



Town of Paxton

Financial Management Review

September 2006

INTRODUCTION

At the request of the Paxton Board of Selectmen, the Department of Revenue's Division of Local Services (DLS) has completed this financial management review of the town.

We have based our findings and recommendations on site visits by staff members of the Municipal Data Management & Technical Assistance Bureau (MDM/TAB), the Bureau of Accounts (BOA), and the Bureau of Local Assessment (BLA). During these visits, the staff interviewed the selectmen, the finance committee, town administrator, accountant, treasurer & collector, administrative assessor, and other municipal office staff and committees. DLS staff examined such documents as the tax rate recapitulation sheet, town reports, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness and other assorted financial documents.

The purpose of this review is to assist town officials and boards as they evaluate the town's financial management. In reviewing the existing financial management, we have focused on: (1) the town government structure in the context of the duties and responsibilities of financial officers; (2) the degree of coordination and communication among relevant boards and officials, (3) the performance of financial operations in such a way as to maximize resources and minimize costs.

The board of selectmen should consider the recommendations contained in this report in formulating overall strategies for improving the town's financial management. Many recommendations in this report can be implemented without a major change in the current structure of town government given sufficient cooperation among town boards and officials. However, our most important recommendation, involving Paxton's governmental structure, will require special legislation or the adoption of a charter.

EXECUTIVE SUMMARY

The town of Paxton is a small community located in the hills west of Worcester. The town is a mixture of open land and residential construction with very little commercial and industrial development. With the availability of land, the town has had some residential development. Since FY1990, residential development (e.g., single family, multifamily, and condominiums) has grown from 1,222 to 1,529 parcels, an increase of over 300 parcels or about 25 percent. As a result of this development, the town's population also grew. Between 1990-2004, Paxton grew from 4,047 persons to an estimated 4,541 persons, an increase of just under 500 people or about 12 percent.

To accommodate the growth in development and population, the town's services have expanded and operating expenditures have grown. Between FY1990-FY2006, Paxton's budget has more than doubled, increasing from about \$4.1 million to over \$9.7 million. During this time period, Paxton's fastest growing expenses were debt service and education costs. Paxton built an addition on the town-owned elementary school, made improvements to the town's water service, and purchased departmental equipment/vehicles, which account for the growth in debt service. The growth in education expenditures is due to the combination of an increasing number of students, spending over the minimum requirements of the Education Reform Act of 1993, and the cost of renovating the regional high school.

Paxton is one of five communities in the Wachusett Regional School District (WRSD). WRSD has existed since the 1950s, but became a full (kindergarten-12th grade) district in 1995. According to many community officials, participating in this regional operation is far more affordable for a small community like Paxton rather than having to provide the service independently. But, as much as Paxton values this regional cooperation, annually the town has been frustrated by the district's budget proposals and resulting town assessments.

Generally, the WRSD assessments are sizable increases from the prior year that do not take the communities' limited revenue increases into account. While each community must fund its minimum local contribution and its portion of WRSD's transportation as well as debt service, the member communities scrutinize the additional proposed spending (known as the regional agreement spending assessment or RASA) to see what may be reduced, thereby operating within each community's means. The member communities and the district generally reach a compromise prior to the beginning of the fiscal year. However, for both the FY04 and FY06 budgets, the processes were contentious and the final approvals were delayed until October, four months into the fiscal years.

As a small community, Paxton historically has operated with elected officials, mostly part-time staff, and a volunteer fire department. While there has been a fair amount of cooperation among the independent boards and offices, there was little financial coordination or planning in place in the event of fiscal problems. This became apparent with the most recent downturn in the economy. Paxton's FY03 state aid was reduced and local receipts declined. Town officials twice sought overrides to fund various FY03 department services and received voter approval to restore the emergency medical responders' budget only. After making non-school budget cuts where possible, the town raised fees, levied nearly to its property taxing capacity, and deferred capital purchases/maintenance. With further

state aid cuts in FY04, Paxton again tried to get override votes approved, but they failed, resulting in further reductions in town services. Since FY04, the economy has improved, as has state aid funding. With increased available resources, Paxton officials have restored services and funded some deferred capital maintenance needs. However, based on their experience, town officials decided it was necessary that Paxton take steps to improve its financial management and improve its fiscal stability.

At the FY03 annual town meeting, Paxton adopted M.G.L. c. 41, §23A, creating a town administrator's position. Due to limited resources, however, the position was not funded until FY05. Now, the town administrator manages the day-to-day operations of the town and assists in the coordination among the independent officials and boards.

The selectmen became more involved with the annual budget process, working with the finance committee to create balanced budgets built on consensus. Annually, the selectmen develop operating goals, which establish expectations for each department that are reviewed at year's end. The selectmen also created a new capital planning committee to handle the growing list of capital needs, including a public safety building, renovations to the historic town hall and White Building, and a possible new administrative building.

To address its technology and information needs, Paxton purchased a fully integrated financial system, replaced old computer equipment, and networked departments. Paxton's new Internet website provides current and useful information, reducing over-the-counter public inquiries that can cause disruptions for the town's limited staff. The town also adopted a water enterprise fund, established an employee evaluation system, and created a financial policy manual.

To assist in the funding of capital requests and to provide greater fiscal stability, Paxton annually works at increasing its reserve funds. The town conservatively estimates its budgeted revenues and monitors spending, so that its certification of free cash is positive (since 7/1/04, the town's free cash has been more than \$500,000 each year). As a part of the budget, the town also contributes to its general stabilization fund (\$259,131 6/30/05), a capital improvement stabilization fund (\$126,201 6/30/05), and its capital depreciation fund (\$10,388 6/30/05). Paxton got special legislation to establish a capital depreciation fund (Chapter 451 of the Acts of 2004). Like a special stabilization fund created under M.G.L. c. 40, §5B that is purpose specific, the capital depreciation fund may be used for capital-related expenditures, debt service, and extraordinary repairs only. However, this fund only requires a majority vote to appropriate funds in or out and the stated purpose may not be changed by town meeting vote.

Having implemented a number of changes, the selectmen requested that the Department of Revenue's Division of Local Services perform a management review of Paxton. To the town's credit, we found that the changes adopted have had a positive impact on the community. Paxton appointed a professional administrator to coordinate the town's daily affairs, the town established priorities and sound procedures, and the community is developing reserves to provide fiscal stability. As such, many of the recommendations offered in this report are additional management practices, which coincide with the town's stated goals of increased efficiency, effectiveness, and accountability. Our most important recommendation addresses the need to formalize many of the implemented changes and to legislate a strong central management structure through the adoption of a charter, which would

require voter approval and/or authorization by the state legislature. Given the town's experience and the goals of the community, we feel that this recommendation is an essential step to solidify Paxton's progress to date and better position it for whatever lies ahead.

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OVERALL FINANCIAL MANAGEMENT & BUDGETING

Paxton does not have a town charter. Its government is organized under a combination of state statutes, special acts, and local by-laws. State statutes generally provide allowable methods of governance and often offer guidance on minimum requirements, while special acts and by-laws enable a community to establish specific authority and procedures by which it operates. Paxton's by-laws are posted on the town's Internet website. They are sparse, not current (through December 1997), and not organized well. We found some town officials and their basic duties are included in the by-laws while others are not. For example, the town collector's and finance committee's selection, terms, and duties of each are included in single articles, while the few selectmen's, accountant's, and treasurer's responsibilities identified are found sporadically throughout the by-laws.

The town's current organization is decentralized with a number of elected officials and boards. These include the town clerk, tree warden, assessors, municipal light board, water board, health board, planning board, recreation commission and cemetery commission. As a small community, residents often serve in multiple positions to fill all the elected and appointed offices/boards that exist. In addition, some staff are appointed and supervised by part-time, independent committees that have no reporting relationship or accountability to the selectmen (or the professional administrator).

The town also has town collector's and treasurer's positions that are separately elected. In 2001, town meeting voted to seek special legislation to create an appointed treasurer/collector position. The general court returned the petition to Paxton without acting on it because the legislature believed that M.G.L. c. 41, §1B enables a community to accomplish this on its own. In DOR's opinion, the law allows a community to change an office from elected to appointed. To combine the two offices, Paxton would need special legislation (or a charter).

Since 1966, the town has had a capital outlay committee by-law that established a seven-member committee (three are appointed by the moderator and four are appointed by the selectmen). This committee is responsible for developing a six-year capital plan and preparing an annual capital outlay budget. However, the committee is defunct. With a growing list of capital needs, the selectmen appointed an eight-member capital improvement committee (CIC). When the CIC has a quorum to meet, it reviews capital requests, ranks them, and prepares/updates the multi-year capital plan, yet it presents to town meeting only those requests for which resources exist.

Paxton appointed its first town administrator in FY05. According to the town administrator's job description, he manages the daily operations under the jurisdiction of the selectmen, recommends appointment of staff, administers the personnel system, assists in developing and managing the municipal budget, and keeps the selectmen informed. Yet, despite its financial and management duties, the town administrator's position exists by virtue of a job description and has not been institutionalized in Paxton's by-laws. As such, this position's responsibilities and existence could be at risk due to personnel changes either in that position or on the board of selectmen.

With the addition of the town administrator, Paxton's budget process has undergone some changes. Paxton has a budget calendar, which identifies all meetings and target dates necessary to complete

the budget proposal timely. The administrator, with some assistance of the financial officers, prepares preliminary revenue estimates that are updated as new information becomes available. Based on these preliminary revenue estimates, a cover letter and request forms are sent to all departments. Most completed requests are returned to the administrator while some independent boards still submit requests to the finance committee. The administrator discusses requests with departments, prepares a balanced proposal (along with a five-year revenue and expenditure forecast), and submits it to the selectmen for their review and approval. The budget proposal and supplemental documents are forwarded to the finance committee to review and conduct hearings. The administrator assists the finance committee and provides new information as it becomes available. Before completing the final proposal, the finance committee and selectmen meet to develop consensus prior to town meeting. The finance committee submits its recommended budget to town meeting, which includes the selectmen's position on each article.

As a part of our management review, DLS staff reviewed Paxton's budget format, town meeting actions, and other financial planning practices. In reviewing Paxton's budgeting practices, we found that the line-item appropriations approved by town meeting vary among departments. In some departments, summary line-items (e.g., salary, purchased services, supplies, and equipment) are used that grant some management flexibility to department heads by allowing them to transfer within a line-item appropriation but not between them without town meeting action. For others, more detailed line-item appropriations are used that place limits on department heads in managing their budgets and increases the need to call special town meetings when transfers are warranted. We also found that the town does not fix the salary of each elected official as required by M.G.L. c. 41, §108.

We also found an invalid appropriation. In Article 11 of the 2006 annual town meeting, Paxton voted to appropriate to the general stabilization fund the difference between the (yet to be determined) maximum amount that can be raised in FY07 and the total appropriations made. While the intent is to maximize the amount put into the general stabilization fund, it is DOR's opinion that this is not a valid appropriation. An appropriation ordinarily consists of the allocation of a definite sum of money from a specified source to a particular purpose, which is included in the town clerk's certification of appropriations (M.G.L. c. 41, §15A).

We found Paxton issues semiannual property tax bills. Generally, Paxton has been able to set its tax rate by September and avoid revenue anticipation borrowing. Occasionally, as a result of delays due to the revaluation of property, the rate is completed as late as December and the town issues estimated tax bills as allowed by law. However, more than once the regional school district's budget was not set until October, delaying the timely issuance of the property tax bills. Alternatively, a community may accept M.G.L. c. 59, §57C that allows a community to send out property tax bills on a quarterly basis. With collections occurring four times per year rather than two, a community has access to its property tax revenue earlier in the year. Quarterly billing puts tax receipts in the community's treasury earlier to meet cash demands and to provide opportunities for increased investment income. This is of particular benefit to those communities that experience delay in finalizing their budget. Some of the cost associated with quarterly billing is in the staff-hours needed during two additional tax collection periods, the increase in printing costs (i.e., bill forms), and other additional costs (i.e., envelopes and postage) if the community mails four times a year.

RECOMMENDATION 1: ADOPT A CHARTER & RECODIFY BY-LAWS

We recommend that Paxton pursue a charter, via the home-rule procedure (M.G.L. c. 43B) or special act, to adopt a centralized, strong town administrator form of government. With all the financial and legal complexities facing communities, many have seen the need to centralize administrative responsibilities and make a full-time professional responsible for all the day-to-day operations, staff supervision, and long-term administration. Recognizing the success many communities have in providing coordinated financial management with a town administrator, we believe this type of strong, centralized government is appropriate to meet the needs of Paxton. In this model, the town administrator should coordinate financial management and oversee all town operations to insure that they are performed in an efficient manner. The administrator should appoint, supervise, and evaluate all department heads to create a more accountable town government. The administrator should manage the budget process, soliciting information from financial team members, preparing a balanced budget proposal, and providing analytical support to the finance committee.

Paxton should establish a committee to prepare a charter proposal for the resident's consideration. A charter would clearly define the government structure under which the town operates, including documenting all positions, boards, and committees; establishing the distribution of power, lines of authority, and responsibilities; and providing comprehensive financial management procedures. A charter would enable the town to institute structural changes, which address the long-term goals of Paxton, as well as provide stability because it is a product of a comprehensive study and approval process and is designed to discourage frequent or frivolous changes.

The difference between the two methods (M.G.L. c. 43B or a special act) is a matter of timing and legal requirements. To pursue special legislation, a town-appointed committee is established by vote of the selectmen or town meeting to draft a proposal. The resulting proposal requires town meeting action to submit it to the state legislature for review and approval as a special act and usually requires voters' approval as well. Alternatively, a charter commission may be initiated by petition, with the voters electing the charter commission members. In this process, both the preliminary and final charter report must be submitted to the Attorney General (AG). The AG will provide an opinion on any conflict between the proposed charter and the constitution or general laws of Massachusetts, which the commission would review. The final proposal requires a majority approval of the voters to implement it. Because of the legal requirements of M.G.L. c. 43B, the charter commission process generally takes longer to complete.

We recommend that Paxton appoint a combined position of treasurer/collector. This change may be accomplished in a charter (or by special act of the legislature).

We recommend that the town reduce the capital planning committee's membership and revise the by-law. To improve the likelihood of committee quorums, the town should reduce the membership to five persons and have town staff serve in ex-officio roles. The town should also update the by-law to reflect the current structure and appointment of the committee.

We also recommend that Paxton perform a comprehensive review of its by-laws to make sure that they are accurate, current, and complete. While the charter provides a stable structure under which

the town government operates, it is complemented by a series of by-laws. By-laws fill in the details. These by-laws establish codes, policies, and procedures under which the town operates (e.g., personnel rules, budget process, zoning regulations, and health codes). The bylaws are adopted and revised by vote of town meeting as circumstances warrant.

RECOMMENDATION 2: MODIFY BUDGET FORMAT & CONFIRM VOTES COMPLY WITH STATUTES

We recommend that the town adopt an abbreviated budget authorization format for all departments while still providing supplemental detailed documentation for informational purposes only. By adopting a format with only the major spending categories (e.g., personnel, expenses, and capital) or in total for each departmental budget, department heads would have greater flexibility to use money in places where it is needed without further town meeting approval.

We recommend that the town annually fix the salaries of elected officials. Town meeting should vote to fix the salary of each elected position, including any chairmanship that is paid differently from the other members (M.G.L. c. 41, §108).

We recommend that the town always raise and appropriate or transfer from available funds a specific dollar amount. This will ensure that the town has validly exercised its appropriating power.

RECOMMENDATION 3: ESTABLISH ADDITIONAL FISCAL PLANNING PRACTICES

We recommend that the town establish a financial team. The financial team should be chaired by the town administrator and meet on a regular basis (e.g., monthly) throughout the year. Its membership should include the accountant, treasurer/collector, and administrative assessor (or assistant assessor). This committee should review financial information and provide guidance to assist policymakers in their decision-making process. Collectively, this committee should review financial documents (e.g., revenue and expenditure reports, balance sheets, audits, and tax recapitulation sheets) for completeness and accuracy. The adoption of a by-law would formalize the participation of the above officials in the financial team process and more clearly establish the role of the financial officers in support of the town administrator in fiscal matters.

We recommend that Paxton convert to quarterly tax billing. Quarterly tax billing represents sound financial practice for any community. Quarterly tax billing provides a consistent in-flow of cash to meet disbursement demands and opportunities for increased investment income. With a consistent in-flow of cash, a town is given until December to approve its property tax rate. Adopting quarterly tax billing will require advanced planning and work in the collector's and assessors' offices.

We recommend that the town present an annual capital budget to town meeting. Regardless of funding ability, annual presentation of the complete capital budget to town meeting has merit. It serves to inform citizens of the capital requests and makes them aware of essential capital needs that may be deferred due to financial constraints.

MUNICIPAL INFORMATION SYSTEMS

Paxton does not have a formal computer services department. Under the oversight of the town administrator, Paxton has a consultant that provides system maintenance on an as-needed basis, but is in the process of formalizing a contract that will now have the consultant monitoring the network's integrity on an ongoing basis. The administrative assessor assists in the day-to-day computer management activities (e.g., user issues and network backups) because the town hall servers are located in the assessing office. The town's servers have virus protection software that is updated routinely, the town hall network (which includes all town departments except the police, library, and municipal light) is backed-up nightly, and the back-ups are stored in a firebox in the assessors' office. The town also has established a computer and Internet use policy.

The town offices have access to Microsoft Office applications as well as the Internet and electronic mail services. The financial offices use the integrated financial software system, Vadar System, and the assessing office uses the computer assisted mass appraisal system, Vision. Town hall offices also use off-the-shelf software applications, have specially designed programs, or manual record keeping systems to perform operations and/or maintain data. Often, this information is used by more than one office, but currently there is no means to transfer data electronically between offices and/or software applications. Therefore, information is routinely printed and re-keyed, wasting precious staff time. For example, the building inspector's office issues permits, which are shared with the assessors' office. The information is tracked both in an electronic database system and manually. Because no one is fully knowledgeable about this software application, the assessing office must re-key the data from the manual log. In another example, the town uses a vendor to prepare the town's biweekly payroll. The treasurer's office enters changes (e.g., uses of personal, sick, and vacation time) from the standard payroll files and transfers the information to the vendor to produce the payroll warrant and checks. Because the town has a volunteer fire department, the payroll entries are numerous and not standard, which often leads to last minute crunches to get the data keyed in timely.

The implementation of the town's integrated financial software system has been a long process. Since 2003, all offices, but the accountant's office, have been using it. Prior to FY06, the town's general ledger was manual. With the appointment of a new accountant, she began the process of automating the general ledger. Town staff has received the initial training on the system and additional training was acquired for the accounting office with the changes in personnel. However, some staff have had problems and questions. As issues arise, each staff member contacts the vendor rather than going through the town administrator first to make sure that the problem is not on the town's side. Consequently, there is no central log of activity and problems that the town administrator may review to ensure issues are addressed timely and to use to analyze potential training needs.

RECOMMENDATION 4: ESTABLISH A CENTRAL CONTACT

We recommend that the town administrator be the "first point of contact" for dealing with vendors.

Software companies generally prefer the designation of a single contact person by those who purchase their product. Under this system, users should notify the town administrator of problems and requests.

The town administrator would direct the computer consultant to assess the matter to determine if it may be resolved internally or requires the intervention of the vendor.

We also recommend that the administrator keep a central log of all requests, incidents, and contact with consultant/vendors. A log can reveal specific areas of a computerized system proving problematic from a technical standpoint, or that require additional training of users. The log can also serve as a mechanism to ensure that all requests are solved in a timely fashion. The town administrator would also be in a position to make repeated calls, if necessary, to an unresponsive vendor. This relieves town hall staff from diverting workday time to the task. When appropriate, a staff member can always be placed in contact with a vendor to resolve a technical problem.

RECOMMENDATION 5: SURVEY CURRENT OPERATIONS & PROVIDE COMPUTER TRAINING

We recommend that the town survey office staff on the data that is shared or repetitively entered and explore ways to transfer this information more efficiently. The town should review data transferability between software applications, develop a database available to more than one office, and explore other uses of remote access (e.g., fire department enter payroll information). Given the limited staff, exploring ways to operate more efficiently can free up valuable staff time.

We recommend that the town administrator review the level of computer training and skills throughout town hall. The town administrator must ensure that the staff's computer training needs are met on a timely and on-going basis. With formal training and ongoing refresher courses, staff members will become more familiar with applications and will be able to organize records and automate report data. Staff also would be more likely to recognize and take advantage of opportunities to integrate systems, share information electronically, and reduce the time spent re-keying data.

ACCOUNTANT'S OFFICE

The primary responsibility of the office is to oversee all of the financial activity of the municipality and to maintain the town's general ledger. Typical financial activities of the office include reviewing invoices and payroll; preparing warrants; producing trial balances, revenue and expenditure reports; maintaining information on town debt; and reconciling cash and receivables with the treasurer and town collector.

For 18 years, Paxton had a part-time accountant who also served as the elected, part-time town clerk. During her tenure, she kept manual records and ran a statutory or single fund system. Following her retirement in 2005, the town hired a part-time accountant. In a part-time capacity, the new accountant had to perform financial functions as well as automate the town's ledger and covert the financial records from the statutory system to the uniform municipal accounting system (UMAS). The workload proved to be more than the accountant expected and she resigned after less than a year on the job. The town subsequently hired another part-time accountant. However, this accountant has her own assistant (not paid by the town). Her assistant examines invoices and prepares warrants for the accountant's review. The current accountant and/or her assistant are in town hall every Friday afternoon to process bills, produce the vendor warrant, and meet with staff. The accountant also is available by telephone, fax, and electronic mail at any time.

Upon taking office, the current accountant found that the town's FY06 ledger was out of balance and postings were missing. It appears that when implementing the UMAS system of accounting, fund structure changes were made that were not programmed correctly and created cross-postings among the funds. She also found that some approved warrants were not posted to the general ledger, causing further discrepancies in the general ledger. Lastly, it was discovered that the FY06 departmental receipts had not been posted because the long-time accountant used to make these entries for the treasurer's office but the previous accountant was not aware of this arrangement. Because of the fund balance discrepancies and missing entries, the accountant's office did not conduct periodic cash and receivable reconciliations with the treasurer's and collector's office during FY06. The accountant's office has resolved the fund balance discrepancies and nearly completed the entry of FY06 receipts, the treasurer and accountant have reconciled cash and receivables through December 2005, and they plan on returning to the monthly reconciliation schedule going forward.

According to M.G.L. c. 41, §56, the accountant must review all bills and payroll to ensure that the purpose of spending is legal and accurate, and that the appropriation is sufficient to cover the proposed payment amount. Having satisfied these requirements, the accountant draws the warrant for the selectmen's approval and subsequent payment by the treasurer. In Paxton, this process is followed for vendor and accounts payable amounts, enabling the accountant to review and approve payments before being placed on the warrant. Because the accountant is not on site on Mondays, the treasurer prepares a payroll warrant (in a spreadsheet application) for the selectmen's approval without the accountant's review. On the following Friday, the previously approved payroll information is posted to the town's general ledger.

In accordance with M.G.L. c. 41, §58, the accountant's office prepares and distributes monthly expenditure reports to the selectmen, administrator and department heads, and provides a weekly update after the warrant is processed that is posted centrally in town hall. These reports show the expenditures to date versus the budget appropriations. This information is extensive and useful as a management tool. Historically, the accounting office has not prepared revenue reports except upon request during the budget process. A revenue report is another helpful management tool that should show budget to actual revenues. Because it is essential that town officials have access to timely financial information in order to make informed decisions regarding town finances, the current accountant plans on providing monthly revenue reports too.

In reviewing the town's financial reports and town meeting minutes, we noted that the town has many revolving accounts. At issue is whether all the accounts may be segregated from the general fund. A community may establish separate revenue accounts from the general fund only when there is clear legal authority to do so.

Local governments constantly face the challenge of providing an increasing number of services to the citizens or customers on a limited budget. One money-saving option for communities is to centralize purchasing. Currently, Paxton has a centralized purchasing system for heating oil, postage and telephone services. Departments do all other purchasing independently, which can be costly and creates an excess of vendor bills for the accountant's office to process. The town also has a purchase order system for all purchases of \$200 or more. Once approved by the town administrator, a purchase order (PO) is generated, but the funding is not encumbered in the departmental budget. Consequently, the purchase order system is ineffective because it does not provide control on spending decisions.

Another cost saving measure is the local adoption of M.G.L. c. 32B §18 that requires retired employees and their spouses, which are eligible for Medicare, to join at age 65. The implementation of this section allows a community to shift retiree health care costs to the federal Medicare program without any loss in benefits. This also will help reduce the impacts of the Government Accounting Standards Board (GASB) issued Statement 45 on the financial reporting and accounting of other post employment benefits (OPEB¹) other than pension plans. OPEB are the benefits a governmental unit is providing or has promised to current and future retirees such as healthcare benefits, life insurance, disability, and long-term care benefits when they are provided separately from a retirement plan. The purpose of GASB 45 is to require the accrual of the OPEB expense generally over the working career of plan members rather than on a pay-as-you-go basis, which is the current practice for most government sponsored plans.

Similar to the implementation of GASB Statement 34, Statement 45 will be phased in and be a potentially difficult task for Massachusetts' cities and towns. The implementation will require that each governmental unit, at a minimum, have an actuarial study of its OPEB liability performed and updated at least once every two years. Consequently, there will also be new financial and audit reporting requirements. Paxton is a tier-3 community and will be required to implement Statement 45 by end of

¹ For further information, refer to DLS' website at www.dls.state.ma.us/mdmstuf/Technical_Assistance/Best_Practices/opeb.htm.

FY2010. While there currently is no state mandated requirement to fund the OPEB liability at this time, some communities have special legislation to begin funding it and other communities have expressed similar interest.

RECOMMENDATION 6: REVIEW & APPROVE PAYROLL WARRANT

DOR recommends that the accountant review any payroll submission before the production of the warrant. The accountant's review process is a safeguard for the community, preventing the payment of illegal or inaccurate amounts. Producing the payroll warrant and checks before the accountant has reviewed the charges defeats the purpose. Once the timesheet information is entered and verified in the payroll vendor's system, the treasurer's office should prepare a payroll report for the accountant's review and authorization prior to the selectmen's approval of the payroll warrant.

RECOMMENDATION 7: EXPAND CENTRAL PURCHASING & ENCUMBER PURCHASE ORDER FUNDS

We recommend that Paxton explore additional areas of expenditure to be handled through the centralized purchasing system. The town should review past expenditures for supplies and services, identifying what may be acquired centrally in bulk to reduce costs and processing workload.

We recommend that the town encumber funds when a purchase order is approved. By encumbering the funds when a purchase order is approved, departments will have better information on the availability of their appropriation balances, which improves control over spending decisions and enhances planning opportunities.

RECOMMENDATION 8: REVIEW SPECIAL REVENUE ACCOUNTS

DOR recommends that the accountant review all special revenue accounts to ensure each is legally established. While this process may be tedious, the office should review the numerous accounts established over the years and verify that each account has been properly established by special or general enabling legislation. Any account determined to lack proper legal authorization should be properly adopted or closed to the general fund.

RECOMMENDATION 9: PLAN FOR GASB STATEMENT 45

We recommend that the town accept M.G.L. c. 32B, §18. Once accepted, a community would be able to continue to provide the same level of health care services, but shift a considerable portion of the cost to the federal Medicare program, thereby saving the town money.

We also recommend that the accountant begin planning for GASB Statement 45. The town will have to gather employee and retiree information and have an actuarial study performed. Based on the actuarial results, Paxton will know the true costs of the OPEB earned by employees.

ASSESSORS' OFFICE

An elected, three-member board of assessors oversees the assessing office. The board is responsible for determining values, maintaining assessment data on approximately 1,840 real property parcels, 60 personal property accounts, 5,000 motor vehicle excise accounts, 8 betterment accounts, and 3 farm animal excise accounts. The office processes approximately 150 deed changes, 130 building permits, 50 exemptions, and 10 abatements (25 in recertification year) annually. The assessing office prepares timely reports for DOR, including new growth, taxable parcel count, and recertification of value reports.

The town uses a computer assisted mass appraisal (CAMA) system to manage its real property database. There are two personal computers connected to the CAMA server for office use. The personal computers have Microsoft software products installed and these computers are connected to the Vadar system for transferring exemption and abatement information.

For years, a board member (serving as an administrative assessor) and a part-time assistant have staffed the office. The administrative assessor oversees the daily operations, supervises the part-time assistant, and manages the town's appraisal consultant and fee appraiser for which he received an additional stipend (\$5,655 in FY06). However, the administrative assessor did not run for re-election this past spring, retiring after 24 years in the office. While the board member that replaced him was elected two years ago, she has worked in the office since 1999, serving as the part-time administrative assistant and receiving in-service training. Because she now is doing the work of both positions, the additional stipend and the assistant's salary budget amounts have been combined to fund the current administrative assessor's part-time position at \$23,250.

With the assistance of a contractual fee appraiser, the administrative assessor measures and lists new and improved properties. She inspects some sale properties and all abatement requests. The administrative assessor maintains the town's assessment records, determines property values, and compiles property tax commitments. She also processes deed transfers, handles exemption and abatement applications, data-enters property and legal information to the CAMA system, handles the motor vehicle excise accounts, and responds to public inquiries.

The town hires an appraisal consultant triennially to update all property values at a cost of about \$30,000. In the intervening years, the appraisal consultant also prepares detailed analysis of sales data and income & expense statements in order to make interim year adjustments to values (complying with requirements of M.G.L. c. 59, §38 to maintain full and fair cash values) at a cost of about \$3,500 per year. However, because the town does not have a cyclical inspection program, the town has a full measure and listing of all parcels completed once every nine years, complying with the Bureau of Local Assessment's guidelines. The last full measure and list was completed in FY04 and cost the town over \$74,000.

RECOMMENDATION 10: CONDUCT ADDITIONAL INSPECTIONS

We recommend that the administrative assessor inspect the interior and exterior of all sale properties. Often, a sale property may have been upgraded without a permit or allowed to deteriorate to an extent

that the assessors' files are not accurate regarding the characteristics or condition of the property. Not being aware of the exact condition of sale properties negatively affects the assessors' ability to value other properties accurately. By teaming-up with the fire department, the administrative assessor could accompany the fire inspector during his inspection, thereby reducing the number of scheduled visits to the same properties and ensuring timely, interior inspections for the assessing database.

We recommend that the town adopt a formal cyclical re-inspection program. A cyclical re-inspection program encompasses a complete interior and exterior inspection of all real property over a multi-year period. The primary benefit of this program is that it will provide the assessors with current, accurate data. By scheduling the inspection of about 200 parcels (e.g., improved, sales, and property abatement requests) annually, the administrative assessor with the assistance of the contractual fee appraiser would complete a full re-inspection by FY13 without the added cost of a full list and measure contract.

RECOMMENDATION 11: APPOINT AN ASSISTANT ASSESSOR & PROVIDE TRAINING

We recommend that Paxton create an appointed, part-time, professional assistant assessor. Given the increasing complexity and demands of assessing administration, this administrative or "working" assessor model has become less popular. We suggest that Paxton eliminate the working assessor/administrative assessor position and replace it with a professional assessor with demonstrated knowledge and skills that reports to the part-time board of assessors.

The professional assistant assessor would perform inspections, determine values, and present data and analyses to three impartial board members. The board would review, ask questions, critique and then make decisions such as approving final values annually, acting on abatements and exemptions, and determining general value-related policy. Separating the analytical/professional position from a policy role clarifies areas of responsibility and avoids conflicts that could arise between the board members. More importantly, if the current administrative assessor were to leave town service and/or not seek re-election, the town may find it difficult to find a resident that had the available time and skills to take on the position. With an appointed professional position, Paxton would be able to advertise to fill any future vacancy with the best available candidate, who may reside outside of the community. In order to attract/retain the best available candidate, the town may have to increase the current salary to between \$25,000-\$30,000. This salary should be reviewed periodically as additional duties and responsibilities are assigned to the position.

We recommend that the town provide an annual appropriation for training and continuing education. While the current administrative assessor has completed DOR's Course 101 (an introductory class on assessment administration law, procedures and valuation) and received on the job training from her predecessor, she has had no additional professional and/or CAMA training. Having the administrative assessor attend the vendor's CAMA training will enable her to learn more about the operating system, including managing the database and making changes to the cost and land tables. Having a well-trained assistant assessor will enable Paxton to increase local control of the office and reduce its annual expenses and triennial revaluation costs.

TOWN COLLECTOR'S & TREASURER'S OFFICES

The town has separately elected town collector's and treasurer's positions. Since 2001, one individual has been serving in both capacities. She has attended the treasurers' and collectors' annual school, incurring the expense out of her own pocket. A part-time (less than 20 hours per week) assistant also staffs the office. The assistant processes paperwork for new employees, posts payrolls and balances reports, accepts payments and enters receipts on the Vadar System, performs clerical tasks, and responds to public inquiries. Other than Vadar training, the assistant has received no formal training pertaining to her job.

On the treasurer's side, the office is responsible for payroll, employee benefits and cash management, including the investment, disbursement and borrowing of cash. The treasurer's cash book is the source of original entry for recording receipts and deposits, disbursements summarized by warrant, and the total cash position of the town. A cashbook provides control that enables the treasurer to reconcile with bank statements, cash on hand, and the general ledger balance on a monthly basis. Since many of the accounting records flow from this source document, the cashbook is legally considered a permanent record.

Currently, the treasurer maintains the town's 13 bank accounts in Quicken and the town's various trust accounts in a series of Excel spreadsheets. The treasurer reconciles her account balances to the bank statements monthly and reconciles the trust account balances to the quarterly statements. Monthly, the treasurer prepares a report of the town's total cash position for the accountant to reconcile against. Historically, the reconciliation of cash and receivables was conducted monthly, however, this was not done during FY06 due in part to problems in the accounting office. The treasurer and accountant are in the process of reconciling the FY06 cash and plan on returning to the monthly reconciliation schedule going forward.

Generally, departments turn over all receipts with a report at least monthly. Departmental turnover reports vary in format, provide vague descriptions of the types of receipts reported, and sometimes provide operating fund and the revenue account codes. The treasurer reviews each turnover, verifies the revenue source, and deposits the funds. Bank deposits are made at least weekly, or more frequently during heavy collection periods. The departmental receipts were entered in detail in the Quicken program and a monthly treasurer's receipts report is prepared for the accountant. Departmental receipts were posted into the Vadar System as time allowed, which also contributed to the delay in reconciling cash and closing the town's FY06 books. The accountant is working with the treasurer to customize departmental turnover sheets. These sheets will list all the revenues generally handled by each department or board (including a brief description, operating fund and the revenue account codes) and should assist the treasurer's office when posting the revenues to the Vadar system.

On the collection side, the office is responsible for collecting approximately 1,900 property tax bills semiannually, 5,000 motor vehicle excise bills annually, and 750 combined electric/water/trash bills monthly. In addition, this office prepares about 200 municipal lien certificates annually. The town's deputy collector prints and mails the tax and motor vehicle excise bills, while the municipal light

department prints and mails the combined electric/water/trash bills. The town receives payments by escrow, lockbox, and Internet services, by mail, and at the counter. According to the collector, virtually all of the real estate payments are received through escrow and lockbox services and almost half of the first motor vehicle excise commitment is received through the lockbox. Lockbox and Internet payment services deposit collections to a town bank account and send the collector computer files of collection information that are reviewed and then posted electronically to the Vadar system. Escrow services' property tax payments also are provided electronically, further streamlining the collection process.

The town's real and personal property tax collection rate in the year of commitment is over 98 percent. Once a real estate tax bill becomes past due, the collector issues a demand notice. If the demand notice does not result in payment, the collector initiates tax taking procedures during the summer months. For properties already in tax title, the new outstanding amount is added to the account before the close of the fiscal year. Currently, the town has 11 properties in tax title and the town is using an outside attorney to pursue foreclosure remedies.

The town has its own municipal light department that reads the meters and bills users on a monthly basis. Due to the existing meter-reading staff and the utility billing system, Paxton added the water service's meter reading and billing (in 1997) and trash fee billing (in 2004) to the municipal light department's responsibilities as a cost-savings measure. The electric, water, and trash charges are committed to the collector, who has the municipal light department staff prepare the bills, collect them, deposit all revenues to a collector's account, and prepare a detailed report monthly. While the town collector has deputized the municipal light department clerks to collect these bills, M.G.L. c. 60, §2B provides for the use of a deputy collector or collection service with respect to unpaid amounts, not the initial charges. Furthermore, it is best practice to have segregation of duties, the respective department committing the charges and the collector's office collecting all payments. Without it, the community loses an important check and balance that could compromise financial control.

The town uses the services of a deputy collector for past due motor vehicle excise bills. The town gives him a warrant and he completes online license and registration markings for non-renewal status with the Registry of Motor Vehicles. The deputy collector deposits funds to a dual signature bank account in the town's name, but the statements are not mailed to the collector because it is not a town account. Weekly, the deputy collector prepares a turnover report of the collections made and includes two checks, one for the deputy's service fees and one for the net revenues to the town, for the collector's signature. However, the collector should not be endorsing the deputy collector's service fees check because by by-law the collector must turn over all fees to the treasurer.

RECOMMENDATION12: STREAMLINE THE CASH BOOK

We recommend that the treasurer keep the cash book in one application. By keeping all cash, bank, and trust (including investment and stock) accounts in one application, the treasurer will be able to determine readily Paxton's total cash position at any point in time. Furthermore, it would eliminate the need to re-key information into a separate spreadsheet to combine the accounts for cash reconciliation purposes.

We recommend that the treasurer post departmental receipts in batches to the Vadar System and record the batch deposits in the cash book. When departmental receipts are turned over to the treasurer, the revenues should be entered into the Vadar System in batches. The batch report would serve as a detailed confirmation of a corresponding bank deposit. The amount of the deposit would be entered into the cash book with a reference to the batch. This will ensure that the departmental receipts are recorded timely in both the cashbook and the general ledger, thereby eliminating any delays in the reconciliation of cash.

RECOMMENDATION 13: COLLECT & POST UTILITY PAYMENTS IN THE COLLECTOR'S OFFICE

We recommend that the collector's office collect and post the electric/water/trash bills. With remote access to the municipal light department's billing system, the collector should call up account information and post payments received to the appropriate customer's utility accounts. This will provide a check and balance between the departments.

We also recommend that one of the clerks in the municipal light department be transferred to the town collector's office. With the collections process centrally located in the collector's office, one of the existing clerks should be transferred with the shift in the workload.

We further recommend that the town consider having the utility payments sent to the lockbox. As a major benefit, this service frees-up staff time by reducing over-the-counter and mail payments at the collector's office. The process makes posting automatic, accelerates deposits, makes funds available sooner, and improves investment earnings. Additional interest earned and efficiencies gained help offset the cost to the town for the service.

RECOMMENDATION 14: ESTABLISH DEPUTY COLLECTOR ACCOUNT & PAY FEES BY WARRANT

We recommend that the collector establish her own account for the deposit of all amounts collected by the deputy collector and that the deputy collector's service fees are processed through the warrant. A deputy collector may not receive checks for tax payments, which are made out to him as payee, nor may he endorse any instrument, which he receives as a payment for taxes. In addition, a deputy may not deposit municipal funds in a personal bank account nor may he maintain a personal bank account in the name of a community (M.G.L. c. 60, §92). A deputy collector must turn over to the collector at least weekly, all amounts he collects or deposits into the community's deputy collector bank account. Because of the town's by-law, the service fees may not be paid directly out of the community's deputy collector bank account but must go through the town's warrant process.

RECOMMENDATION 15: PROVIDE TRAINING FOR STAFF

We recommend that the town provide an annual appropriation for training and continuing education for the office staff. While familiar with the current operation, having the collector/treasurer and staff attend professional training classes will provide useful information and opportunities to learn about alternative professional practices conducted in Massachusetts' municipalities.

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