists of a treasurer/collector, assistant treasurer, and five clerks (one of whom is shared with the assessors' office), who have primary responsibilities and are cross-trained. In addition, the treasurer/collector supervises two parking enforcement officers and a hearing officer.

Treasury responsibilities include managing the town's cash, debt and tax title accounts. The office staff take in departmental turnovers and print the vendor and payroll checks. The assistant treasurer reconciles cash with the town auditor's office monthly. Currently, the cash book is a combination of manual and static Excel spreadsheets. After the assistant treasurer retires this fall, the treasurer plans to transfer the cash book to the Munis system using the integrated module.

The collector's staff process property tax and combined water/sewer bills quarterly, motor vehicle and boat excise annually, parking tickets when issued, and municipal lien certificates at the time of a property sale or refinancing. The staff reconcile the receivables with the town auditor's office monthly. Watertown uses Mass Mailers, Inc. to print and mail tax and utility bills, and contracts with Kelley & Ryan to serve as its deputy collector and to print and mail motor vehicle and boat excise bills. Payments are taken in by lock box, mail, in the office, from escrow services and on-line through the town's website. The office uses the Tyler Cashiering system to collect and post tax and utility payments received in the office. Once a property tax or excise bill becomes past due, the treasurer/collector issues a demand notice, and then completes tax takings and initiates foreclosure proceedings on real estate accounts. She warrants outstanding excise and personal property to the

deputy collector. Any outstanding utility charges at the end of the fiscal year are liened on the subsequent year's real estate tax bill.

The town auditor's office oversees financial activity of the municipality, maintains the general ledger, and handles payroll as well as employee benefits administration. The town auditor supervises a staff of four: an assistant auditor, an accounts payable clerk, a benefits clerk, and a part-time payroll clerk. The auditor's office reviews and processes vendor invoices and payroll, data enters town department information into Munis, and produces warrants for the town manager's approval. The office enrolls employees and retirees in the Group Insurance Commission's (GIC) health insurance plans as well as other benefit programs. The office submits timely reports to DOR and prepares schedules for the external audit firm. The staff are cross-trained in the various functions of the office. In addition, the town auditor also serves as a member of the Watertown Retirement Board and participates on behalf of management in the town labor negotiations.

Reporting to the school committee and superintendent, the school business services office is staffed by a director, a grants administrator, an accounts payable clerk, a transportation/maintenance/hall rental clerk, a budget analyst, and a part-time payroll clerk. This office oversees the school department's budget and accounting, facilities, food services, and transportation services. The staff process payroll and vendor invoices and input them into Munis. These are approved by the school committee and the superintendent before they are forwarded to the town auditor's office for review and inclusion on the final warrant.

3. Expand the Remote Access to the Financial System

We recommend that all town departments receive training to enter payroll summaries on an exception basis into the Munis system from the office desktop computers. Currently, town departments have read-only access to their own budgets and can remotely enter purchase order requisitions into Munis. Town departments submit payroll summaries to the town auditor's office in hard copy for review and data entry to Munis. Only the school department has remote access to enter payroll, which is reviewed against backup documentation by the town auditor. With training, the remote entry of payroll would be performed by all departments. The auditor's office would then review the electronic entries against the original approved payroll summaries forwarded by each department, and, if acceptable, add them to the warrant and post them to the general ledger. Once established, the electronic transmission of financial data will greatly reduce the amount of manual entries the auditor's office is performing, thereby freeing up staff to complete other tasks and analyses.

We also recommend that all town departments receive training to enter vendor bills into the Munis system. Once town departments have been taught the remote entry of payroll, they should be trained to enter vendor payments, which the school department already does. Again, the auditor's office would review the electronic entries against the original invoices submitted, and, if acceptable,

add them to the warrant and post them to the general ledger. Delegating the data entry responsibility to the departmental level would further free up the auditor's staff time.

Finally, we recommend that the school and town departments receive instruction on the Munis remote entry for departmental receipts. At least weekly, departments prepare a turnover sheet for the treasurer/collector's staff, who data enter the information into Munis. With remote access, each department would post moneys received to the appropriate funds and revenue codes in Munis and print out the turnover sheet. The cash and turnover sheet would be presented to the treasurer's office and then a signed copy of the turnover sheet would be submitted to the auditor's office. The treasurer's staff would use the turnover sheet to verify that entries posted. The auditor should meet with each department head to review current revenue codes and to discuss potential changes if necessary. By streamlining this function, it will free up the treasurer's staff time.

4. Automate the Personnel Action Form

We recommend that the town convert the personnel action form for town employees to an electronic format. For all personnel and payroll changes affecting an employees' status, a three-part form is manually produced at the department level, reviewed by the personnel director, approved by the town manager, and entered into Munis by the auditor's office. Alternatively, the process could be done electronically. Working collectively, the personnel department, town auditor's office, and the information technology department would decide the content and design of the form. The form would be routed to the appropriate party for each required step in the process, providing an electronic signature for each official. As a final step, the electronic document complete with required signatures would be printed out and placed into the employee's personnel file.

5. Revise the Personnel Ordinance

We recommend that the town review and revise the personnel ordinance immediately. For over three decades, Watertown has had a council-manager form of government under which the manager appoints a director to oversee the town's personnel administration. However, Chapter 30 of the ordinances provides for the appointment of a personnel board by the town moderator and the adoption of the classification and compensation plans by town meeting. This needs to be revised to reflect the current town organization and personnel director's responsibilities. The ordinance should contain at least the compensation and classification plans for non-union positions, definitions, types of leave granted, overtime, fringe benefits and town policies.

6. Review Job Descriptions for All Positions

We recommend that the personnel director review all job descriptions, ensuring one exists for each position and that it is accurate and current. In reviewing job descriptions, we found that some were recently updated and others had no clear last review date. At least one position referenced the town's ordinance in lieu of a job description. We would expect a full review to be a bottom-up exercise in which staff and department heads update or create their own job description by listing what they actually do and are responsible for. The personnel director should develop and provide a

template or outline to be followed. Staff would present their work product to a department head who would then review descriptions with the personnel director. Department heads would provide their own job descriptions too. When complete, all employees will have a clear understanding of their responsibilities and the expectations placed on them, while management may discover overlapping work or gaps in job duties that would need to be corrected. Going forward, job descriptions would be reviewed periodically, revised if needed, and dated to document action.

7. Adopt Biweekly Payroll and Require Direct Deposit for All Employees

We recommend that the town adopt biweekly payroll for all town and school employees. The current payroll system is primarily weekly and only the teachers are paid biweekly. An increasing number of employers in both the public and private sectors, including the Commonwealth, compensate employees on a biweekly basis.

We recommend that the town require direct deposit of payroll for all employees. Watertown has negotiated with the unions terms that require all new employees to sign up for direct deposit. Approximately 40 percent of the town's workforce continues to receive paper checks. Direct deposit for all employees would reduce the cost of issuing checks, prevent the need to reissue checks when lost, and simplify the reconciliation of the payroll bank accounts because there would be no outstanding checks. For the employee, the benefit is that the money generally is deposited in the bank account overnight, is available immediately, and saves the time necessary to go to the bank and wait in line.

With biweekly payroll and direct deposit for all employees, staff would then be freed up to perform other activities. To implement these changes will require negotiations with collective bargaining unions and any changes should be included in the personnel ordinance.

8. Appoint a Third Assessing Board Member

We recommend that the town manager appoint a third assessing board member as soon as possible. This position has been vacant since May 2012. On the town's website, citizens interested in serving on boards, commissions and committees are encouraged to submit a letter of interest accompanied by a resume or other information concerning background or experience. As vacancies occur, positions are advertised on the town's website, on the town clerk's bulletin board, and in the local newspapers. Despite this effort, the assessor position remains vacant. One option is to actively recruit to fill the position. Using the town census listing, obtained from the town clerk, the town manager would solicit residents with professional positions in value-related activities (e.g., appraisers, engineers, realtors and attorneys) who may be interested in serving.

9. Conduct Cyclical Inspections

We recommend that the assessing office develop a cyclical inspection plan so that each parcel in the town is inspected by FY2019. The last full cyclical re-inspection program was completed in 2010 by Patriot Properties. The Bureau of Local Assessment (BLA) requires that cities and towns inspect

the interior and exterior of each residential, commercial, industrial, and tax-exempt property at least once every nine years. The commercial and industrial property data were recollected in FY2013, and some residential parcels have been revisited by the town assessor since FY2010 due to property sales, building permits and abatement applications. Watertown is predominantly residential, and the condominiums and multi-family parcels can be labor intensive to recollect the descriptive property data. A cyclical program enables the community to plan for and to spread the workload over a longer period of time, taking into account other building permit, sales and abatement inspections performed. Otherwise, if the town delays and closes in on the FY2019 deadline, Watertown would be forced to measure and list properties in a shorter period of time that may require contracting out at a higher cost.

To help complete this project, the town could hire an appraisal contractor to work on a set number of the cyclical inspections to supplement the work performed in-house. Annually, the town would budget for the fee appraisal service in the range of \$10,000-\$15,000 for example. This work would be managed closely by the town assessor to ensure his data collection standards are met.

10. Count Departmental Turnovers When Presented

We recommend that the treasurer/collector's office always count out departmental receipts turned over when presented. At least weekly, departments prepare a turnover sheet and present it, along with the departmental receipts taken in, to the treasurer/collector. If the treasurer/collector's staff is otherwise occupied with other customers, the turnover is placed in the safe and counted later. On occasion, the report has not reconciled with the funds presented, and the reporting department has to be contacted to rectify the difference. Each turnover should be counted out in the presence of the reporting department. If the treasurer/collector's office is unavailable, the department making the turnover should wait or return at a later time. If there is a variance between the report and cash and checks turned over, the treasurer/collector staff should refuse to accept the package. The department should take everything back and resubmit the turnover once corrected.

11. Complete Weekly Statement of Receipts

We recommend that the treasurer/collector complete and transmit its statements of receipts to the town auditor weekly. Currently, the treasurer/collector's office prepares a monthly statement for the auditor's office. The assistant auditor compares it against turnover reports received from departments before posting them to the general ledger. Given the amount of revenue handled by the treasurer/collector's office, it is advisable that the office prepare a report weekly. Providing more frequent cash receipts reports would enable the town to maintain a more current general ledger and readily identify variances and missing turnover reports.

12. Improve Accounting and Oversight of Police Detail Agency Fund

We recommend that the town improve the accounting and oversight of the police detail agency fund by using the Munis system to bill parties that contract for work details and transferring the collection function to the treasurer/collector's office. Over the last three years, the town has

incurred deficits—\$56,178 (6/30/10), \$63,369 (6/30/11) and \$113,926 (6/30/12)—that negatively impacted the town certification of free cash. While police detail information is sent to the payroll department for payments to the officers, the police department maintains a separate electronic billing and collection system. Consequently, the fund’s activity is not kept in Munis, the town auditor cannot monitor it and keep other officials apprised, and some outstanding charges may have become stale and possibly uncollectable. The town auditor has proposed a write-off policy, but nothing further has been done.

The town should consider billing and collecting police details in Munis. When the police department submits payroll, an accompanying commitment for police work details should be submitted to the treasurer/collector for billing and collection. This would enable the town to create an accounting of work detail charges, listing each billed amount, the responsible party, and date of the transaction. When payment is made, the treasurer/collector’s staff, who are bonded and established to receive volume collections, would accept and post the payments. It would be the treasurer/collector’s responsibility to resolve any past-due amounts by sending demand letters and initiating small claims court action. The police department should be given read access to view the billing and collections, thus enabling them to see if a particular party is current before scheduling additional work details.

The town also should consider a policy requiring the cost of police details be paid in advance. As such, a party would contact the police department, who would estimate the cost of the proposed job and draft a bill. When the estimated bill is paid at the treasurer/collector’s office, a receipt would be issued and the work detail scheduled. Monthly, the treasurer’s office would review the status of all work details, comparing the pre-payments against the charges submitted to the auditor’s office. If an advanced payment is less than the actual cost of the service then a balance due bill would be issued and collected timely, avoiding growing outstanding charges that could become uncollectible. Conversely, if the pre-payment exceeds the cost of the job, the treasurer/collector would issue a refund.

13. Consider Using Munis Excise Collection Application

We recommend that the town consider using the Munis excise collection application. While the town has the Munis excise collection software application, the staff use Kelley & Ryan’s excise collection system. Because the receivable detail resides outside of the Munis system, excise collections do not run through the Tyler Cashiering system. A batch report of receipts from the Kelley & Ryan excise system is processed as a department turnover by the treasurer and keyed into Munis. Switching to the Munis integrated application, the deputy collector would still print and mail the bills. However, Kelley & Ryan would provide a commitment file that would be uploaded to Munis, which would be used to post payments to individual accounts. The treasurer/collector’s staff would be able to use the Tyler Cashiering system to scan the bills, to post payments, and to capture check images, which cannot be done with the off system collection program.

14. Require Departments to Submit All Contracts

We recommend that copies of all contracts, including grants, be submitted to the town auditor's office in compliance with Article 2, Section 2-7 of the town charter and M.G.L. c. 41, §57. While the auditor has town department contracts, he does not always receive all school contracts and grant agreements. All departments (including the schools), boards and commissions that enter into contracts or receive grants must submit them to the town auditor's office. With valid copies on file, the town auditor's staff will be able to verify that the terms of the contract or grant are met when reviewing payment requests. If a bill is submitted for payment and the contract or grant that contains information relating to payment terms is not on file, the town auditor's office cannot process the payment request until said contract or grant is presented.

We also recommend that the town auditor consider scanning all contracts and grants and placing them in a shared drive on the network. This will enable the town to store and easily retrieve contract and grant information as well as identify missing items.

15. Streamline the Student Activity Accounting

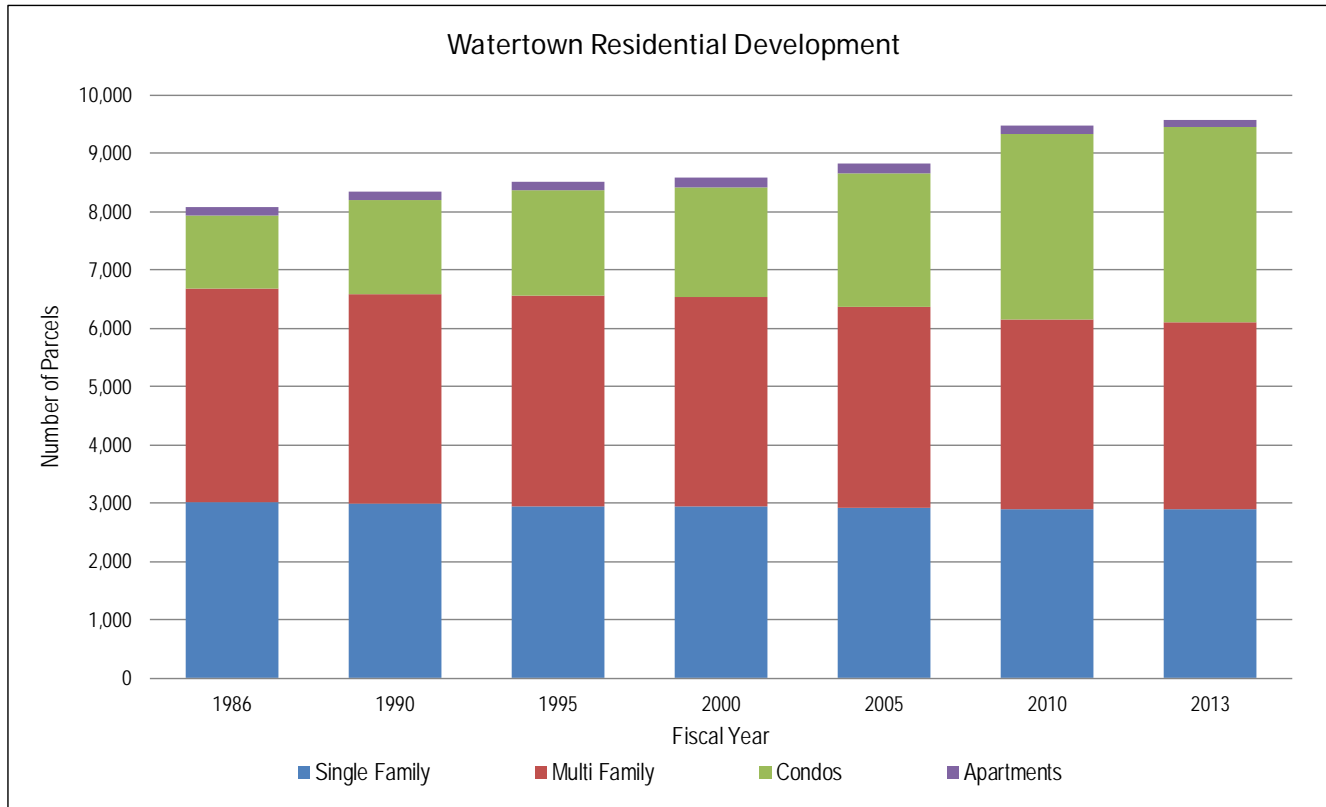
We recommend that the school business services office simplify the record keeping system for student activity accounts. In response to an embezzlement case at the middle school, the town and schools tightened up processes and procedures to improve accountability. Each of the five schools handles money related to organized student activities. Each activity's advisor prepares a detailed report of the amounts taken in, presents it to the principal for review and approval, and turns the report and the funds over to the school business services office within a week. The funds are counted and, if they agree with the report, are turned over to the treasurer/collector's office for deposit at the bank and posting into Munis. Any expenditure relating to an activity is submitted to the school business service office for review and entry into Munis and paid through the warrant process. To track each activity and reconcile to Munis revenue and expenditure reports, the school business office maintains off-system records in Quicken and Excel, which are redundant and time-consuming to maintain. The private auditor is just completing a special assignment to review these funds. Based on the results, the school business services office should discuss with the private auditor the preferred way to manage and account for these funds without having to keep multiple off-system applications.

16. Reconsider Providing Insurance Benefits to Elected Officials

We recommend that the town review its practice of allowing certain elected officials to enroll in its insurance programs. According to M.G.L. c. 32B, §2(d), an "employee" eligible for healthcare benefits is one that receives either a salary or stipend and works at least 20 hours per week. Paid elected officials, however, have no minimum hourly requirement to qualify. Once "vested" in the retirement system, that employee is eligible for retirement benefits, including healthcare, at a significant cost to the municipality. Currently, some councilors and school committee members are enrolled in the town's health insurance plan at an FY2014 estimated expense of over \$75,000.

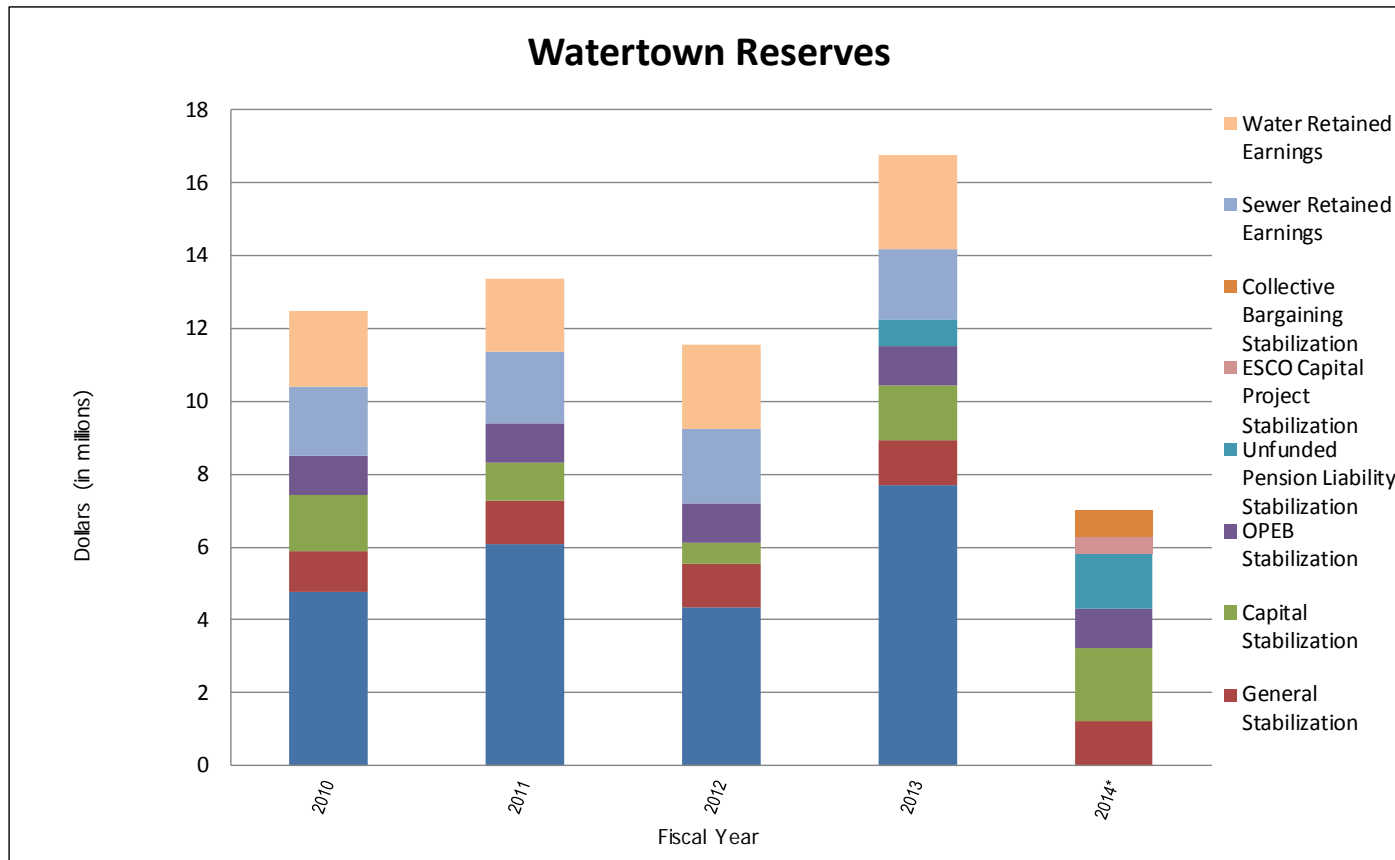
Therefore, the town should consider its current liability and the long-term impact of providing health insurance to elected officials. With a city form of government but not a mayor, town officials should consult with town counsel to determine who is responsible for setting this policy under the charter.

Appendix



<u>Fiscal Year</u>	<u>Single Family</u>	<u>Multi Family</u>	<u>Condos</u>	<u>Apartments</u>
1986	3,028	3,647	1,249	149
1990	2,981	3,601	1,616	156
1995	2,955	3,602	1,804	154
2000	2,943	3,582	1,897	154
2005	2,925	3,431	2,311	150
2010	2,895	3,265	3,183	134
2013	2,899	3,203	3,349	131

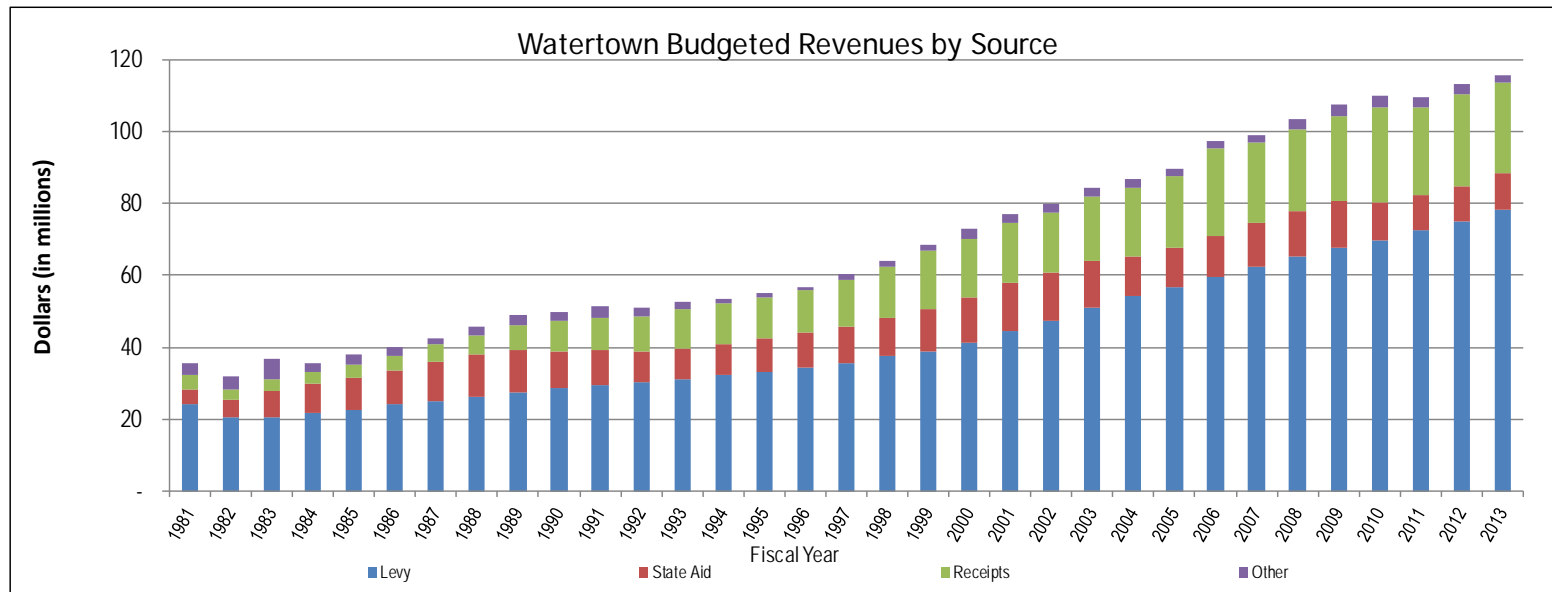
Source: Massachusetts Department of Revenue, Division of Local Service, Data Bank reports



Fiscal Year	Free Cash	General Stabilization	Capital Stabilization	OPEB Stabilization	Unfunded Pension Liability Stabilization	ESCO Capital Project Stabilization	Collective Bargaining Stabilization	Sewer Retained Earnings	Water Retained Earnings	Total
2010	4,753,849	1,146,876	1,545,674	1,065,905	0	0	0	1,898,987	2,063,096	12,474,387
2011	6,075,642	1,201,566	1,054,320	1,071,867	0	0	0	1,938,600	2,025,492	13,367,487
2012	4,333,181	1,213,615	557,865	1,075,446	750,000	0	0	2,040,313	2,316,750	11,537,170
2013	7,694,406	1,224,655	1,501,623	1,077,724	750,000	473,257	710,000	1,919,840	2,579,910	16,748,158
2014*	na	1,219,562	2,004,528	1,079,878	1,503,104	473,257	710,000	na	na	6,990,330

Source: Massachusetts Department of Revenue, Division of Local Service, Data Bank reports and town auditor's reports

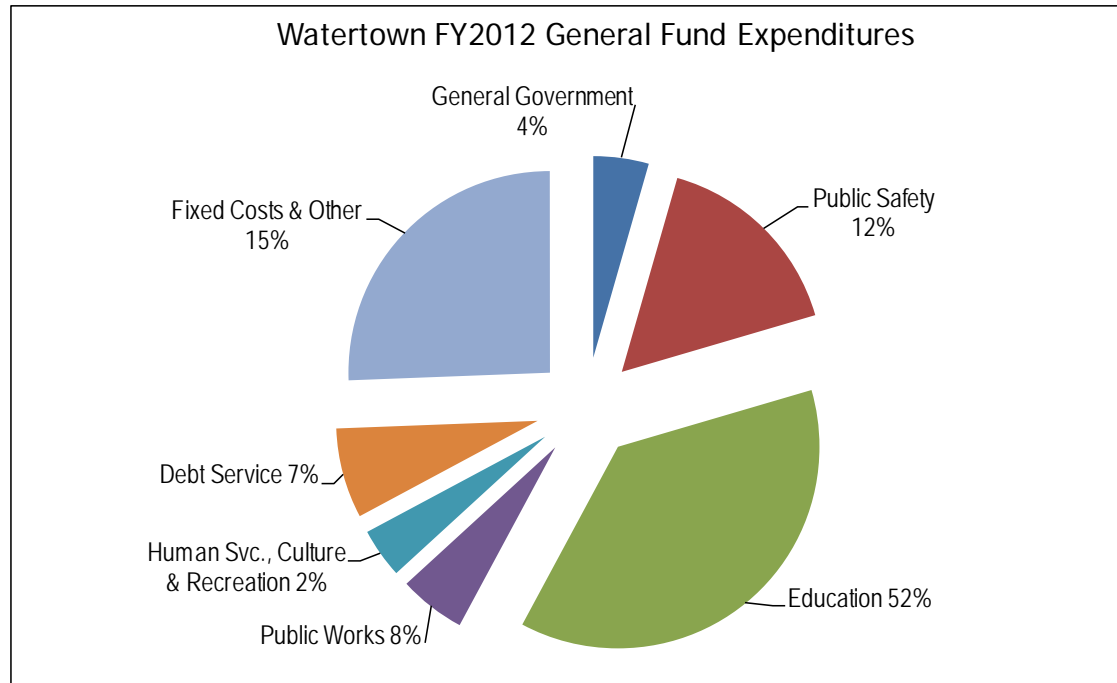
* Due to the timing of this report, Watertown is in the process of closing its books. It has not prepared the balance sheet for submission to DOR for certification of free cash or enterprise funds' retained earnings.



Watertown Budgeted Revenues by Source

Fiscal Year	Levy	State Aid	Local Receipts	Other	Total	Fiscal Year	Levy	State Aid	Local Receipts	Other	Total
1981	24,214,769	4,079,281	4,032,500	3,096,116	35,422,666	1998	37,691,567	10,312,644	14,406,437	1,652,000	64,062,648
1982	20,574,462	4,762,611	2,900,000	3,853,818	32,090,891	1999	38,945,631	11,856,507	16,143,869	1,650,000	68,596,007
1983	20,440,602	7,607,473	3,002,000	5,713,939	36,764,014	2000	41,258,266	12,407,019	16,528,851	2,600,000	72,794,136
1984	21,742,558	8,006,287	3,400,000	2,547,717	35,696,562	2001	44,600,121	13,168,884	16,708,860	2,472,125	76,949,990
1985	22,715,509	8,910,010	3,450,000	2,876,403	37,951,922	2002	47,383,825	13,317,123	16,622,220	2,682,600	80,005,768
1986	24,231,467	9,358,477	3,977,707	2,611,497	40,179,148	2003	50,894,357	12,934,733	18,233,456	2,410,000	84,472,546
1987	25,188,690	10,803,267	4,708,400	1,596,902	42,297,259	2004	54,345,745	10,978,539	19,043,169	2,230,000	86,597,453
1988	26,315,541	11,571,124	5,249,000	2,648,937	45,784,602	2005	56,885,844	10,966,066	19,574,869	2,257,990	89,684,769
1989	27,420,588	11,684,454	7,217,995	2,719,918	49,042,955	2006	59,585,238	11,416,427	24,103,254	2,352,954	97,457,873
1990	28,587,108	10,083,715	8,769,609	2,231,109	49,671,541	2007	62,224,126	12,246,447	22,247,261	2,245,000	98,962,834
1991	29,553,915	9,682,200	8,915,250	3,448,047	51,599,412	2008	65,035,715	12,599,983	23,041,865	2,662,000	103,339,563
1992	30,432,644	8,258,741	9,910,223	2,567,949	51,169,557	2009	67,547,778	12,991,546	23,845,190	3,090,000	107,474,514
1993	31,284,656	8,379,905	11,123,329	1,923,193	52,711,083	2010	69,789,887	10,642,170	26,159,060	3,115,000	109,706,117
1994	32,236,882	8,719,502	11,112,951	1,458,409	53,527,744	2011	72,331,734	10,062,057	24,278,707	2,635,000	109,307,498
1995	33,313,096	9,131,119	11,275,226	1,175,781	54,895,222	2012	75,082,744	9,644,420	25,497,678	2,729,100	112,953,942
1996	34,382,955	9,715,238	11,831,392	872,781	56,802,366	2013	78,371,419	10,165,988	24,790,451	2,375,000	115,702,858
1997	35,765,373	9,924,256	12,939,447	1,623,756	60,252,832						

Source: Massachusetts Department of Revenue, Division of Local Service, Data Bank reports



Fiscal Year	General Government	% Total	Public Safety	% Total	Education	% Total	Public Works	% Total	Human Svc., Culture & Recreation	% Total	Debt Service	% Total	Fixed Costs & Other	% Total	Total Expenditures
2000	2,577,626	4.1	10,020,561	16.1	23,249,035	37.3	5,928,882	9.5	2,522,954	4.0	4,316,793	6.9	13,686,375	22.0	62,302,226
2001	2,820,690	4.3	10,453,725	16.0	24,127,224	36.9	7,144,271	10.9	2,403,017	3.7	4,028,504	6.2	14,333,631	21.9	65,311,062
2002	3,037,113	4.5	11,270,477	16.5	25,446,330	37.3	6,606,945	9.7	2,669,901	3.9	4,838,748	7.1	14,328,721	21.0	68,198,235
2003	3,176,829	4.4	12,853,809	17.7	26,055,151	35.8	6,870,271	9.4	2,677,957	3.7	4,817,784	6.6	16,286,699	22.4	72,738,500
2004	3,223,881	4.4	11,828,822	16.3	26,790,319	36.9	6,687,320	9.2	2,683,852	3.7	4,334,601	6.0	16,990,121	23.4	72,538,916
2005	3,136,875	4.0	12,524,043	16.1	28,670,719	36.8	7,490,803	9.6	2,672,692	3.4	5,382,069	6.9	18,059,557	23.2	77,936,758
2006	3,831,341	4.8	13,305,911	16.5	28,348,429	35.2	7,153,439	8.9	2,822,366	3.5	5,182,150	6.4	19,965,565	24.8	80,609,201
2007	3,645,860	4.3	13,087,570	15.5	29,348,491	34.8	7,517,692	8.9	3,012,967	3.6	5,507,032	6.5	22,101,099	26.2	84,220,711
2008	3,918,485	4.4	14,103,664	16.0	30,345,050	34.4	8,201,467	9.3	3,388,319	3.8	6,075,457	6.9	22,206,345	25.2	88,238,787
2009	3,801,065	4.1	17,134,309	18.6	31,317,146	33.9	8,964,917	9.7	3,418,722	3.7	5,045,298	5.5	22,647,144	24.5	92,328,601
2010	3,954,119	4.6	14,175,102	16.3	32,927,685	37.9	4,688,287	5.4	3,473,331	4.0	6,610,727	7.6	21,058,008	24.2	86,887,259
2011	3,835,795	4.2	14,494,722	15.9	33,470,005	36.8	6,055,120	6.7	3,472,430	3.8	6,907,661	7.6	22,784,136	25.0	91,019,869
2012	4,028,273	4.4	14,513,770	16.0	33,887,665	37.4	4,838,216	5.3	3,603,599	4.0	6,539,019	7.2	23,202,546	25.6	90,613,088

Source: Massachusetts Department of Revenue, Division of Local Service, Data Bank reports. These figures do not include enterprise funds.

Acknowledgements

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John Donohue, Town Councilor	Marsha Osmond, Confidential Secretary
Susan Falkoff, Town Councilor	Francis Golden, Assessor
Anthony Palomba, Town Councilor	Joseph Malay, Assistant Assessor
Angeline Kounelis, Town Councilor	Irene Frain, Clerk
Cecilia Lenk, Town Councilor	Cleo Poravas, Clerk
Vincent Piccirilli, Town Councilor	Phyllis Marshall-Hartman, Treasurer/Collector
Kenneth Woodland, Town Councilor	Barbara White, Assistant Treasurer
Thomas Tracy, Town Auditor	Kathleen Morrison, Parking Clerk
Sharon Gallagher, Assistant Auditor	Kellie Connelly, Clerk
Patricia Bernier, Clerk	Danielle Foley, Clerk
Joanne Johnson, Clerk	Karen Norton, Clerk
Diane Ryan, Clerk	Barbara Zuccala, Clerk
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Kerrilyn Daley, Clerk	Raeleen Parsons, Purchasing Agent
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Jae Smith, Clerk	Jay Pelletier, Water & Sewer Superintendent
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George Skuse, School IT Manager	Mary Haley, Clerk
Gayle Shattuck, Town Personnel Director	Frances Leonardi, Clerk
Maureen Aquilano, Administrative Assistant	Lori Moran, Clerk