



Town of Middleborough

Financial Management Review

Municipal Data Management and Technical Assistance Bureau

May 2007



Introduction

At the request of the board of selectmen, the Department of Revenue's Division of Local Services (DLS) has completed a financial management review of the Town of Middleborough.

We have based our findings and recommendations on site visits by a team consisting of staff from the Division's Bureau of Accounts (BOA), Bureau of Local Assessment (BLA) and Municipal Data Management & Technical Assistance Bureau (MDM/TAB). During these visits and by telephone, the team interviewed and received information from the members of the board of selectmen and the finance committee, the town manager, town accountant, treasurer/collector, assessor/appraiser, as well as other staff members, as available, in each office.

DLS staff examined such documents as the tax recapitulation sheet, warrants, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness, the town charter and by-laws as well as other assorted financial records. Other documents reviewed included the MDM/TAB "Revenue & Expenditure Forecast FY2001-2005, Town of Middleborough" (February 2000), the MDM/TAB "Data Processing Study" (January 1995), Town of Middleborough "Indirect Cost Report" for Fiscal Year 2006, the independent audit for FY2004 completed by Thevenin, Lynch, Bienvenue, LLP, and the independent audit for FY2005 completed by Melanson Heath and Company, PC.

In reviewing the town's financial management practices, we have focused on: (1) town government structure in the context of the duties and responsibilities of financial officers; (2) the town's budget, warrant and capital planning processes; (3) the degree of coordination and communication that exists between and among boards, officials and staff involved in the financial management function; and 4) the general efficiency of financial operations measured by the town's success in maximizing resources and minimizing costs.

We encourage the members of the board and others, 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 town boards, committees and officials.

Executive Summary

The Division of Local Services typically conducts financial management reviews in instances where help is sought to resolve a particular problem, or where an overall evaluation of financial operations is desired. In Middleborough, the board of selectmen made a formal request that the Division review the town's organizational structure, practices in each financial office, effectiveness in the use of technology, and budget process.

The "Cranberry Capital of the World", Middleborough is located in an area of southeastern Massachusetts famous for its numerous cranberry bogs and the annual harvest of cranberries. The town shares the worldwide headquarters of Ocean Spray with neighboring Lakeville. The largest taxpayer, however, is the Christmas Tree Shops company, which runs a major distribution center in town. In FY2007, the budget totals \$64.3 million as indicated on the tax rate recapitulation sheet approved by the Department of Revenue. Transportation amenities include access to I-495 at several nodes and commuter rail access to Boston via the MBTA station near the border with Lakeville.

At nearly 70 square miles, Middleborough has the second largest land area of any municipality in the Commonwealth. However, with 21,121 residents (2004 estimate) the population density of the town (303.7 per square mile) is in the lower half of the state's rankings. The combination of these demographic characteristics makes for a unique setting.

The legal framework for financial management in Middleborough is established in the town charter and in relevant town bylaws. The board of selectmen acts as head of the executive branch of government and appoints a town manager to assist in integrating policy into day-to-day operations. The town accountant is appointed by the board of selectmen and oversees the accounting office. The treasurer/collector is a full-time elected official who directly manages the collections and cash management activities of her staff. Operations in the assessing office are overseen by an assessor/appraiser who reports to a part-time, elected board of assessors. There is a finance committee and a capital planning committee, which annually review budgets and capital requests, respectively, and recommend action to town meeting. Unique to Middleborough is the recent establishment of a multi-board working group, the collaborative leadership group (CLG), to bring focus to, and improve communication on financial issues. The CLG is comprised of members appointed by the selectmen, finance committee, and school committee. The town manager and town accountant provide analytical support to the group.

Throughout our evaluation of the town, there were several findings that we consider noteworthy. Apparent was the decentralized authority in financial operations, the continuously incremental approach to fiscal management, and the need to reconsider allocation and use of town resources. Therefore, the report is designed to provide town officials with recommendations that, if implemented, will: 1) build capacity to enhance accountability and communication within government; 2) institute financial planning and emphasize the importance

of sustainability in light of revenue constraints; and 3) enhance government performance through workflow efficiencies.

The first major theme of our report is improving accountability and communication. With too many residents to be characterized as a “small town” relative to other municipalities, Middleborough provides services at a level consistent with other mid-sized communities. Town government relies on a workforce that is more than sufficient to support these operations, but it is organizationally decentralized. Consequently, governance and administration lack the internal collaboration and structural accountability typical of similarly sized jurisdictions.

This was not always the case. The history of professional management in Middleborough dates back to 1921 when the town achieved recognition from the International City/County Manager’s Association (ICMA). The town charter, which defines the roles and duties of the town manager, was first enacted as Chapter 592 of the Acts of 1920. This was a very bold and innovative step for a community and demonstrates that, at one time, Middleborough embraced a very forward thinking approach toward government administration.

Today, as a general observation, the fiscal decision making process in town government relies on the ability and willingness of town officials to achieve consensus – which is sometimes elusive. The governance model is outdated, yet, the town has been able to manage in spite of its organizational deficiencies. This principal is demonstrated, and in some ways personified, by the current town manager. While possessing little in the way of formal authority in charter compared to his peers in other communities, the town manager possesses vast institutional knowledge and is granted substantial deference in decision making beyond his enumerated powers. However, the current town manager will be retiring at the end of June. Since a new town manager will be saddled with all the formal short-comings of the position without any of the informal advantages cultivated over time by the incumbent, we are concerned that the town may not be prepared for the current manager’s departure.

Experienced, high quality town managers are attracted to those communities that offer the greatest opportunity to take control and direct municipal operations. Middleborough’s ability to offer such opportunities to an otherwise interested applicant is handicapped by the decentralized financial management structure discussed throughout our report. While the search for a new town manager is well underway, the ability to engage the best candidate may be contingent on the selectmen’s willingness to bolster the position’s formal authority.

Therefore, to sustain itself as an institution, in more ways than one the town must embrace the philosophy of its forbearers. As a matter for future endeavor, the town may want to consider establishing a charter review committee or town government study committee to evaluate alternative structures that will best serve the community. In the absence of such a committee, we offer recommendations for various changes to town government within our report.

Of additional importance is the natural tendency of decentralized organizations to stray from, or not implement, uniform policies and procedures. Middleborough is no exception.

Several comments in the management letter produced in conjunction with the town's FY2005 audit corroborate our observation that administrative coordination of financial policies and uniform procedures is lacking. The management letter implies that a uniform manual of financial procedures would be helpful. We agree. However, the core issue in our opinion remains the lack of day-to-day accountability among town hall staff to a central authority.

The second major theme in this report is the lack of long-term financial planning and budgetary sustainability. There is little coordination or financial planning beyond one fiscal year. Furthermore, while individual departments function well internally, and to some degree in isolation, any town-wide or collaborative activity of a financial nature rarely exceeds minimum requirements. For instance, the town, as required by law, balances its budget before setting a tax rate, but it does so by scrambling to find resources at a special town meeting in the fall. The town accountant, as required by law, issues year-to-date expenditure reports to departments once a month, but there is no accompanying projection provided to policy makers analyzing the probability of surpluses or deficits.

Lack of financial coordination and planning manifests itself in several negative ways. Most obvious is the continuous reliance on one-time revenues to fund ongoing expenses. The town has exhausted its available free cash and has divested itself of other community assets in order to generate enough revenue to fund operations in a given fiscal year. As a result, financial reserves are very low and the structural deficit of the budget is of such magnitude that the perpetual projection of annual shortfalls seems never ending. At one point during our review, the town manager estimated a shortfall of over \$4 million in FY2008. While that amount has been reduced, at the time this report is being written, the FY2008 budget still requires either drastic cuts in services and staff or a large Proposition 2 ½ override to be brought into balance. To help address budget problems, the selectmen recently approved auctioning 35 parcels of town-owed land.

A third theme is improved workflow and efficiency, which we have identified less as a coherent thread throughout overall town government and more as department-by-department opportunities. In the assessors' office, we believe there are opportunities to improve workflow through segregation of staff duties. Throughout town hall, increased reliance on technology and personnel training on software modules both promise to save valuable staff time.

Conclusion – There are relatively few department-specific recommendations which reflects our findings that departments, as self-contained organizational units, generally perform duties in a professional and competent manner. Finance departments function well, and individual managers and staff perform their routine duties effectively and in accordance with the law.

By contrast, the numerous recommendations related to overall financial management are indicative of an organization that lacks a coherent fiscal focus. Within the current decentralized environment, interdepartmental and town-wide vision is lacking. As a result, the overall

financial position of the town suffers. Reserves are thin due to persistent reliance on one-time revenue sources. Broader matters of policy, specifically the budget process, warrant attention.

To address these issues, recommendations are made to consolidate authority in the town manager as a means of bringing needed coordination to government-wide activities. These recommendations reflect the bias of DOR, favoring a more centralized organizational structure and a point of view derived from observing the collective experience of Massachusetts municipalities. Over time, a single management presence has emerged as an important way to promote clear lines of authority and accountability in government.

Equally important, a fully empowered town manager position will better enable the town to attract and retain highly qualified, professional candidates for the job. When that person arrives, and for the town to benefit, the board of selectmen will need to demonstrate its commitment to a central management structure by relinquishing certain previous involvements, by viewing the town manager as a resource, and by publicly supporting the town manager's authority to take action.

Summary of Report Recommendations

Overall Financial Management (page 6)

- 1) Delegate Appointment and Other Authority to the Town Manager
- 2) Conduct Monthly Meetings of the Financial Team
- 3) Avoid Use of Non-recurring Revenue for Recurring Costs
- 4) Perform Multi-Year Revenue/Expense Forecasting
- 5) Initiate Finance Committee Budget Presentation to Annual Town Meeting
- 6) Conduct Quarterly Revenue and Expenditure Projections
- 7) Develop a Manual of Uniform Financial Procedures
- 8) Limit Budget Appropriations to Annual Town Meeting
- 9) Limit Town Meeting Budget Transfers
- 10) Convert to Quarterly Tax Billing
- 11) Develop Formal Reserve Policy
- 12) Convert to Bi-Weekly Payroll
- 13) Conduct Actuarial Analysis of Other Post-Employment Benefits (OPEB) Liability

Information Technology (page 16)

- 14) Shift Information Technology Director
- 15) Develop a Plan to Enhance Utilization and Integration of Financial System
- 16) Enhance Information Availability on the Town's Website

Accountant (page 19)

- 17) Provide for Fixed Assets Tracking and Financial Reporting
- 18) Centrally Track Leave Balances

Treasurer/Collector (page 21)

- 19) Complete Implementation of Lock-Box

Assessors (page 23)

- 20) Conduct Building Permit Inspections Monthly
- 21) Require Electronic Submission of Plans

Overall Financial Management

A review of the town's overall financial management practices focuses on the procedures in place to accomplish tasks that typically cross over various municipal departments, as well as those that tend to impact town government on a global basis. Accordingly, we examined the budget process and the payroll and vendor warrant processes. We looked at long-term planning, financial monitoring practices and financial policies, as well as the effect of the town's organizational structure on the operation of government. We contemplated the town's current operations in contrast with "best practices" recommended by the Department of Revenue (DOR) and observed in other communities. We considered the roles and relationships among individuals together with the level of communication and cooperation that exists among offices. Finally, we reviewed local compliance with state laws and regulations relating to finance issues, adherence to acceptable form, and to timetables for the submission of periodic reports to DOR.

Middleborough operates under a town charter, where a board of selectmen functions as the executive and town meeting is equivalent to the legislative branch of government. The town manager, whose primary duties are established in the charter, oversees the day-to-day management of those municipal offices that report to him. In spite of the current manager's ability to coordinate town activities, the formal authority of the position as established in charter is uncharacteristically weak compared to other communities. His staff consists of one assistant. The board of selectmen also appoints a full-time secretary, who reports directly to the board, not the town manager.

There is a town accountant who is appointed by the board of selectmen and oversees the staff of the accounting office. There is an elected treasurer/collector who manages the functions and staff of her office. The assessing office is accountable to an elected board of assessors, who appoint an assessor/appraiser to manage day-to-day operations.

The board of selectmen has primary responsibility for developing the annual budget within a timeframe guided by town charter and by-laws. Unlike the budget process in most communities, Middleborough routinely uses a special town meeting in the fall to balance the budget. At the fall special town meeting in 2006, members voted to add approximately \$1.5 million to the budget approved at the annual town meeting, all but \$327,000 of which is funded through one-time revenue. By the time the town submitted its FY2007 Tax Recap Sheet, for tax rate approval, Middleborough had appropriated all of its available free cash.¹

To further complicate matters, the use of a special town meeting to balance the budget creates the expectation that budget fixes will be found to accommodate departmental spending. Past experience has taught cynical observers that solutions to budget woes seem always to be available, yet are undisclosed in the early stages. Regardless of whether these conclusions are

¹ It should be noted that there are no available estimates on the amount of free cash that will be generated in FY2007 (if any) as a result of revenue in excess of budget or departments spending less than town meeting appropriations.

valid or not, as a result of such practices, the credibility of all involved in the budget process suffers.

Conclusion – Departments complete routine, recurring tasks such as the production of payroll and vendor warrants. However, of acute concern is the reliance on short-term solutions to balance the budget, particularly the use of free cash and other one-time revenue sources (e.g., the sale of town-owned land). Reliance on such sources has kept Middleborough from maintaining its financial reserves, which is one measure of a community's fiscal health, at a level comparable to those municipalities with similar credit ratings. Disquieting, as well, is the inability of the town to conduct and coordinate fiscal planning and analysis in a way that fosters structural balance and income sustainability. However, while these are all serious issues, they are merely symptomatic of a series of structural flaws, most notably the lack of formal authority vested in the position of town manager.

Recommendation 1: Delegate Appointment and Other Authority to the Town Manager

We recommend that the board of selectmen restructure the town manager's position to give it more authority. The town is in the process of recruiting candidates to replace the current town manager who is leaving office at the end of the fiscal year. While the incumbent is able to function effectively as a result of the deference granted him through longevity in office and personal reputation, the next town manager will not have the same luxury. To attract and engage the best possible town manager candidate, the selectmen should consider the most effective way to bring focus to bear on financial management and centralized decision-making. Toward this end, listed below is a sample of steps the selectmen can take to help strengthen the town manager position.

- Delegate appointing authority so that finance officers, including the accountant and other department managers, are appointed by and report to the town manager;
- Assign the town manager responsibility to complete regular performance evaluations of all department heads and require all department heads to routinely evaluate their staff;
- Assign the town manager responsibility to complete multi-year revenue and expenditure projections, and to develop the town operating and capital budgets;
- Assign the town manager the responsibility to perform impact analysis on proposed labor agreements and incorporate assumptions into a budget forecast;
- Require the town manager to be actively engaged in labor negotiations and attend all executive sessions of the board of selectmen;
- Assign to the town manager day-to-day oversight of a unified town manager/board of selectmen office.

We further recommend that the town seek to amend its charter to solidify enhancements to the town manager's authority. While delegation of authority by the selectmen would be a positive first-step, it should be regarded as a temporary measure. Long-term stability and continuity in government operations are better achieved when provided for in a charter. A charter is also a preferred means of consolidating appointing and administrative authority in the town manager over all other positions within town government, including the assessor/appraiser and the treasurer/collector.

Under the Home Rule Amendment to the Massachusetts Constitution (Amendment Article 89) and the Home Rule Procedures Act (M.G.L. Ch. 43B), cities and towns can form a charter commission to adopt a new charter; entirely revise an existing charter, or amend selected charter provisions. As an alternative to the Home Rule Charter process under Ch. 43B, communities can also adopt, revise or amend a charter by a special act of the State Legislature with approval by the Governor. The Division of Local Services (DLS) has published guidance for communities seeking charter modifications and other types of government restructuring. This information is available through the DLS website at www.mass.gov/dls. Once on the website, click on Financial Management Assistance.

Recommendation 2: Conduct Monthly Meetings of the Financial Team

We recommend that the town manager establish a financial management team and hold meetings on a monthly basis. Financial management team meetings provide an opportunity for discussion of the town's fiscal issues as well as for developing strategies to meet financial challenges. This is particularly true for meeting deadlines on the town's budget calendar. A wider group is better able to give full analysis to proposed procedures or policies, and to formulate strategies to avert potential problems. Meetings enhance lines of communication, and provide a forum to raise and resolve interdepartmental issues. They underscore how each office is dependent on the performance of the others. The financial team is not intended, however, to function as a policy making body, nor as one that would encroach on the duties or decision making responsibilities of the town manager.

Not so obvious and not to be underestimated are intangible benefits. All involved receive the same message or new information at the same time. Each person can have confidence that a regularly scheduled forum exists to raise issues of concern, and that he or she will have equal input into any subject matter discussed. In short, by creating a financial management team role and identity, understanding and cooperation will naturally increase, and morale in town hall can more easily be sustained at a high level.

The town manager's team would consist of the accountant, treasurer/collector, assessor/appraiser, information technology director and school business administrator. Whereas occasions may arise in which additional analytical or administrative support is necessary, others

such as the assistant to the town manager could be included to the extent the town manager deems appropriate.

Recommendation 3: Avoid Use of Non-recurring Revenue for Recurring Costs

We recommend that the town avoid building a budget that requires the use of one-time revenue to support on-going government expenses. In recent years, Middleborough has used a variety of one-time measures to bring the budget into balance. In June 2004, town meeting used \$158,464 from the stabilization fund to supplement the FY2004 budget. In June 2005, town meeting used \$314,778 combined out of free cash and stabilization to supplement FY2005. In October 2005, \$994,679 from free cash was used to fund the FY2006 budget. At the special town meeting in October 2006, the town committed approximately \$1.5 million from free cash and the landfill's Financial Assurance Mechanism account to reduce the FY2007 tax rate and fund programs in the current fiscal year. These most recent town meeting actions exhausted Middleborough's certified free cash. Now, for the FY2008 budget, the selectmen have approved the sale of 37 parcels of town-owned properties.

By using non-recurring (or one-time) revenue in such a way, communities effectively postpone making difficult decisions on service and taxation levels. As a result, the community is faced with the same dilemma in the ensuing fiscal year because the costs are built into the budget's base while the offsetting revenue source is no longer available (because it was spent in the previous year).

Therefore, to achieve a structurally sound, sustainable spending plan, we recommend that the town adopt and commit to a policy that minimizes, or precludes, the use of non-recurring revenue for recurring spending purposes.

Recommendation 4: Perform Multi-Year Revenue/Expenditure Forecasting

We recommend that the town manager work with the finance team to develop multi-year financial forecasts for the next 3-5 fiscal years. Financial forecasting is important because it will show future revenue projections and provide guidance for town spending. Analysis of the ongoing relationship between Middleborough's revenue and expenditure trends will help decision-makers plan the financial future of the town in an informed and thoughtful way. Forecasting also allows the town to quantify the long-range fiscal impact of proposed policies and initiatives before final action is taken on them.

It is our understanding that the town manager has traditionally led forecasting efforts for only the ensuing fiscal year as part of the annual budget process. Most recently, the Collaborative Leadership Group has explored use of the Department of Revenue's Forecasting Tool, described below. In making our recommendation, we feel that the town manager can

provide a more comprehensive forecast since he has broad knowledge of town-wide priorities and the financial resources required to meet them. He and his team also have access to more detailed revenue and expenditure information and possess current data on the town's fiscal condition and trends.

To assist in developing multi-year budget forecasts, we direct the town manager to the Department of Revenue's new Revenue and Expenditure Forecasting Tool on the Technical Assistance website (www.mass.gov/dls). It contains detailed information and pre-set calculation tables that can help communities customize revenue and expenditure assumptions to produce multi-year financial projections. It is a powerful tool that is easy to use and comes complete with an online user's guide.

Recommendation 5: Initiate Finance Committee Budget Presentation to Annual Town Meeting

We recommend that the finance committee make a budget presentation to the annual town meeting. As an independent voice, the finance committee's opinion on the budget and other appropriation articles can be a credible influence. For this reason, it is very common in other towns for a finance committee to present a formal budget message to town meeting. A presentation to town meeting might consist of several elements. It is often helpful to describe the finance committee's role in the budget process and how the committee arrived at its conclusions. The committee's presentation might include a summary of revenue and expenditure trends and a general statement on the town's fiscal health. The committee could explain the major cost drivers in the ensuing year's proposed budget and describe how the budget fits into the town's long-term financial and capital plans.

The finance committee should coordinate the substance of its message with that of the selectmen and town manager. However, ultimately, its budget message can underscore the role of the finance committee as a watchdog over municipal finances that reports directly to town meeting. Given that the town is facing a general override of Proposition 2½, clarifying comments by the finance committee would be particularly helpful.

Recommendation 6: Conduct Quarterly Revenue and Expenditure Projections

We recommend that the town manager begin the practice of providing quarterly budget projections to both the board of selectmen and finance committee for the current fiscal year. Quarterly projections are a tool used by governments to benchmark year-to-date income and spending against the approved budget. Once all financial activity for the last month in a quarter is closed (September, December, March, June), financial staff should prepare new projections to year-end based on expenditure and payroll information contained within the financial system along with operational information obtained from department heads. Depending on an analysis

of revenue and expenditure trends, other appropriate action, such as spending freezes or budget adjustments, may be required.

In general, projections should consist of a table, or spreadsheet, showing the original departmental budgets, year-to-date expenditures in the same line item detail, and a projection of any variance (positive or negative) by year-end. A separate table would show variances in budgeted-to-actual revenues. Still more sophisticated analyses match-up actual revenues with the departments that generate them. To be most effective, a projection analysis should be performed on each city/town fund, i.e. the general, capital, revolving, grant, trust and special revenue funds. Narrative analysis of the fiscal picture should also accompany each table to highlight the specific issues in a given department that may cause a budget deviance.

Regular budget-to-actual reporting gives decision makers greater insight into cash flow demands and enhances the number of options available to meet financial challenges. Through reporting and analysis, opportunities are created to adjust spending behavior if revenue is not hitting expectations or if departments are spending more than expected. When revenue trends are strong and expenditures are incurred at a slower pace than anticipated, quarterly projections can, by the end of the 3rd quarter, bring into focus possibilities for larger than expected positive balances. Understanding the breadth and depth of outstanding balances, in turn, enables decision makers to prioritize and manage 4th quarter spending and increase end-of-year departmental turn backs. This last point can help cities and towns in their efforts to build reserves through the generation of Free Cash. Given that quarterly projections allow regular opportunities for management to evaluate the organization's financial position, performing such analysis is also viewed favorably by bond rating agencies.

Recommendation 7: Develop a Manual of Uniform Financial Procedures

We recommend that department heads develop procedures for all routine internal financial functions. The town's auditors have recommended several department-specific processes that warrant documented procedures. What the auditors did not point out is that, in addition to bolstering internal controls, documented procedures provide instructions to help maintain vital and routine processes in the absence of those staff who normally perform them.

Also missing from the management letter is guidance as to what a procedure should look like. To assist the town, we have provided a simple framework below. There are five key elements that should be addressed by a procedure in addition to a general statement of the subject matter:

Purpose: Usually a brief sentence stating what the procedure is intended to accomplish. (For example: To provide information on legal requirements and internal controls for the accounts payable process.)

- Authority:* A list of references to all Massachusetts General Laws, town charter sections, by-laws or contracts that govern the activity being performed.
- Distribution:* A list of those positions that are affected by the requirements of the procedure. (For example: treasurer/collector, clerk, etc.)
- Policy:* A concise statement or list of any management directives that influence the procedure. (For example: with respect to accounts payable – “Every department shall adhere to uniform procedures when purchasing any item and when paying for items received by, or services rendered to, the town.”)
- Procedure:* The actual step-by-step tasks that are to be followed in order to complete a given process. This is a detailed, technical narrative that can also include schematic models that illustrate and explain workflow.

Often, routine procedures will remain in place simply “because it is the way it has always been done.” Articulating a procedure in the context of its purpose, the governing authority, those responsible for performing the activity, and the policy behind it, makes it easier to identify when a particular practice no longer meets its goals as intended. All procedures should be reviewed and approved by the town manager in consultation with the financial team.

We further recommend that the new town accountant work with other town departments to publish a financial procedures manual for all town-wide financial processes. Under state law, the town accountant is responsible for maintaining the general ledger, which is the primary record keeping source for a community’s financial activity. The accountant relies on, and must be prepared to verify, financial information from other officials in order to produce statements that accurately reflect the town’s financial position. For this reason, accountants will require departments to conform reporting activities to a uniform process (e.g. accounts payable). While individual departments are best equipped to outline procedures that pertain solely to their internal activities, the town accountant is in the best position to coordinate the development of procedures for those financial processes that involve multiple departments.

Recommendation 8: Limit Budget Appropriations to Annual Town Meeting

We recommend that the appropriation of funds be limited to the annual town meeting. Middleborough has made supplemental appropriations a standard budgeting practice. As a result, the town approves a budget in the spring with the expectation that additional funding will be available if departments cannot meet their spending commitments. While the town manager has worked consistently to fulfill this expectation, reserve levels have been depleted, the finality of departmental spending plans is suspect and the credibility of the budget process in general is degraded. To rebuild confidence and transparency in the budget process, town meeting, boards

and committees, and all department heads should discipline themselves to remain faithful to the budget as passed at annual town meeting.

Of course, in the event of a true emergency, the finance committee reserve can be used, or the town can act through a special town meeting. However, for non-emergencies, these are not prudent practices. While we recognize that the town may be too far along to change its funding approach to the FY2008 budget, it is our hope that the incoming town manager would make implementing this recommendation a priority for FY2009.

Recommendation 9: Limit Town Meeting Budget Transfers

We recommend that the budget be formatted in such a way as to reduce the need for line-item transfer at town meeting. The budget motion at town meeting is currently approved by detailed account line-items, which restricts the ability of managers to move money within their department to where the need exists. Consequently, there are a number of budget transfer motions during the special and annual town meetings to eliminate line-item deficits.

If departmental budgets were approved in broader subtotal categories, there would be less need for line-item transfers by town meeting. However, town meeting would retain its exclusive authority to transfer between departments and/or budget categories, with limited exceptions (see below).

To provide management flexibility, many communities approve appropriations by department and in three categories within each department (typically salaries/wages, operating expenses and capital categories). In this way, the department head is allowed flexibility to move money between line items within each general category. On the other hand, no transfers can be made between categories – that is, salary money cannot be used for expenses, expense money cannot be used for capital outlay purposes, etc. This allows department heads to use money where it is needed, with limitations, and helps avoid the situation where mid-year transfer requests and end-of-year turn-backs occur in the same department.

We further recommend that the board of selectmen and finance committee make use of their year-end budget transfer authority to reduce the clutter of line item transfer requests proposed at town meeting. Under M.G.L c. 44, §33B, the board of selectmen with concurrence from the finance committee, may transfer appropriations between line items provided that:

- 1) Appropriations are not taken from the school department or municipal light plant;
- 2) The transaction is approved during the last two months of the fiscal year or the first 15 days of the ensuing fiscal year; and
- 3) Transfers are limited to three percent of the total appropriation from which the transfer is being made or \$5,000, whichever is higher.

Recommendation 10: Convert to Quarterly Tax Billing

We recommend that the town consider adopting quarterly tax billing. Quarterly tax billing represents sound financial practice for any community. It has the general benefit of enhancing revenues and stabilizing cash flow, which is significant for a town that relies heavily on property tax revenue. To date, the town has been able to narrowly avoid short-term borrowing, to compensate for low general fund cash levels, by relying on positive balances in the gas and electric fund at any given time. However, this is not an ideal scenario under which to function.

There may be some increased administrative costs in the assessors' and treasurer/collector's offices, but the potential for gains in investment income under quarterly tax billing can be expected to offset these costs.

Recommendation 11: Develop Formal Reserve Policy

We recommend that Middleborough establish policies defining adequate reserve levels based on the community's needs. The combination of competing spending priorities and limited revenue options make building reserves a challenging task. Often depending on the fiscal circumstances facing town meeting, it can be difficult to preserve a sizable reserve balance. Indeed, Middleborough has continually relied on the use of reserves, in conjunction with other one-time sources, in order to balance the annual budget. However, many communities in Massachusetts have been able to build and maintain reserves through fiscal restraint, conservative revenue estimates, and current year cost containment.

Reserves in a municipal context typically include free cash and stabilization fund balances. In Middleborough's case, the combined total for FY2006 was approximately 2.53 percent of general fund revenue as reported on the Schedule A. There is also a reserve fund of \$50,000 annually appropriated to the finance committee for unanticipated current year expenses under M.G.L. c 40, §6.

Healthy free cash reserves should be in the 3-5 percent range of annual general fund revenue. As a rule, free cash should be treated as one-time revenue and, therefore, only be put toward one-time expenses or stabilization. However, when municipalities fund operating budgets with free cash, it is sound policy to retain as unexpended an amount of free cash equal to that used in the operating budget. This unexpended amount then serves as a starting point for the next year's free cash calculation.

There should also be balances in stabilization to bring the total reserve balance up to the 5-7 percent level or beyond. The town might also explore the use of targeted stabilization funds which can be built through a variation on the concept of an annual override. For more information, see DOR Information Guideline Release No. 04-210.

Recommendation 12: Convert to Bi-Weekly Payroll

We recommend that Middleborough convert from a weekly to bi-weekly payroll schedule. The current weekly distribution of pay to town and certain school personnel is more costly, duplicative and time-consuming than a bi-weekly process. Most employers in both the public and private sectors, including the Commonwealth, compensate employees on a bi-weekly basis. Paying employees bi-weekly in Middleborough would create an advantage on non-paycheck weeks by enabling staff to focus on other tasks, freeing up time that normally would be consumed by compiling hours/rate information and entering data into the payroll system. To move employees to a bi-weekly pay period will require collective bargaining.

Recommendation 13: Conduct Actuarial Analysis of Other Post-Employment Benefits (OPEB) Liability

We recommend that the treasurer/collector budget for and engage the services of a qualified actuary to conduct an analysis of its non-pension retiree benefits liability. The Government Accounting Standards Board recently issued Statement 45 (GASB 45), which requires all local governments to begin accounting for so-called “other post employment benefits” (OPEB) as an accrued liability on the town’s balance sheet. Now, municipalities must account for the cost of post-employment benefits other than pensions, during working years when the benefit is earned, rather than on retirement when it is distributed. This is a departure from current practice, where the town’s share of benefit costs is appropriated annually for employees and current retirees only (\$9 million for health insurance budgeted in FY2007).

The town’s current obligation under GASB 45 is to perform an actuarial analysis to quantify where it stands in terms of OPEB liabilities. Based on the GASB 45 implementation schedule, Middleborough will need to complete its actuarial analysis for the fiscal year ending June 30, 2009.

As an option to avoid higher long-term costs, Middleborough may elect, as other towns have, to fund the liability as it currently funds pension costs. Those who are familiar with private-sector accounting rules will equate GASB 45 with FASB 106, which was issued in the early 1990’s.

The Government Finance Officers Association (GFOA) provides a helpful “RFP Checklist for OPEB Actuarial Valuation” through its website at: www.gfoa.org/services/specials.html. The Division of Local Services has written a “Best Practice” on the subject at its Technical Assistance Section web site (www.mass.gov/dls).

Information Technology

Information Technology (IT) is a vital component of contemporary municipal government. Whereas financial processes are data intensive, IT utilization and support is all the more relevant. Budgets, ledgers, cash books and other financial records are typically maintained electronically. Electronic transactions between governments and banking institutions have also become the norm. As a practical matter, financial and operational systems' heavy reliance on technology necessitates that knowledgeable, system-savvy individuals be involved in the purchase and support of equipment and software. To facilitate this, communities often employ one or more full-time professionals as part of an IT department or unit.

In Middleborough, the IT department supports over 120 computers including desktops, laptops and mobile data terminals as well as 61 printers. All computers and printers are networked through an 11 mile I-loop connecting the IT infrastructure for all town and school facilities. An annual technology plan, produced by the IT director, guides the department's activities.

The staff consists of the director, who reports to the selectmen, an administrator and an assistant. Additionally, the department has license agreements with software vendors, a contract with a network consultant, and a separate contract with a consultant who assists with non-vendor supported software modules. The department's budget for the current fiscal year is \$348,283. The department also coordinates an annual review of all town services performed on behalf of the water, wastewater and gas and electric departments for the purpose of assessing indirect costs.

Our review focused on the efficiency and effectiveness of the information technology department in those areas where technology is essential to routine, cyclical financial functions. In this regard, opinions differ. We found that there is uncertainty among end-users as to whether the financial system (ACS) is capable of performing the functions that are desired to make financial processes run more efficiently. Particular emphasis was placed on the ability to run canned reports. Conversely, there is strong feeling on the part of IT staff that the system is being underutilized and that, specifically, the reports desired by departments are available. It is our understanding that, because the software functions through a relational database, there should not be barriers to issuing queries and generating reports. Therefore, we find the apparent disconnect troubling.

Communication may be at fault. Not only was there disagreement on the issue of reports, but there was conflict on the matter of electronic cash registers, and concerning the implementation schedule for the lock-box. The selectmen, who we asked, seemed uncertain and questioned the daily tasks and expenditures of the IT department, while the IT director and administrator described a full range of duties within their mandate. On balance, frustration ran in both directions.

Conclusion – The department purchases and maintains equipment of generally high quality. Staff has the capacity to effectively serve in-house staff and substantial support exists through licensing and consultant contracts. Of major concern, however, was the frequency and intensity of opinions originating from all corners seeking to assess blame for various negative events and misunderstandings related to technology. This left no doubt that problems exist. We are firm in the belief that persistent issues can be effectively addressed, and the ability of IT to meet departmental expectations can improve, only when the town moves away from an overall decentralized approach to government management.

Recommendation 14: Shift Information Technology Director

We recommend that the IT director report to the town manager. Technology is an area of global impact where advances and problems can simultaneously cross over multiple town departments. Despite apparent emphasis on financial management systems, judgments are frequently necessary to assign priority to expenditures or to resolve competing computer and software needs of different and wide-ranging town offices. Development of a long term plan for technology upgrades requires integration of projected costs into the capital improvement program. On balance, these decisions are more appropriately placed under the wider perspective of an executive department. Therefore, we recommend that the IT department be organizationally reassigned to the town manager's office and that the IT director be appointed by and report directly to the town manager.

More importantly, this reporting relationship gives the town manager not just standing, but responsibility, to provide direction, resolve disagreements and facilitate solutions to technology issues that arise throughout town government.

Recommendation 15: Develop a Plan to Enhance Utilization and Integration of Financial System

We recommend that the IT department survey staff on knowledge and use of available applications. In Middleborough, there seems to be varying degrees of proficiency among staff with respect to the various ACS modules. Furthermore, there is a lack of ongoing training that should be addressed. Staff should be offered training opportunities as a way to improve their work product and encourage their professional development. Therefore, department heads should make training opportunities a priority for staff and take the necessary steps to make employees available for training when offered.

We recommend that departments work with the IT department to identify data that is repetitively entered or shared with other offices. As a corollary to doing staff surveys, IT should meet with other town staff periodically and identify those instances where duplicative

information is being entered. The IT department is in a natural position to catalog such manual redundancy and develop a technological solution to save time and enhance efficiency.

Recommendation 16: Enhance Information Availability on the Town's Website

We recommend that the town make more information and material available through its Internet website. An up-to-date, comprehensive website would help bolster public awareness of issues and confidence in municipal government. Other communities are finding that user-friendly and informative websites are successful in reducing the amount of time that staff spend fielding questions in person or on the phone. A reciprocal time-savings is also experienced by residents and taxpayers.

Information not currently on the town's website that would serve as an improvement includes:

- Town meeting minutes
- Agendas and minutes of *all* board/committee meetings
- Proposed/approved budget data; audited financial statements
- Links to the town charter and by-laws
- Links to commonly requested forms

One area of the website for which Middleborough should be proud is the depth and availability of board of selectmen meeting minutes. Minutes are available soon after selectmen's meetings are held, and are thorough in their level of detail. The selectmen and their secretary serve as a good example of how municipal websites can convey a sense of transparency to citizens. The assessors' website also enhances citizen convenience by making available commonly used forms (exemption forms, income and expense forms) as does the treasurer/collector by making available online bill payment. We feel these are examples that other town departments can emulate.

Accountant

The accountant has a legal obligation to oversee all financial activity of a municipality. Through the maintenance of independent records and by following well-defined procedures, the office documents the flow of money into and out of municipal accounts and plays a role in the system of checks and balances established by statute to monitor and protect local assets. To fulfill this responsibility, the office prepares warrants; maintains a general ledger where receipts, expenditures and all other town financial activity are recorded; reconciles cash and debt with the treasurer and receivables with the collector monthly; produces a monthly expenditure report and reports annually on the town's liability for accrued sick leave and vacation time. The accountant also tracks revenue and is typically involved in the annual budget process.

Among required submissions to DOR, the accountant is responsible for producing the town's annual Schedule A by October 31 and its year-end Balance Sheet (for Free Cash certification). Finally, the accountant works with the assessors and town clerk in the preparation of the town's Tax Recap Sheet (for tax rate approval).

The Town of Middleborough currently has an interim town accountant who works 15-20 hours a week and who had retired as the town's full-time accountant several years ago. There is also a full-time accounts payable clerk. The accounting office is located on the first floor of the town hall annex, which is part of a bank building in the heart of the downtown commercial center and within walking distance of town hall. The accountant and clerk have separate but adjacent offices, each equipped with a desktop computer connected to the town's network. Terminals have Microsoft Office installed, with Word and Excel as the primary applications in use. Installed on both computers is the ACS financial management software, which is the town's electronic general ledger application. The accountant maintains the general ledger using the Uniform Massachusetts Accounting System.

In the period between the retirement and return of the interim accountant, several items were cited in the management letters by the town's two independent audit firms for both FY2004 and 2005. Indicated were problems with key internal control functions, most notably departmental receipt procedures, regular reconciliations and fixed asset accounting. There was also difficulty and delay in some processes that involved coordination with other departments.

However, through the recent efforts of the interim accountant, many of the concerns submitted by the independent auditors are being addressed, if not remedied. We expect that when a permanent accountant is hired, improvement will continue and the remaining issues will be resolved. We also expect the new accountant to assume the role of providing analytical support to the town manager in developing the annual budget. The treasurer/collector is currently stepping-in to provide budgetary assistance as a temporary measure.

An additional item of note is the current chart of accounts. There is concern cited by the interim accountant, the treasurer/collector and the IT department that the chart of accounts has

used all available account combinations. As a result, additional expenditure accounts cannot be added which prevents the accountant from maintaining data in detail, and hampers software reporting capabilities. Recognizing this as a serious problem, the selectmen, town manager and the finance staff have initiated a process to establish a new chart of accounts. We support their decision, and have no recommendation other than to encourage that they follow through with this process.

Conclusion – The accountant’s office is currently functioning well in spite of the lack of a full-time town accountant. The office fulfills fundamental responsibilities relative to the payroll and vendor warrant process. Reconciliation of cash and receivables with the treasurer/collector are taking place monthly. Our recommendations are offered as a means to enhance financial reporting, specifically, as well as improve checks and balances, generally.

Recommendation 17: Provide for Fixed Assets Tracking and Financial Reporting

We recommend that the town accountant be directed to continuously update the fixed assets inventory. With the advent of Government Accounting Standards Board Statement 34 (GASB 34) came the requirement that governments begin to account for depreciation of fixed assets. To comply, Middleborough hired a consultant to complete a full inventory of fixed assets as of June 30, 2006, including property, equipment, buildings and infrastructure, for accounting and depreciation purposes. However, updates have not taken place for assets acquired during FY2007 and there is no system in place to update the inventory on an ongoing basis. Therefore, we recommend that the accountant, working with the town’s outside auditor, implement a system as part of the accounts payable process for maintaining an up-to-date inventory of fixed assets by identifying those purchases that meet the criteria of an asset. The Division of Local Services’ Bureau of Accounts offers a guide available through their website at www.mass.gov/dls.

Recommendation 18: Centrally Track Leave Balances

We recommend that the town accountant centrally track employee vacation and sick leave balances. When employees leave town service they are entitled to compensation for varying amounts of unused vacation and sick time based on contract terms and pay rates. Currently, leave balances are maintained at the department level, but as a matter of internal control, the town accountant should keep a separate record of the same information. Also, since the total liability for unused leave (known as “compensated absences”) must be reported in the town’s financial statements (\$4,099,278 for FY2005), it is important that the accountant track the ongoing changes in leave balances. This might be accomplished by utilizing the time and attendance module within the ACS financial system.

Treasurer/Collector

The treasurer is a community's cash manager and, as such, has custody of all municipal money. Included is the responsibility to make certain that town receipts are deposited into appropriate bank accounts and to monitor balances to ensure that sufficient funds are available to cover town obligations as they become due. The treasurer invests town funds and manages debt to maximize investment income and meet cash flow needs. To fulfill these responsibilities, the treasurer maintains a cashbook, debt schedule, check registers, and various logs to track balances for grants, trusts and revolving funds as well as other special revenue funds. As a financial control, the treasurer is obligated to reconcile cash balances and debt, internally, and then with the accountant on a regular basis. Finally, the treasurer maintains tax title accounts, conducts sales of land and prepares documents to petition for foreclosure.

A municipality's collector possesses the authority to collect all monies due the community including taxes, excises, betterments and certain other charges under M.G.L. c. 41, §38A. Collections need to be counted, posted to taxpayer accounts, and either turned-over to the treasurer or deposited daily. Delinquent accounts need to be pursued and then moved efficiently into the treasurer's tax title accounts. To be successful, a collector must maintain an up-to-date receivable control that is reconciled internally and then externally with the accountant monthly. Credit reports should be run as appropriate and research needs to be completed to confirm legitimate refunds due to residents. In accordance with state law, the office should respond to requests for municipal lien certificates within ten days. In most communities, the collector manages the contractual agreement with the Deputy Collector.

In Middleborough, the treasurer/collector is an elected position, though the incumbent has held office for approximately 17 years.

Full-time staff includes an assistant treasurer/collector, a payroll clerk, a benefits administrator, and three administrative clerks. The department is located on the third floor in the town hall annex where most staff perform their daily work in one large space. There is a counter area where members of the public may enter to pay bills and conduct other business. The treasurer/collector has an office and in general, privacy for staff does not appear to be an issue where confidentiality is warranted. The office space seems generally adequate to accommodate the activities of the staff.

Staff members are equipped with networked desktop computers with Microsoft Office installed. ACS software is used to post real estate, personal property, motor vehicle excise, boat excise and water/sewer payments. The cash book is maintained in an Excel spreadsheet. Staff coordinate payroll on a weekly basis for all town employees as well as school department administrative and support staff. Teachers are compensated on a bi-weekly basis. To complete payroll, staff enter timesheet data for employees into the ACS system and checks are printed at the town hall. Through the payroll process, the office maintains detailed information on

employee deductions and withholdings for items such as state and federal taxes, retirement contributions, annuities and the like. The treasurer/collector's office is also responsible for estimating the cost of, and administering the appropriation for, health insurance and other employee benefits.

Conclusion - Overall, the treasurer/collector and her staff effectively fulfill the responsibilities of the office. The single recommendation offered is intended to improve efficiency and endorse a proposed initiative.

Recommendation 19: Complete Implementation of Lock-Box

We recommend that the treasurer/collector utilize the lock-box payment method for all applicable payments. Currently, the treasurer/collector and the IT department have implemented the lock-box payment process with Century Bank for the initial 2007 motor vehicle excise commitment. There is also the intent to expand the lock-box payment option to real and personal property taxes and utility billing. We concur with the treasurer/collector's proposal.

As a major benefit, utilization of lock-box services frees-up staff time by reducing over-the-counter and mail payments at the treasurer/collector's office. The process makes posting automatic, accelerates deposits, makes funds available sooner and has the potential to improve investment earnings. These advantages and efficiencies gained help offset the cost to the town for the service. However, the town should also seek ways to inform the public and encourage use of the lock-box. Options might include notices inserted with tax and other bills, announcement in a local newspaper, on cable television, or posters in public buildings.

Assessors

The assessors' office is responsible for valuing all real and personal property in the town, assigning tax payments to owners, and generating the commitment authorizing the treasurer/collector to collect real estate tax and motor vehicle excise payments.

To ensure that residents are taxed equitably and accurately, the office maintains and updates property records with information received from deeds and through the on-site inspection of sale properties, data from properties where a building permit has been issued, and in response to mailings. Additional information is gathered during an on-going property measure and list program. Assessors act on and track exemption and property tax abatement applications. They estimate new growth and make recommendations to the board of selectmen at the annual classification hearing. The assessors calculate the tax rate, recommend the annual overlay and provide levy information for use in the Tax Recap Sheet submitted to DOR. The office is also required by DOR to document an annual interim year adjustment analysis and to prepare for State certification of property values every three years.

In Middleborough, the volume of work in the assessing department involves approximately 6,149 residential real estate parcels, 540 commercial/industrial accounts and 1,735 vacant/open space parcels. All are billed on a semi-annual basis. There are approximately 23,500 vehicles in Middleborough which yielded over \$2.5 million in motor vehicle excise revenue for FY2006.

Day-to-day activities in the assessing office are directed by the full-time assessor/appraiser, who reports to a three-member elected board of assessors. In addition, there is an assistant assessor/appraiser who oversees office staff and provides analytical support to the assessor/appraiser. Staff functions in Middleborough are unique in that data collection and clerical duties are combined positions. There are two full-time clerk/data collectors, and a part-time clerk/data collector. At the time of our site visits, there was also a vacancy in an additional clerk/data collector position.

The assessing department uses a computer assisted mass appraisal software package from Vision Appraisal Technology. In the past, the department has also contracted the services of Vision to complete triennial revaluations for commercial and industrial property while in-house staff have conducted residential analyses and valuations. The annual cost associated with the service contract was approximately \$47,000 in FY07. The in-house staff generally maintains and updates property information, performs other clerical functions and provides customer assistance. The availability of numerous forms and property tax information on the town website, including assessors' maps, make citizen access to town data more convenient.

Conclusion – The assessor/appraiser and her assistant both have a strong grasp of their duties and obligations. Likewise, staff members are competent and capable of fulfilling both the field and clerical demands of the office. The office is successful at communicating information

to the public and preparing data for consideration among policy makers. However, we feel that timeliness and efficiency could be improved. As such, our recommendations are designed to address these areas.

Recommendation 20: Conduct Building Permit Inspections Monthly

We recommend that the assessing office conduct building permit inspections on a monthly basis. Currently, the staff collect building permit information throughout the year and conduct inspections around December in advance of the January 1 assessment date. Waiting until the end of the fiscal year creates pressure to complete high volume data collection at a time when properties may not be accessible due to owners away on travel or adverse weather conditions. By conducting inspections on a regular, monthly basis, the department may find it easier to manage the workload demands of maintaining current information on properties. To ensure accuracy, it is best that those conducting inspections also perform the data entry updates shortly after the inspections take place. Furthermore, to maximize opportunities to gain access to property interiors, the assessing office may want to align their inspection schedule with that of the building inspector's visits in advance of occupancy permit issuance or fire personnel completing smoke alarm inspections.

Recommendation 21: Require Electronic Submission of Plans

We recommend that the assessing office work with the planning department to require that all subdivision and other plans submitted to the planning board be in a electronic format. The planning department would subsequently forward the plans to the assessing office electronically for record keeping and map updating purposes.

Electronic submission of plans is becoming a more frequent practice in municipalities. It is also cost effective because the town does not have to pay for a hard copy conversion to electronic format in order to update their geographic information system (GIS) database.

Acknowledgements

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