

Town of Nahant

Review of Financial Operations

July 2015



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Published by:

DLS / Technical Assistance Bureau

Zack Blake, Director

100 Cambridge Street

Boston, MA 02114

(617) 626-2358

blakez@dor.state.ma.us

www.mass.gov/DLS



Mark E. Nunnelly
Commissioner of Revenue

Sean R. Cronin
Senior Deputy Commissioner

July 22, 2015

Board of Selectmen
Town of Nahant
334 Nahant Road
Nahant, MA 01908

Dear Board Members:

It is with pleasure that I transmit to you the enclosed "Review of Financial Operations" for the Town of Nahant. I truly believe that if the town follows the recommendations presented here, Nahant will realize financial management improvements and be better positioned for the future. I also would like to thank Melinda Ordway for her work in producing this report.

As a routine practice, we will post the report on the Division's website, www.mass.gov/dls, and forward copies to the town's state senator and representative.

If you have any questions regarding the report, please feel free to contact Zack Blake, Director of the Division's Technical Assistance Bureau, at 617-626-2376 or at blakez@dor.state.ma.us.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean R. Cronin".

Sean R. Cronin
Senior Deputy Commissioner

cc: Senator Thomas M. McGee
Representative Brendan P. Crighton

Table of Contents

Introduction 1

Town Overview 1

Primary Recommendations 8

- 1. Conduct Regular Fiscal Briefings 8
- 2. Establish Annual Goals and Objectives 9
- 3. Make Administrative Edits to the Charter 9
- 4. Investigate Financial Management System Options 10
- 5. Formalize the Budget Process in Bylaw 10
- 6. Consider Moving Annual Town Meeting Date..... 11
- 7. Adopt Formal Financial Practices and Procedure Manuals 12
- 8. Conduct a Review of Town Bylaws 13
- 9. Revise Personnel Bylaw and Expand Employee Handbook Content 14

Other Recommendations 16

- 10. Consider Quarterly Tax Billing..... 16
- 11. Consider Lockbox Service and Remote Deposit Scanner 16
- 12. Update Job Descriptions and Conduct Annual Performance Reviews 17
- 13. Approval of Vendor Bills and Payroll by Boards 18
- 14. Use Harpers Payroll System to Track Compensated Time..... 19
- 15. Consider Biweekly Payroll 19
- 16. Transfer Subsequent Taxes into Tax Title Accounts Before End of Fiscal Year 19
- 17. Establish a Deputy Collector Account and Pay Fees by Warrant 19
- 18. Use Deputy Collector for Outstanding Personal Property Accounts..... 20
- 19. Abate Older Motor Vehicle and Boat Excise Charges..... 20
- 20. Develop Standardized Turnover Sheet 20
- 21. Make Annual Contributions to the OPEB Fund 21
- 22. Advertise for Auditing Services Periodically 21

Acknowledgements 22

Introduction

At the request of the board of selectmen, the Department of Revenue's Division of Local Services (DLS) completed a review of Nahant's financial operations. Our review is primarily focused on the town's financial practices and procedures. Our recommendations are based on site visits by a team from the DLS Technical Assistance Bureau and in consultation with the Bureau of Accounts and the Bureau of Local Assessment. Our team interviewed members of the board of selectmen and advisory & finance committee, along with the town administrator, interim town administrator, accountant, treasurer/collector, assistant assessor, and the town's information technology consultant. We also reviewed the charter, bylaws and special acts, staff job descriptions, financial reports, budget documents, and audited financial statements and management letters.

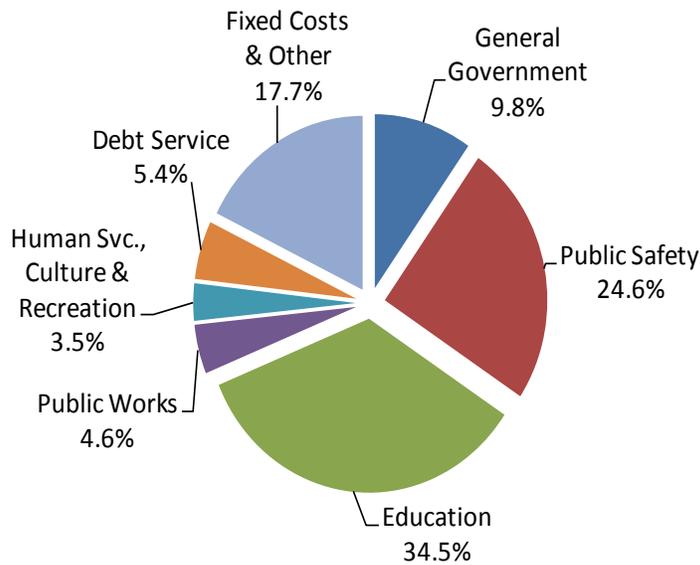
Town Overview

The Town of Nahant is a unique community located just north of Boston. Originally part of Lynn, it was incorporated as a town in 1853. It occupies a land area of 1.24 square miles, making it the smallest community by area in the state, and it has a population of 3,446 persons (2013 US Census), which makes it the 39th densest community per square mile. Located off the coast, Nahant is described as a peninsula or tied island, which is connected to the mainland by a natural tombolo or sand bars and is accessible by a causeway from



Lynn or by water. The community has an abundance of beaches, the largest of which is the Nahant Beach Reservation situated along the causeway and owned by the Massachusetts Department of Conservation and Recreation. While Nahant is predominantly a residential community, these natural venues attract flocks of people seasonally for swimming and boating and year-round for activities such as walking, jogging and bicycling.

Nahant FY2014 General Fund Expenditures



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

Nahant’s FY2015 total operating budget is \$13.86 million, which is funded through four revenue sources: the property tax levy (59.8 percent); state aid (6.2 percent); local receipts (29.6 percent); and other available sources (4.4 percent). The town offers a full-range of municipal services, including a full-time police force, fire department, ambulance service, public works department, library, recreation, and council on aging. In Nahant, PK-6 grades attend the local Johnson School, while the 7-12 grade students attend Swampscott’s Middle and High Schools. By mutual agreement, tuition charge is annually calculated based on

Swampscott’s regular day pupil expenditures for the prior year. In FY2014, education-related expenditures represent the largest portion of the town’s annual operating budget at 34.5 percent, which is closely followed by public safety spending at 24.6 percent.

Since 1980, Nahant has operated under a town charter. When initially adopted by the voters, the charter did not contain any major differences in the long-standing selectmen-open town meeting form of government. The three-member elected board served as the chief executive and was ultimately responsible for the fiscal well-being of the town, and the separately elected officers and boards (e.g., assessors, library trustees, moderator, planning board, school committee, town clerk, and treasurer/collector) oversaw their own departments.

As time passed, the voters recognized that the town’s organizational model and the part-time board of selectmen were not ideal for the increasing complexities of town government. The community considered the advantages of modern, more effective management models and amended the town charter three times. These include reducing the school committee from seven to five members and changing the treasurer/collector’s position from elected to appointed. Nahant also created a strong

town administrator position by special act ([Chapter 13 Acts of 1992](#)). Today, the town administrator replaces the selectmen in running the day-to-day town operations and works with separately elected offices and boards, who continue to operate their own departments. The administrator appoints and removes department heads, officers and employees subject to the approval of the selectmen, serves as the chief fiscal and budget officer, approves payroll and vendor warrants, oversees procurement, and is responsible for personnel administration.

As the chief budget officer, the town administrator meets with departments and prepares the annual operating and the capital budgets, along with a five-year revenue and expenditure forecast. He then submits these to the selectmen for their approval prior to delivering the operating and capital budgets to the advisory & finance committee by early-February. The board, in turn, reviews requests, holds hearings with departments, and develops its operating budget and capital budget recommendations for town meeting. Town meeting is held on the last Saturday of April (Article II, Section 1), and the warrant with recommendation must be delivered to all registered voters a week before the meeting (Article VI, Section 2E). These requirements force the advisory & finance committee to complete its work no later than a month before town meeting to allow ample time for reviewing, printing, binding, labeling and delivering the final product. Because of the tight schedule, Nahant officials present the operating and capital budget recommendations to town meeting, which are changed on the floor due to newer updated information becoming available after the warrant is published.

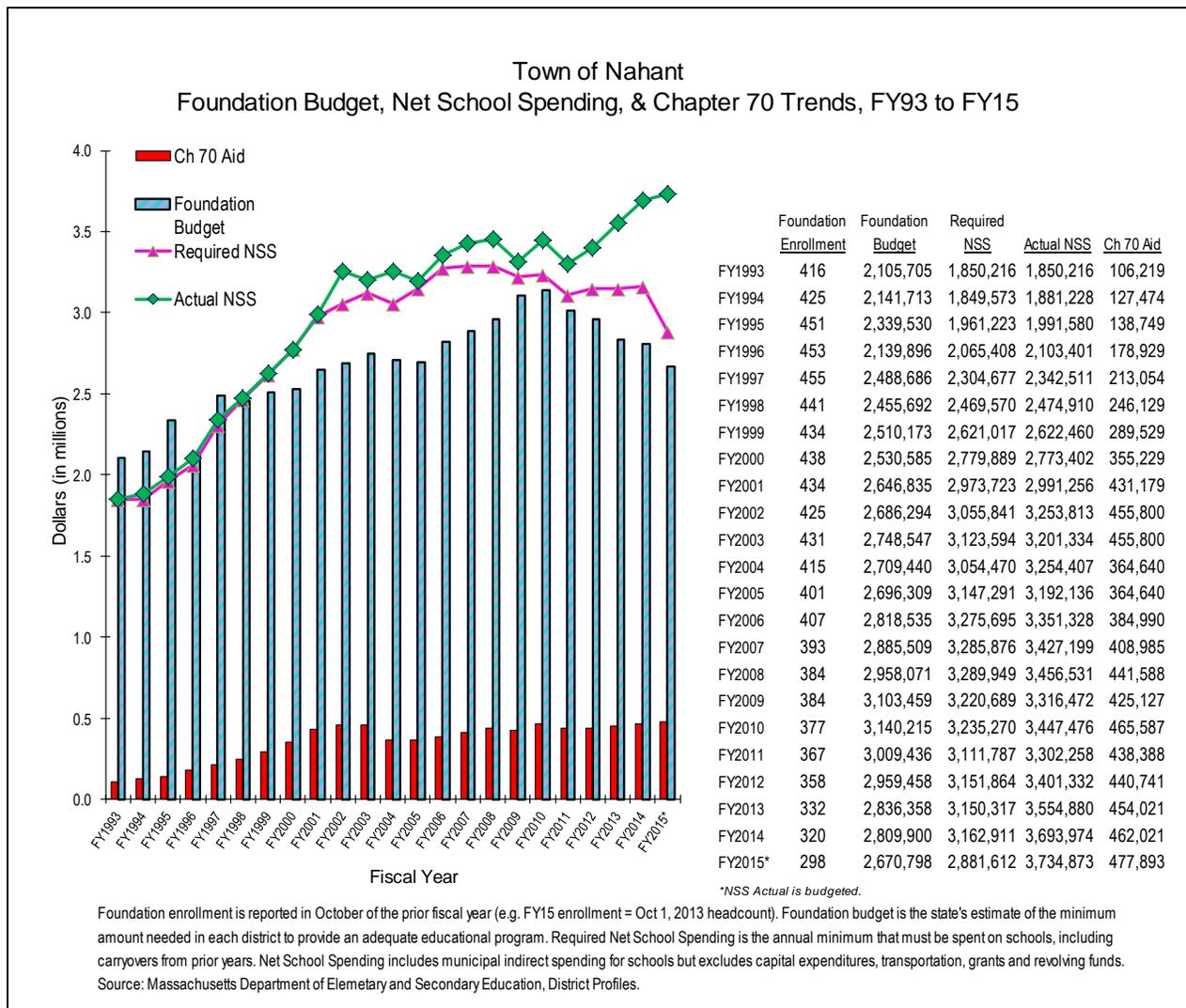
Based on our conversations with local officials, they have two areas of concern with the budget process. One is the town’s reliance on the use of free cash and other reserves to balance the budget. As seen in the adjacent table, Nahant increasingly uses non-recurring revenues to support recurring expenditures. This is not a good financial practice and local officials acknowledge

Town of Nahant Non-recurring Revenue Used for Operating and Capital/One-time Purposes						
Recap	Operating			Capital/One-time		
	Free Cash	Overlay Surtplus	Total	Free Cash	Overlay Surtplus	Total
FY2010	89,896	51,784	141,680	0	0	0
FY2011	119,373	54,441	173,814	13,895	0	13,895
FY2012	104,019	75,975	179,994	26,577	0	26,577
FY2013	357,965	75,933	433,898	44,450	0	44,450
FY2014	453,684	57,698	511,382	77,000	49,397	126,397
FY2015	488,981	70,909	559,890	0	20,000	20,000
FY2016*	501,818	75,658	577,476	89,000	16,000	105,000

* Budgeted.

Source: Massachusetts Department of Revenue, Division of Local Service, Data Bank reports, and Nahant Town Reports and town meeting minutes.

that it is unsustainable. Their other concern is the level of educational spending. Annually, the Massachusetts Department of Elementary and Secondary Education determines the foundation budget, net school spending (NSS), and Chapter 70 aid for each school district (Education Reform Act of 1993, as amended). As seen in the table below, Nahant’s level of education support has been at or slightly above the required NSS. However, despite a decline in students attending the public schools and the corresponding NSS requirement in recent years, the school department’s budget continues to grow. While public officials support the schools, they have concerns about the community’s fiscal ability to spend at a level that is increasingly above each year’s required amount.



Within this context, Nahant's town accountant has worked for the town for over 20 years. She has an assistant town accountant, who is trained to perform the duties of the office in the accountant's absence. The accountant maintains the general ledger, processes vendor invoices, and reviews payroll submissions prior to the town administrator's approval of the warrants. She also prepares and distributes monthly departmental expenditure and revenue reports, completes and submits multiple recap sheet forms, the yearend Schedule A and other required documents to DLS, and prepares schedules for the independent auditor.

The treasurer/collector's office includes the department head and her assistant, who are both bonded. The treasurer/collector oversees collections, manages cash, handles payroll, and administers employee benefits. On the collection side, the office processes property tax bills semi-annually; water and sewer bills triannually; boat and motor vehicle excises, trash fees and beach stickers annually; and parking violations and municipal lien certificates throughout the year. The town issues its own property, water/sewer and trash bills and uses Kelley & Ryan's City Hall Systems to generate, print and mail excise bills and beach stickers. The town receives payments by mail, over the counter, from escrow services, and online through its website. The treasurer/collector issues demand notices to delinquent taxpayers and completes new tax takings during the following fiscal year. She warrants outstanding excise to her deputy collector, Kelley & Ryan.

Treasury responsibilities include managing the town's cash, debt, and tax title accounts. The treasurer/ collector and assistant receive departmental turnovers, deposit funds in the bank, and prepare monthly treasurer's receipts reports for the accountant. The treasurer/collector reconciles the cash book against bank statements and with the accountant shortly after the close of each month. The office also handles payroll and employee benefits administration. Payroll is entered on an exception basis into the Harpers Payroll system, which is then transmitted to the company who prints and delivers paychecks and direct deposit statements to town hall.

The assessing office is guided by and reports to a three-member elected board of assessors. The office is staffed by an assistant assessor and a part-time clerk. The assessing office is responsible for determining full and fair cash valuations, classifying all property, assigning tax payments to owners, and generating the commitment authorizing the treasurer/collector to collect property taxes and excise. The assistant assessor does sale and abatement inspections, while the town contracts with Patriot Properties, Inc. to handle building permit inspections, conduct triennial revaluations, interim year value adjustments, and cyclical inspections, and recollect personal property accounts. The assistant assessor makes abatement and personal exemption recommendations to the board, which once approved, she enters them into the town's financial management system, Zobrio

system. The assessors' digital maps are updated annually and posted online along with a database of property record cards.

Nahant contracts with Consistent Technologies for maintenance, network, security, daily backups, disaster recovery, and other technology-related issues as needed. The town uses Microsoft Office applications and has access to the Internet and e-mail services, as well as other specialized software applications. For example, the assessors use AssessPro, a computer assisted mass appraisal (CAMA) system for real estate and personal property, along with geographic information system (GIS) to maintain its maps. The accountant and treasurer/collector use the Zobrio software system, formerly known as WTI Systems, which offers a suite of accounting, collection and cash management applications. The treasurer also uses Excel for her cash book.

Since 1992, four individuals have been appointed as the town administrator. The first served for about three years and was replaced by the then public works director, who remained in the position until his retirement in 2011. His replacement was hired in a part-time capacity and held the position until June 2014. When he resigned, the long-serving town administrator returned on an interim basis. Due to the part-time administrator's limited hours, some of his responsibilities were delegated to department heads that placed increased workloads and stress on them. Nahant recently hired the fourth town administrator, who is again a full-time professional. We anticipate he will resume the duties of the town administrator, including the budget process, central coordination of the fiscal management and personnel-related activities. To that end, the selectmen contacted the Department of Revenue's Division of Local Services to conduct a review of Nahant's financial offices and procedures and to make recommendations that help the community institute good management practices in an effort to best position the town going forward.

During this review process, DLS staff met with officials and department heads and discussed areas of concern that would be included in the report. At its own initiative, Nahant proactively began addressing some issues, including:

- Authorized the Assistant Accountant and Assistant Treasurer/Collector Positions – Town meeting accepted MGL c 41, §§[39A](#), [39C](#) and [49A](#) as a housekeeping matter, which enables these assistants to perform the duties of the office legally in the absence of their respective department head.
- Established a Compensated Absence Reserve – Town meeting adopted [MGL c. 40, §13D](#) to create a reserve that would cover employees' accumulated compensated absences upon

retirement. Town meeting voted an initial appropriation into the reserve and should make annual contributions as a part of the budget to ensure ample resources are maintained.

- Reviewed Revolving Accounts – When a fee is charged for a specific program or service, a community may establish a separate revolving fund ([MGL c. 44, §53E½](#)) for each. The community reviewed its revolving funds to ensure each complies with the law and that general revenue and grants/gifts are not comingled in a revolving fund. In the process, they also created a new Council on Aging Revolving Fund for senior activities and events.
- Contracted with a Tax Title Attorney – An attorney, who specializes in performing tax title research and preparing necessary legal documents, will assist the treasurer/collector in making sure that the foreclosure process is initiated promptly. As a result, tax title accounts should no longer languish for years.
- Implemented a Personnel Action Form – This form is used when hiring or documenting payroll or personal information changes in an employee’s status that is kept in a personnel file. No person would be permitted to enter changes to employee records without a duly authorized personnel action form signed by the appropriate department manager and town administrator.

In this report, we recommend a series of primary and other recommendations. Chief among them is improving communication by reestablishing regular fiscal briefings for the selectmen and the advisory & finance committee to keep them informed. Equally important, we recommend establishing annual goals and objectives to set performance expectations and making certain administrative edits to the town charter that would formally include the town administrator special act. In addition, we recommend that the town investigate financial management systems and adopt a manual of formal financial practices and procedures. We also encourage the town to move annual town meeting to May or June and to formalize the budget process in a bylaw. These recommendations can be implemented provided there is sufficient cooperation among the various boards, committees, and local officials.

Primary Recommendations

1. Conduct Regular Fiscal Briefings

We recommend that the town administrator reestablish quarterly fiscal briefings. Despite the presence of a strong town administrator, the selectmen still serve as the chief executive officers of the town and should be informed regularly of activities, fiscal health, and any issues or future matters that may impact the community. First established under the long-time town administrator, quarterly fiscal briefings ceased during the part-time administrator's tenure. As a result, selectmen were not fully aware of matters going on in the town. As an added benefit, DLS recommends that these presentations be made at joint meetings of the select board and the advisory & finance committee, so all in attendance hear the same message, are able to ask questions, and receive any distributed materials.

As a part of these fiscal briefings, the town administrator should share the town's five-year revenue and expenditure forecast and multiyear capital plan. According to the special act, the administrator is responsible for preparing these essential financial planning documents. A five-year revenue and expenditure forecast is a useful management and policymaking tool that allows a municipality to evaluate the impact of various government decisions and policy choices over time (e.g., collective bargaining, development and other competing future demands). A multiyear capital plan is prepared based on a complete inventory of the town's structures, equipment and infrastructure, the age and condition of each, and a set of criteria used to evaluate the competing needs of the community. The plan should (1) prioritize the various proposed capital projects; (2) estimate project costs; and (3) list the proposed method of payment for each project (e.g., current revenue, debt, or debt excluded from the limits of Proposition 2½). An annual capital budget, on the other hand, would identify those projects being proposed based on funding ability and should highlight those needs that are being deferred due to financial constraints.

To assist the town administrator, we recommend that the town establish a financial management team through bylaw. The financial management team, who would include the town administrator, accountant, treasurer/collector, and assistant assessor, should meet regularly during the year. The team would assist the town administrator in preparing his quarterly fiscal updates that would include compiling information on the prior year's performance, year-to-date activities, and other fiscal issues as they come up. In addition, the financial team would help develop revenue and fixed cost estimates during the budget process, ensuring they are reliable and updated as new information becomes available.

2. Establish Annual Goals and Objectives

We recommend that the selectmen annually establish goals and objectives for the town administrator. While the town administrator has significant responsibilities for general management, financial operations and personnel administration, he should keep the selectmen fully informed. Not to suggest that the board members would micromanage the administrator or involve themselves in day-to-day operations, the selectmen should establish performance expectations that the administrator would be held accountable for and be subject to an annual performance review. To that end, the selectmen and administrator would begin each year by reaching consensus on a list of goals and objectives that can be reasonably accomplished during a fiscal year. The town administrator would keep the selectmen informed of progress and any issues that arise during the year, and he would present a final status report for each goal prior to his annual performance review by the selectmen.

3. Make Administrative Edits to the Charter

We recommend that the town make administrative edits to include the town administrator special act ([Chapter 13 Acts of 1992](#)) in the town charter. While changes that reduced number of school committee members and the appointment of the treasurer/collector position are reflected in the town charter document, the special act creating the town administrator position is a standalone document. Not revising the charter to reflect the special act is confusing and misleading. The existing charter document does not recognize the town administrator position or responsibilities, including a shift in appointment powers previously done by the selectmen, personnel administration, or the authorization to sign payroll and vendor warrants. The town administrator is a vital town officer and his responsibilities clearly should be included in the official town charter. To make the necessary administrative edits, the community should seek assistance from legal counsel or contract with a municipal code publishing service to review the special act in conjunction with the charter for inconsistencies and recommend administrative edits to properly amend the charter.

In addition, we recommend that the town restore missing content and fix typing errors in the charter. Upon reading the current document available on the town's website, we discovered that the entire Article Six, Transitional Provisions, is missing and must be added back to the document. We also noticed that section and sub-section multilevel designation formatting is inconsistent throughout the document, which should be corrected.

4. Investigate Financial Management System Options

We recommend that Nahant officials consider exploring other financial management software applications. During the course of our review, there was significant discussion about varying levels of satisfaction with the Zobrio (formerly WTI Systems and DataNational Corporation before that) software system. Although the new Zobrio cash management system is an improvement over its predecessor, other applications have long standing operating glitches and management report printing issues that frustrate users. While these issues are noted, of greater concern is DLS' discovery that Zobrio announced the release of new and upgraded software applications during the summer of 2014, but did not communicate this to Nahant officials. After a meeting between Nahant officials, the town's IT consultant, and the vendor, it was reported that the community is not required to migrate to the new and upgraded applications at the present time, but this could change in the near future. The new suite of applications were developed as a result of increasing maintenance costs to support the Fundware accounting application and its older code as well as deteriorating compatibility with other software applications, including new Microsoft releases. As a current client, Nahant would get a discount for the cost of purchasing the new applications, having the conversion done, and receiving basic training, currently estimated to be between \$13,000-\$19,000. However, this does not include the town's time and expense to create a new chart of accounts, which was done in 2009 when Nahant moved from the prior DataNational financial system to FundWare accounting application, and it does not guarantee that the current glitches and printing issues would be resolved.

Town officials should meet with other municipal financial software vendors, have on-site demonstrations conducted, and speak with other communities about the systems they use and their experiences. As in any quest for new technology, the town's IT consultant should be involved from the beginning. He would speak to department heads and users to review current operating procedures, issues encountered, and expectations. The consultant also would investigate the operating needs, review vendor training and support, and identify potential system conflicts in order to help the community find the best solution.

5. Formalize the Budget Process in Bylaw

We recommend that the town adopt a formal budget process in a bylaw. As a means to guide the budget process, the town should develop a model that identifies the sequence of tasks, establishes deadlines to be followed, and indicates the responsible parties.

The budget process should begin with revenue projections developed by the town administrator with input from the financial management team. These would be presented at a joint meeting of

the selectmen and advisory & finance committee in the fall. Based on revenue projections, budget guidelines would be agreed to and electronic forms distributed to department heads so they can begin to prepare their appropriation requests. The budget calendar would include operating and capital budget submission deadlines to the town administrator, the advisory & finance committee's hearing schedule, and provide for a consensus building meeting prior to submitting the budget for town meeting approval.

The administrator would meet with major departments to review their requests, as well as revise revenue projections based on new information and the proposed state aid distributions in the Governor's budget that is submitted to the House on the fourth Wednesday of January. A balanced proposed budget with a memo highlighting the major points would be submitted to the selectmen for their review and approval before being forwarded to the advisory & finance committee.

The advisory & finance committee would conduct hearings to review and discuss department requests in detail. The town administrator should attend these meetings, oversee the coordination of the working document, and keep the selectmen informed. Revenue projections would be adjusted again based on House/Senate joint local aid resolution, if adopted, or on state aid recommended by the House Ways and Means Committee, which is typically available mid-April. Once the advisory & finance committee has completed its review, a final budget recommendation would be prepared for presentation to the annual town meeting. Prior to town meeting, the advisory & finance committee and selectmen would meet to discuss the budget, enabling open communication to assist everyone in understanding the policy implications of the proposed spending plan as well as endeavor to build consensus.

6. Consider Moving Annual Town Meeting Date

We recommend that the selectmen propose moving the date of the annual town meeting to May or June. Per town bylaw, annual town meeting (and town election) is held on the last Saturday of April. To meet this date, budget and capital requests are submitted in December, the budget is presented to the selectmen in early January, and a preliminary draft (not approved by the selectmen) is forwarded to the advisory & finance committee by mid-January. This requires that the selectmen approve and submit the budget to the advisory & finance committee the first week of February so they may hold hearings and prepare and print recommendations for town meeting.

An early town meeting date puts undo pressure on the town administrator, selectmen and the advisory & finance committee to complete work on the operating and capital budgets. It also can sometimes deny the town relevant information concerning state aid. Absent an early House-Senate

joint resolution, the town may only have the Governor's proposed state aid estimate to guide its revenue projections. If the House Ways and Means releases its proposed budget, town officials may have to scramble to update figures and present alternate figures at town meeting. Many towns have recognized that there is little justification for an early town meeting and have gained valuable time by moving the annual town meeting into May and even June.

7. Adopt Formal Financial Practices and Procedure Manuals

We recommend that the town adopt formal financial policies. Nahant has some historical practices, which have evolved but are not documented for future reference, and other areas where no operating procedures exist. The Government Finance Officers Association recommends that municipalities adopt fiscal planning, revenue, and expenditure policies. Policies should be drafted by the town administrator with input from the financial officers and adopted by selectmen.

1. Fiscal Planning Policies – These policies should guide budget development and long-term planning.
 - Budget Process – This policy should identify the participants' roles and responsibilities, a calendar of events, and a budget message that provides for the disclosure of unique fiscal issues.
 - Long-Range Financial Planning – The town should adopt a policy that analyzes how today's decisions have future long-term impacts. The policy should include multi-year revenue and expenditure forecasting, capital outlay planning and annual contributions to the other post-employment benefits (OPEB) fund.
2. Revenue Policies – Because budgeting is revenue driven, it is essential that all revenue sources be identified and properly administered.
 - Fees and Charges – These policies should identify the legal basis for assessing a fee or charge, the method by which they are set, and the extent to which costs, both direct and indirect, are recovered. As a part of the budget process, fees and charges should be reviewed every couple of years through a [costing study](#).
 - Use of One-Time Revenues – This policy should discourage the use of a non-recurring revenue sources to fund recurring expenditures.
3. Expenditure Policies – Given the community's limited resources versus the potential needs, prudent expenditure planning will help fiscal stability.
 - Reserves and Stabilization Funds – A formal reserve policy should establish a practice of appropriating money annually to reserves for future needs. It should identify prudent levels of financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unforeseen one-time

expenditures. Finally, the policy would identify extenuating circumstances where reserves may be used.

-
- Debt Capacity, Issuance, and Management Policy– This policy should specify appropriate uses for debt, role of a financial advisor, the amount or percentage of debt outstanding at any time and debt service payable in any fiscal year

We also recommend that financial offices continue to document routine financial procedures as part of an internal control manual. For years, the town’s private auditor has commented on the lack of a formal, comprehensive procedure manual that clearly defines the objectives, responsibilities and authorizations for each employee position and minimizes potential inconsistencies. As time has allowed, some formal financial procedures have been completed on a few areas such as payroll and vendor disbursements, reconciliations, and debt issuance, but a number of practices have yet to be addressed.

Collectively, internal controls are procedures designed to provide reasonable assurance that a community’s assets are adequately safeguarded. A manual should illustrate the steps for accomplishing routine, important office tasks. A well-conceived procedural manual not only provides guidance on a host of financial management activities, but also serves as a valuable “how to” resource for training new officials.

For both the financial policies and procedure manuals, we encourage the town to seek guidance or sample products from other communities. The town administrator should review policies and procedures with the town’s financial officers and then recommend those that would work best for Nahant to the selectmen for formal adoption.

8. Conduct a Review of Town Bylaws

We recommend the formation of a bylaw review committee. We found that the town’s current published bylaws are not current and all inclusive. The community preservation committee and the historic commission are permanent committees not included in the bylaws, providing information on the number of members, method of appointment, and responsibilities. The bylaws still contain the insurance committee, a three-member board that advised the selectmen on all (e.g., general, property, vehicle, health and personal liability) insurance needs, that was replaced with a nine-member insurance advisory committee, who focuses only on health insurance matters. The bylaws also provide for a capital program committee, who is defunct and the responsibility for capital planning is assigned to the town administrator by special act. The bylaws should be expanded to

create a financial management team and prescribe procedures for the annual budget development process.

A substantive review and recodification of bylaws involves the appointment of a committee that could be formed by a town meeting vote or by a unilateral action by the selectmen. Three to five members would seem sufficient and could be appointed by the town moderator, the selectmen, or a combination of both. It would work best if members reflected a balance between residents and local officials. The bylaw committee charge should be to review existing bylaws, recommend the ones that should be kept, amended or deleted, and suggest new ones for adoption. Hearings and public forums should be held to solicit input from town residents, employees and officials. The updated bylaws should then be organized so that they are easily readable, searchable and posted on the town's website. The use of an outside codification service, of which there are several, would streamline this process for relatively short money. Planners should assume a one-year timetable for completion of this work and factor town meeting approval into a projected schedule.

9. Revise Personnel Bylaw and Expand Employee Handbook Content

We recommend that the town revise its personnel bylaw and expand its employee handbook content. Nahant's personnel bylaw states that it applies to all non-school officials and employees. However, if it conflicts in any way with civil service, collective bargaining agreements or the town administrator special act, then the latter prevails. The bylaw establishes a personnel advisory committee, which is defunct, and lists its administrative responsibilities, which have been done by the town administrator, accountant or treasurer in recent years. The bylaw also has a brief paragraph on personnel records and sections on medical examinations for job applicants, job classification and compensation plans, and various leave and accrual guidelines. To supplement the bylaw, the town developed an employee handbook. The handbook includes information on worker rights and obligations, compensation and work schedules, benefits, grievances and discipline, and other related policies and procedures. Each employee is expected to familiarize themselves with the contents of the handbook and acknowledge their receipt by signature.

In revising the town personnel bylaw, we recommend that it be structured to create a framework on how the personnel system operates, who is responsible for managing it, who it applies to, what the classification and compensation plans are, and references to the employee handbook to ensure universal application. As a part of this revision, we recommend disbanding the personnel advisory board and naming the town administrator as the personnel administrator. A personnel advisory board is unnecessary in a community with a professional administrator, who is responsible for personnel matters that have become more complex with union agreements, personal contracts,

and compliance requirements with federal and state laws on hiring and equal rights, for example. Working with department heads and other boards, the administrator would oversee updating job descriptions, advertising positions, vetting applicants, conducting background and reference checks, and scripting questions to make sure the process is fair and the best person is hired. He would be responsible for securing personnel files, managing grievance and disciplines proceedings, instituting performance evaluation process, and keeping the employee handbook current.

The employee handbook, on the other hand, should be formally adopted by the selectmen and provide detailed information, procedures, and policies for department heads and employees. This would include employee benefits, types of leave, holidays, standards of conduct, and copies of the most recent classification and compensation tables approved by town meeting. While the current employee manual contains a number of policies, it should be expanded to include at a minimum the Whistleblower Act, Health Insurance Portability & Accountability Act (HIPPA), and an acceptable network and electronic use policy. It also should include a policy that secures all personnel, medical, and personal documents in separate files, complying with state and federal regulations (e.g., [MGL c. 149, §52C](#), [MGL c. 214, §1\(b\)](#), and American Disabilities Act) and restricts access to these files to specific officials.

Other Recommendations

10. Consider Quarterly Tax Billing

We recommend that the town convert to quarterly tax billing by accepting [MGL. c. 59, §57C](#). With collections occurring four times per year rather than two, a community has access to its property tax revenue earlier in the fiscal year. It is then in a stronger cash flow position to meet disbursement demands and can provide opportunities for increased investment income. Nahant also could eliminate tax anticipation borrowing costs that it has incurred (see table). As an additional benefit, the town has until December to approve its tax rate. Homeowner's also can budget for smaller, though more frequent payment amounts with a quarterly billing cycle. A preliminary bill based on the prior year tax rate is mailed July 1 and an actual bill, adjusted to the newly approved tax rate, is mailed by December 31. Quarterly payment due dates are August 1, November 1, February 1 and May 1.

	Borrowed <u>Amount</u>	Duration <u>(days)</u>	Interest <u>Cost</u>
FY2001	\$700,000	259	\$22,799
FY2002	\$700,000	286	\$18,045
FY2003	\$700,000	280	\$9,153
FY2004	\$780,000	266	\$7,086
FY2005	\$775,000	264	\$10,058
FY2006	\$0	0	\$0
FY2007	\$800,000	270	\$27,000
FY2008	\$850,000	260	\$25,696
FY2009	\$1,400,000	118	\$10,636
FY2010	\$900,000	92	\$4,500
FY2011	\$1,000,000	308	\$14,274
FY2012	\$1,300,000	312	\$13,858
FY2013	\$1,300,000	314	\$8,396
FY2014	\$1,300,000	302	\$5,381
FY2015	\$1,300,000	300	\$10,685

Source: Massachusetts Department of Revenue, Division of Local Service.

Adopting quarterly tax billing would require advanced planning and work in the assessors' and treasurer/collector's offices. The assessor would have to be consulted because the property records must be updated in order to generate the commitment for mailing the preliminary bills by July 1. As for the collector's office, costs associated with quarterly billing are 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. These are relatively small costs, which are offset partially by gains in interest income and avoided interest costs on RANs.

11. Consider Lockbox Service and Remote Deposit Scanner

Financial institutions offer services that assist a community to streamline the collection and deposit processes. A lockbox service and a remote deposit scanner are two services that would free up staff time, make funds available sooner, improve investment earnings, and assist the staff greatly if quarterly tax billing is implemented.

A lockbox service takes in tax or other payments by mail and processes them through their collection system, reducing over-the-counter and mailed payments at the treasurer/collector's office. The service deposits payments into a municipal bank account immediately and returns daily electronic (and/or hard copy) receipt reports to the client community. To post the payments, the treasurer/collector's office reviews the file and, if it reconciles to the deposit, uploads the information to the accounts receivable software. A contract between the town and a lockbox service would specify the scope of services to be provided and how costs would be calculated, which typically is on a per piece basis. Additional interest earned and efficiencies gained help offset the cost to the town for the service. However, a successful lockbox payment service also relies on a certain amount of public relations.

Similarly, a countertop scanner would enable the treasurer/collector to electronically deposit checks directly to a town bank account. Deposits are immediate and posting is electronic, eliminating the need to physically deliver checks to the bank as well as manually preparing deposit slips.

12. Update Job Descriptions and Conduct Annual Performance Reviews

We recommend that the town administrator initiate a process of establishing, maintaining and amending job descriptions for every town position. We would expect this to be a bottom-up exercise where staff and department heads review and update their own job description by listing what they actually do. The administrator should provide a template or outline to be followed. Staff would present their work product to a department head who would then review descriptions with the town administrator. Department heads would provide their own job descriptions to the town administrator. When complete, all employees will have a clear understanding of their responsibilities and of what expectations are placed on them. For management, overlapping work and gaps in job duties also might be discovered and corrected. More intangible benefits will result if the effort is implemented in an across-the-board, even handed way.

In its simplest form, a job description is a list of functions, tasks and general responsibilities for a given position. However, it can be much more than that. Well thought out job descriptions not only define the knowledge and skill sets required to do the job but help articulate employee performance expectations. As a central component in any performance review process, the job description tells employees what they are expected to do and how their job fits into the overall department and town-wide operations.

We also recommend that the town administrator develop a detailed personnel evaluation program and conduct annual performance reviews for all employees. There is a reference in the town administrator special act that he is responsible for annual personnel evaluation policies and practices. At present, this is not done. Increasingly, municipal governments are placing greater attention on written job descriptions with goals, performance expectations, and provisions for annual employee evaluations. The town should develop evaluation criteria that will provide uniform standards and guidance as well as benchmarks by which each employee's job performance may be measured.

There are various approaches for employee performance evaluations. Some involve a single, annual meeting between a department head and employee when performance, expectations and goals are discussed. Other models involve multiple meetings during the year to more closely measure progress. While few communities offer merit bonuses, many withhold raises for a poor review. They also create an opportunity for the employee to improve his or her performance and receive the raise.

While the implementation of performance evaluations would be subject to labor negotiations for employees in unions, in the meantime, an evaluation program could be developed for those employees covered under the town personnel bylaw. Referencing performance evaluations in the personnel bylaw and including program requirements and the town administrator's role in the employee handbook will help to ensure all departments, including those separately elected, comply.

13. Approval of Vendor Bills and Payroll by Boards

We recommend that elected and appointed boards, who oversee a department and are authorized to expend town funds, approve vendor payment requests and payroll coversheets. Approval of non-payroll expenditures submitted to the accountant requires signatures of a majority of a board's members ([MGL c. 41, §56](#)). This responsibility cannot be delegated to staff or to a single member of the board or committee. Similarly, state law ([MGL c. 41, §41](#)) requires that elected or appointed boards verify an employee's time by way of a signature, or signatures, on payroll submissions to the treasurer. Should a payroll cover sheet be submitted without requisite information or approvals, the treasurer is required to return the payroll submissions for correction. This responsibility cannot be assigned to the staff. However, a board, committee or commission is permitted to delegate this approval authority, by a vote, to one of its members. In the school department, submission by principal and others must be approved in warrants by the school committee before they are sent to the town accountant.

14. Use Harpers Payroll System to Track Compensated Time

We recommend that the town use the Harpers Payroll Service system to track employee sick, vacation, and other compensated time accruals and usage. Currently, the accountant's office tracks and maintains employee available leave information in Excel spreadsheets, which is updated from payroll submissions. Alternatively, Harpers is designed to easily track leave time accruals and print the information on paystubs. Rather than maintaining a separate system, the town should work with Harpers to build the leave accrual tables so compensated time would be entered and automatically tracked.

15. Consider Biweekly Payroll

We recommend that the town consider adopting biweekly payroll for all town employees. The current payroll system is weekly for town employees and biweekly for the school department. An increasing number of employers in both the public and private sectors, including the Commonwealth, compensate employees on a biweekly basis. Although this will require collective bargaining and a 90-day notice to employees, paying employees every two weeks, or 26 times per year, reduces the processing time, saves money, simplifies reconciliations, and frees up staff time to perform other activities.

16. Transfer Subsequent Taxes into Tax Title Accounts Before End of Fiscal Year

We recommend that the treasurer/collector transfer subsequent taxes into previously established tax title accounts before the close of the fiscal year. Once the demand bill due date passes, she should transfer any subsequent outstanding taxes immediately. This will enable her to reduce her remaining outstanding receivable list and leave only those parcels that she needs to focus on for future takings.

17. Establish a Deputy Collector Account and Pay Fees by Warrant

We recommend that the treasurer/collector establish her own bank 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 that are made out to him, nor may he endorse any instrument payable to the town. 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 ([MGL 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. Furthermore, because of a town bylaw that requires all funds be turned over the town treasurer, the collector should not be endorsing the deputy collector's service fees check, but paying them through the warrant process.

18. Use Deputy Collector for Outstanding Personal Property Accounts

We recommend that the treasurer/collector use the services of a deputy collector to pursue outstanding personal property tax accounts. As of June 30, 2014, the town's balance sheet shows personal property tax receivables dating back to FY1996. A deputy collector may be able to obtain money owed the town or provide evidence (e.g., death, absence, poverty, insolvency, or other inability of the person assessed to pay) that the accounts are uncollectible. Once the treasurer/collector is reasonably sure that the accounts are uncollectible, she should work with the assessing office, and file appropriate forms with the Commissioner of Revenue, to have them abated and cleared off the town's books.

19. Abate Older Motor Vehicle and Boat Excise Charges

We recommend that the treasurer/collector contact the assessing office about abating motor vehicle and boat excise determined to be uncollectible. As of June 30, 2014, the town's balance sheet includes more than \$64,800 in outstanding motor vehicle excise that dates back to 1996 and over \$19,000 in unpaid boat excise that also dates back to 1996. Abating the older amounts will help clean up and reduce the town's receivables on its balance sheet. If an older outstanding amount is eventually collected and turned over by the deputy collector, the assessors would have to recommit the bill on a special warrant to the treasurer/collector. This will enable her to accept the payment and post it in the Zobrio system.

20. Develop Standardized Turnover Sheet

We recommend that the treasurer/collector develop a standardized turnover sheet for all departments using Excel. The sheet should be customized to the extent that a department's name, a list of revenue account codes and fund number specific to the department would be used, plus spaces for the department head signature and subtotals for the amount of checks and cash turned over. If completed in Excel, a formula can automatically total the entries and the cells can be protected to prevent changes.

21. Make Annual Contributions to the OPEB Fund

We recommend that the town establish and commit to a policy to provide annual contributions to its other post-employment benefits (OPEB) fund. OPEB obligations reflect the future cost of employee benefits, primarily employee health insurance benefits, that are earned or accrue as the result of the employee working during that year. Nahant's total Unfunded Actuarially Accrued Liability (UAAL) is \$6,140,917 (as of June 30, 2012). In April 2013, town meeting adopted [MGL c. 32B, §20](#), creating an OPEB trust fund, to set money aside for their OPEB obligations. As of this writing, town meeting has appropriated \$1 into the fund. While funding the trust at the full annual required contribution (ARC) determined by the actuarial report may not be possible, providing annual funding that is manageable and increases over time will help build up the balance.

Once the balance reaches at least \$250,000, Nahant would be able to seek approval from the Health Care Security Trust (HCST) Board to participate in the State Retiree Benefits Trust Fund (SRBTF). The SRBTF is invested in the Pension Reserves Investment Trust (PRIT) Fund's General Allocation Account (GAA), also known as the PRIT Core Fund. This fund is the vehicle for investing state and many local pension fund assets. The fund is professionally managed and is one of the best performing state pension funds in the country. As of April 30, 2015, fund rates of return have averaged 9.72 percent annually since the fund's inception in 1985.

22. Advertise for Auditing Services Periodically

We recommend that the town advertise for auditing services every five to eight years. According to DLS's records, audits conducted since FY2003 have been completed by Clifton Larson Allen LLP (formerly Sullivan, Rogers & Co., LLC). As a routine practice, we comment on the number of years that a municipality might contract with or rely on the same auditor. The Government Finance Officers Association (GFOA) recommends that communities enter into multiyear agreements with auditors, or a series of one-year contracts, for a term of five to eight years. A multiyear agreement allows for greater continuity and enables a new auditor to spread initial start-up costs over multiple years, potentially reducing costs in the initial years. However, after this term, GFOA recommends a full competitive selection process. If auditors are retained over many years, the principal in charge of the town's account should periodically change. Contracting with a new audit firm can not only bring a fresh perspective, but reflects good practice.

Acknowledgements

This report was prepared by the Department of Revenue, Division of Local Services:

Sean R. Cronin, Senior Deputy Commissioner of Local Services

Zack Blake, Director, Technical Assistance Bureau

Melinda Ordway, Senior Financial Management Analyst, Technical Assistance Bureau

Everett Griffiths, former Field Representative, Bureau of Accounts

Thomas Dawley, Community Advisor, Bureau of Local Assessment

In preparing this review, DLS interviewed the following individuals:

Perry Barrasso, Selectman (former)

Richard Lombard, Selectman

Michael Manning, Selectman

Jeffrey Chelgren, Town Administrator

Mark Cullinan, Interim Town Administrator

Mary Ellen Schumann, Administrative Assistant

Mary Lowe, Administrative Assistant

Deborah Waters, Accountant

Kathleen Costin, Assistant Accountant

Kathryn Famulari, Treasurer/Collector

Kathryn Kougias, Assistant Treasurer/Collector

Sheila Hambleton, Assistant Assessor

Margaret R. Barile, Town Clerk

Brendan Ward, Advisory & Finance Committee

Charles Waelde, Information Technology Consultant

DLS 2015

Division of Local Services MA Department of Revenue

EXECUTIVE SUMMARY

RECOMMENDED ACTIONS TO BE CONSIDERED BY THE TOWN

PRIMARY RECOMMENDATIONS

1 Conduct Regular Fiscal Briefings

- Recommend quarterly fiscal briefings - Held in a joint meeting of the Selectmen and the Finance and Advisory Committee.
- Create a Financial Management Team (through bylaw) comprised of Town Administrator, Treas./Collector, Town Accountant and Assist. Assesor.

2 Establish Annual Goals and Objectives

- Recommend that the Selectman establish annual goals and objectives for the Town Administrator

3 Make Administrative Edits to the Charter

- Recommend that the Charter be amended to restore missing content and to fix typing and grammatical errors throughout.

4 Investigate Financial Management System Options

- Recommend that optional Financial Software packages be reviewed and considered given on-going staff concerns and pending Zobrio updates.

5 Formalize the Budget Process

- Recommend that the Town consider adopting a formal budget process in a bylaw.

6 Consider Moving Annual Town Meeting Date

- Recommend that the Town move the Town Meeting to May or June in order to give more time for the budget process.

7 Adopt Formal Financial Practices and Procedure Manuals

- Recommend that the Town consider adopting a formal financial practices and procedure manual containing the following policies:
 - a. Fiscal Planning Policies
 - b. Revenue Policies
 - c. Expenditure Policies
 - d. Debt Capacity, Issuance & Management Policy

8 Conduct a Review of Town Bylaws

- Recommend the Town create a Town Bylaw Committee.
- The Town's current published bylaws are not current and all inclusive. Recommend that this should be remedied.

DLS FINANCIAL OPERATIONS REPORT RECOMMENDATIONS (CONTINUED)

9 Revise Personnel Bylaw and Expand Employee Handbook Content

- Recommend that the Town revise the personnel bylaw to create a framework on how the personnel system operates
- Recommend that the employee handbook be adopted by the Selectmen and provide necessary procedure and policy information.

10 Consider Quarterly Tax Bills

- Recommend that the Town move to quarterly tax billing in order to improve cash flow and to avoid use of RANs

11 Consider Lockbox Services and Remote Deposit Scanner

- Recommend moving to a Lockbox service and deposit scanner in order to streamline the collections and deposit processes.

12 Update Job Descriptions and Conduct Annual Performance Reviews

- Recommend that the Town Administrator update all job descriptions and develop and implement a personnel evaluation program.

13 Approval of Vendor Bills and Payroll by Boards

- Recommend that all elected Boards and Committees approve vendor payment requests and payroll coversheets.

14 Use Harpers Payroll System to Track Compensated Time

- Recommend that the Town use Harper Payroll program to track accrued sick, vacation, and miscellaneous earned time.

15 Consider Bi-Weekly Payroll

- Recommend that the Town move to bi-weekly (from weekly) payroll as a means of creating greater personnel and process efficiency

16 Transfer Subsequent Taxes into Tax Title Accounts Before End of Fiscal Year

17 Establish a Deputy Collector Account and Pay fees by Warrant

18 Use Deputy Collector for Outstanding Personal Property Accounts

19 Abate Older Motor Vehicle and Boat Excise Charges

20 Develop Standard Turnover Sheet

21 Make Annual Contribution to the OPEB Trust Fund

- Recommend that the Town make annual contributions to the OPEB Trust Fund in order to address the \$6,140,917 accrued liability.

22 Advertise for Audit Services Periodically

- Recommend that the Town procure annual audit services every 5-8 years. The town has had the same Auditor for the past 12 years.