



Town of Andover

# **Town and School Finance Study**

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Division of Local Services / Technical Assistance Section

May 2010

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## INTRODUCTION

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At the request of the Andover Board of Selectmen and School Committee, the Department of Revenue's Division of Local Services (DLS) and the Massachusetts Department of Elementary and Secondary Education (DESE) have completed this consolidation analysis of municipal and school finance/business functions for the town.

We have based our findings and recommendations on site visits and telephone conversations by staff members of the Division's Municipal Data Management & Technical Assistance Bureau (MDM/TAB) and DESE's School Business Services unit. The staff interviewed chairs of the board of selectmen, school committee and finance committee, as well as the town manager and school superintendent, assistant town manager, finance director, town accountant, acting school business manager, school accountant, human resources director, collector/treasurer, town information systems director, facilities director, purchasing agent and other municipal office staff.

DLS staff examined such documents as the annual budgets, town charter and bylaws. The town also provided us with warrants, employee contracts, job descriptions, revenue and expenditure reports, a draft of the Blum Shapiro information technology report and other assorted financial documents.

The purpose of this assessment is to assist Andover officials as they evaluate the town and school financial organizations and consider the prospect of merging these functions. In reviewing the existing operations, we have focused on: (1) documenting existing organizational structures and workflows; (2) potential options and opportunities for achieving operational efficiencies or process improvements; and (3) cost-savings associated with a consolidated town and school finance operation.

We encourage the selectmen and school committee, when evaluating the possible merger, to consider the observations, analyses, and recommendations contained in this report. These are recommendations only and can be implemented, at the town's option, provided there is sufficient cooperation among the various boards, committees, and officials.

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## BACKGROUND

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Located approximately 23 miles north of Boston in Essex County, the town of Andover is bisected by the Merrimac River and two major highways, Routes 495 and 93. Proximity to major transportation resources has fostered a strong and diverse local economy and established the town as an attractive residential and commercial center. The town has a population of 33,418 people that are spread over 31 square miles of land area.

Andover prides itself on a progressive and responsive government, with an original charter enacted by the state legislature in 1956 and later amended in 1974. The town is overseen by a five-member board of selectmen who appoints a professional town manager to administer the day-to-day operations of town government. An open town meeting serves as the town's legislative body. The town's budget projects to be close to \$140 million in FY2011, with about three-quarters of the revenue coming from property taxes. Andover is considered a desirable community that provides a full range of high quality municipal services.

The town's schools are also highly regarded, perform well on standardized testing and other measures of educational performance and are a source of community spirit. As measured by the FY2011 foundation enrollment of approximately 6,000 pupils, the Andover School District is the 33<sup>rd</sup> largest school district in the state. The district operates on a general fund budget of \$59.7 million for FY2010. With roughly another \$6 million of additional spending from state and federal grants and other user fees, total school spending approaches \$66 million. An additional \$12.5 million is spent from other municipal appropriations to support school operations including school employee benefits, health and other insurances and school maintenance.

### PREVIOUS COOPERATION AND CONSOLIDATIONS

There is a long history of cooperation between the Andover School Department and the municipal side of Andover town government that has facilitated the consolidation of various duplicative functions. During the mid-1980s, plant and facilities maintenance was consolidated into a single, town-wide department serving both the schools and town government.

The plant and facilities department is comprised of eight divisions. It is responsible for the routine and scheduled maintenance of town buildings (except custodial care of school buildings), equipment, vehicles, parks, fields, cemetery, other municipal grounds, traffic signals and street lights. The department operates a central fuel depot, manages the rental of all building and outdoor spaces, and oversees repairs, capital improvement and construction projects. All costs are charged to the plant and facilities budget, but are tracked in detail so that a monthly breakout of project costs, labor and materials by department is reported to town and school officials.

The plant and facilities director is funded in the municipal budget, but reports to both the town manager and the superintendent of schools. By all accounts, this effort has been effective in keeping facilities in good condition and equitable in meeting the needs of all town departments.

The human resources function has also been consolidated into a town-wide department of human resources (HR). The department's core services are provided by the HR director and a staff of four and include staff recruitment, compensation and benefits management, staff training and development, employee relations and human resources information management. When a new employee is hired, a department submits a requisition, HR verifies authorization for the position, develops/updates the job description and classification, and checks the necessary electronic signoffs (e.g., budget and finance, school business office, town manager, and school superintendent). HR assists a manager in screening the applicant pool, scripting interview questions, and sits in during interviews upon request.

This department is physically located in the school department, but similar to facilities, the director reports to both the town manager and superintendent of schools. This initiative has also been successful in providing centralized human resources services to all departments.

## ANDOVER'S BUDGET PROCESS

Andover has relied on a long-standing budget model to determine the annual budget allocations for presentation to the Andover Town Meeting. The model, as developed by the town's director of finance and budget, projects available revenues for the upcoming fiscal year as part of a five-year revenue forecast. Next, projections of various fixed and other costs are deducted from available revenues. These deductions include such costs as pension assessments, employee health and other insurances, state and vocational school assessments, enterprise fund costs (water and sewer) supported by user fees, and debt service. The remaining revenues are then allocated proportionately between the town and school departments such that each side receives the same percentage increase.

In fiscal year 2011, the model yielded about a \$2 million increase in available revenue to be shared by the school and other town departments. This resulted in a 2.26 percent increase in the town manager's recommended budget for both the school department and town departments. After the deductions, this represents a split of approximately 65.8 percent of available revenues for the schools and 34.2 percent for the other town departments, excluding the water and sewer departments.

The first draft of the budget model is typically produced in early November each year after the new tax levy growth for the current year is known. In early December, the budget model is presented at a tri-board meeting of the selectmen, finance committee and school committee. The town charter requires that the manager finalize and submit his recommended budget to the selectmen and finance committee by the first Friday in February. During February and March, the selectmen, finance committee and school committee hold public hearings. Final recommendations of the town manager, selectmen, finance committee and school committee are then included in the finance committee's report to town meeting.

As the duly elected body responsible for school policy, the school committee makes the first motion on the school budget at town meeting. More often than not, the school committee motion has contained an amount higher than the budget recommended by the town manager, selectmen or finance committee. In Andover, the strong constituency for schools often results in town meeting approving a

school budget that is higher than the recommendation of the manager, selectmen and finance committee.

Despite the difficult fiscal climate during the FY2011 budget process, the school committee was able to work cooperatively with the selectmen and finance committee to reach consensus on the school budget prior to town meeting. By level funding town-wide capital improvement budgets, reducing planned unemployment appropriations, and school committee reductions to staffing levels and SPED tuitions, the tri-boards were able to agree on a school budget of \$61.9 million, an increase of \$2.16 million or 3.6 percent over the FY2010 appropriation. Town meeting supported the tri-board's recommended school budget of \$61.9 million which was about \$800,000 higher than the town manager's recommendation.

Though they have a history of collaboration and cooperation, the dynamics around the annual budget allocation complicate the relationship between the school committee and the town administration. On the school side, the general feeling is that the budget allocation model does not always represent the budget needs in the schools accurately. Consequently, there appears to be some skepticism surrounding the details of the forecast and whether the interests of the town administration are truly aligned with the school department. To some extent, good communication between the director of finance and budget and the school business manager has mitigated negative consequences from this natural tension around the budget.

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## CURRENT TOWN AND SCHOOL FINANCIAL OPERATIONS

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To begin our assessment of the feasibility of consolidating the municipal and school department financial operations, we reviewed and documented the roles and responsibilities of the school business manager and business office staff, as well as the roles of the town financial staff, particularly in the finance and budget and town accountant's offices. An organizational chart at the end of this section displays the staffing levels and reporting relationships of these offices.

### FINANCE AND BUDGET OFFICE

The finance and budget office is managed by a director who reports to the town manager and oversees and coordinates the activities of five divisions: administration, assessing, collector/treasurer, information systems, and central purchasing/insurance. The finance and budget director develops financial forecasts and serves as the chief financial advisor to the town manager, selectmen and finance committee. He is responsible for the development of the annual operating and capital budget recommendations and participates in the presentation and defense of budget decisions to the finance committee and other decision-making bodies. He has one administrative secretary in his office.

### ASSESSING OFFICE

The assessing office is responsible for determining the full and fair cash value of all real and personal property within Andover. The assessing office classifies all property, assigns tax payments to owners and generates the commitment authorizing the collector/treasurer to collect property taxes and motor vehicle excise. A chief assessor (who also sits on the appointed board of assessors) manages the office and has a staff of four full-time persons.

### COLLECTOR/TREASURER'S OFFICE

The collector/treasurer's office is responsible for receiving tax, excise, utility, and betterment payments, preparing deposits, and posting receipts to the appropriate account. The office also manages the town's cash (including the investment, disbursement, and borrowing of cash) and oversees tax title and foreclosed property accounts. In addition to the collector/treasurer, the office is staffed by four persons, an assistant collector/treasurer and three office assistants.

Unlike other town and school finance offices, the treasurer/collector's office does not use the MUNIS financial software, relying instead on ADMINS software to bill and post tax and excise payments and to manage receipts turned over by all departments. After the close of each month, the collector/treasurer provides the assistant town accountant with a printed report of all revenues posted to the ADMINS software that is reviewed for accuracy and completeness against her copies of departmental reports. If in agreement, the data is electronically exported to the MUNIS system via a bridge developed by the information systems department. It is the collector/treasurer's goal that this

process be completed by the 20<sup>th</sup> day after the end of each month. It should be noted that until the month's receipts are closed, the general ledger is not current with respect to recognition of revenues.

In the collector/treasurer's office space, there are two additional positions. These positions, funded through the water/sewer enterprise budget, are solely responsible for water/sewer collections and have dual reporting responsibilities to the collector/treasurer and the public works director. The water/sewer collection staff receives payments, posts them to customer accounts in CUSI, enters daily collection totals in ADMINS and handles customer relations.

#### INFORMATION SYSTEMS OFFICE

The town's information systems department has five positions that are responsible for networking, hardware, software and other technology devices used in town departments. There is a separate consulting study being conducted on merging information technology staff, from all departments including schools, into one consolidated department.

#### CENTRAL PURCHASING/INSURANCE OFFICE

The central purchasing/insurance office is staffed by two persons, a purchasing agent and her office assistant. For all school and town departments, this office is responsible for ensuring compliance with state purchasing and construction laws (estimated at 75 percent of the office's workload) as well as coordinating insurance and risk management for property and casualty claims (about 25 percent of workload). Because the purchasing agent oversees school and town purchasing, her salary is budgeted at 60 percent in the town's budget and 40 percent in the school business office's budget.

A school purchasing coordinator reviews purchase orders, centrally bids standard purchases and enters purchase orders into MUNIS to encumber funding. The purchasing agent does not have supervisory responsibilities over the school purchasing coordinator, but does review and sign-off on all purchase orders she compiles. The purchasing agent directly handles all bids with an estimated value over \$25,000 and drafts the request, issues and advertises the bid package, and opens and awards the contract. For vendor payments greater than \$500 without a purchase order, the purchasing agent is responsible for signing the request for payment before the town accountant pays the bill.

#### TOWN ACCOUNTANT'S OFFICE

Under the Andover charter, the town accountant is appointed by and reports to the selectmen, but works cooperatively with the town manager and finance director. The town accountant has a staff of five, an assistant town accountant<sup>1</sup>, a town payroll administrator (0.9 full time equivalent or FTE), an accounts payable coordinator, and two office assistants. The primary responsibilities of the office are maintaining the town's general ledger, producing trial balance, revenue, and expenditure reports, maintaining debt information and reconciling cash and receivables with the collector/treasurer. In

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<sup>1</sup> The assistant town accountant is a 0.9 FTE in FY2010, but has been increased to full time in FY2011.

addition, the town accountant encumbers funds for purchase orders, reviews invoices and prepares warrants and processes the weekly town payroll. He also serves as a member of the Andover retirement board.

Because town departments do not have access to the MUNIS system, all payroll data and vendor invoices are submitted directly to the town accountant's office. Each submission is reviewed for completeness, accuracy and necessary approvals/signatures. If anything is missing, it is returned to the appropriate department for corrections. Invoices are entered and a warrant created, which is reviewed and signed by the town accountant and then by the town manager before disbursement by the treasurer.

Andover also uses the MUNIS system to process the payroll. All changes originating from the human resources department (e.g., changes in positions, pay grade/step, stipends and employee benefits) as well as employee requested adjustments to withholdings and deductions are entered into the MUNIS system by the town payroll administrator. Reportedly, the base payment information has been entered into the MUNIS tables. However, because many of the town's union contracts are complicated with multiple layers of pay (e.g., overtime, education, longevity, shift differences, professional certifications, stipends and temporary assignments), the payroll cannot be readily programmed into the MUNIS system and operated on an exception basis.

Instead, the town accountant's office must manually create off system reports to calculate the total amount due employees and enter the gross adjusting figures into MUNIS on a weekly basis. The town payroll administrator calculates payment of deductions and withholdings, reconciles the payroll, and prepares the warrant for the approval of the town accountant and town manager. Similarly, the accumulated personal time balances for employees are not kept in the MUNIS system and must be manually entered by the town accountant's staff into Excel spreadsheets and periodically reconciled with departments.

The town accountant's staff also serves in a non-traditional role regarding water and sewer billing. The water/sewer department is responsible for reading meters, with readings loaded into hand-held devices and then uploaded to the town's computer system. The town accountant's staff then pulls the data into a specialized software application (CUSI) and reviews the figures. Questionable entries are referred back to the water/sewer department. If the department cannot get access to a meter, the accountant's staff must estimate the consumption. The town accountant's staff enters edits, produces and reconciles the commitment and prints the bills, which are delivered to the two water/sewer collections staff members located in the collector/treasurer's office.

The accountant's staff also handles the direct billing of insurance for individuals who receive town health insurance, but do not have the employee share deducted through the payroll system (e.g., elected officials, COBRA, some retirees and surviving spouses). Payments are directed to the treasurer's office. These non-traditional accounting activities are long-standing practices.

## SCHOOL BUSINESS OFFICE

The school department has its own business office responsible for all administrative and advisory work relative to the business operations of the department. Specifically, the business office oversees the school department's budget development, financial planning, accounting, transportation, and food services.

A full-time school business manager supervises this office with the support of a full-time administrative assistant. The current business manager retired from this post in 2004, but has returned twice since then to perform the job on a temporary basis when vacancies occurred.

The business office is divided into divisions. The food services division is managed by a full-time coordinator who makes sure that adequate supplies, equipment, kitchen managers and staff are in place to carry out the special revenue program efficiently. Similarly, a full-time transportation coordinator is responsible for supervising crossing guards and providing safe, reliable and economical transportation services to in-district and out-of-district students.

The business manager is also responsible for school buildings, but, in fact, this duty is more of a cooperative management activity. Daily custodial services are overseen by the building principals, but the business manager controls the approval of overtime and addresses union contractual issues. Maintenance projects, capital improvements, and construction are overseen by the town plant and facilities department with input from the business manager.

The primary focus of the business manager is developing the school budget, monitoring accounting and financial activities, and developing, communicating and advocating effective financial plans for the school department. With ten buildings and over 1,000 persons on the payroll, these responsibilities are demanding under normal circumstances, but are more time consuming given current economic times. To assist the business manager on daily financial matters, there is a school accountant.

The school accountant is part-time (0.8 FTE) and manages the accounting operation, including payroll, purchasing, payables and financial reporting functions for the school department with a staff of three full-time persons. A full-time copy center manager, who provides copying services for the whole school department, also reports to the school accountant.

The assistant school accountant reviews about 11,000 invoices annually; enters them into MUNIS, produces the accounts payable checks, warrants, and cash disbursement reports. She makes general journal entries, establishes grant accounts and handles departmental turnovers to the town treasurer (other than special education and athletics). She also prepares summary and detailed revenue and expenditure reports for departments, monitors spending activity, reconciles accounts and tracks the status of open purchase orders.

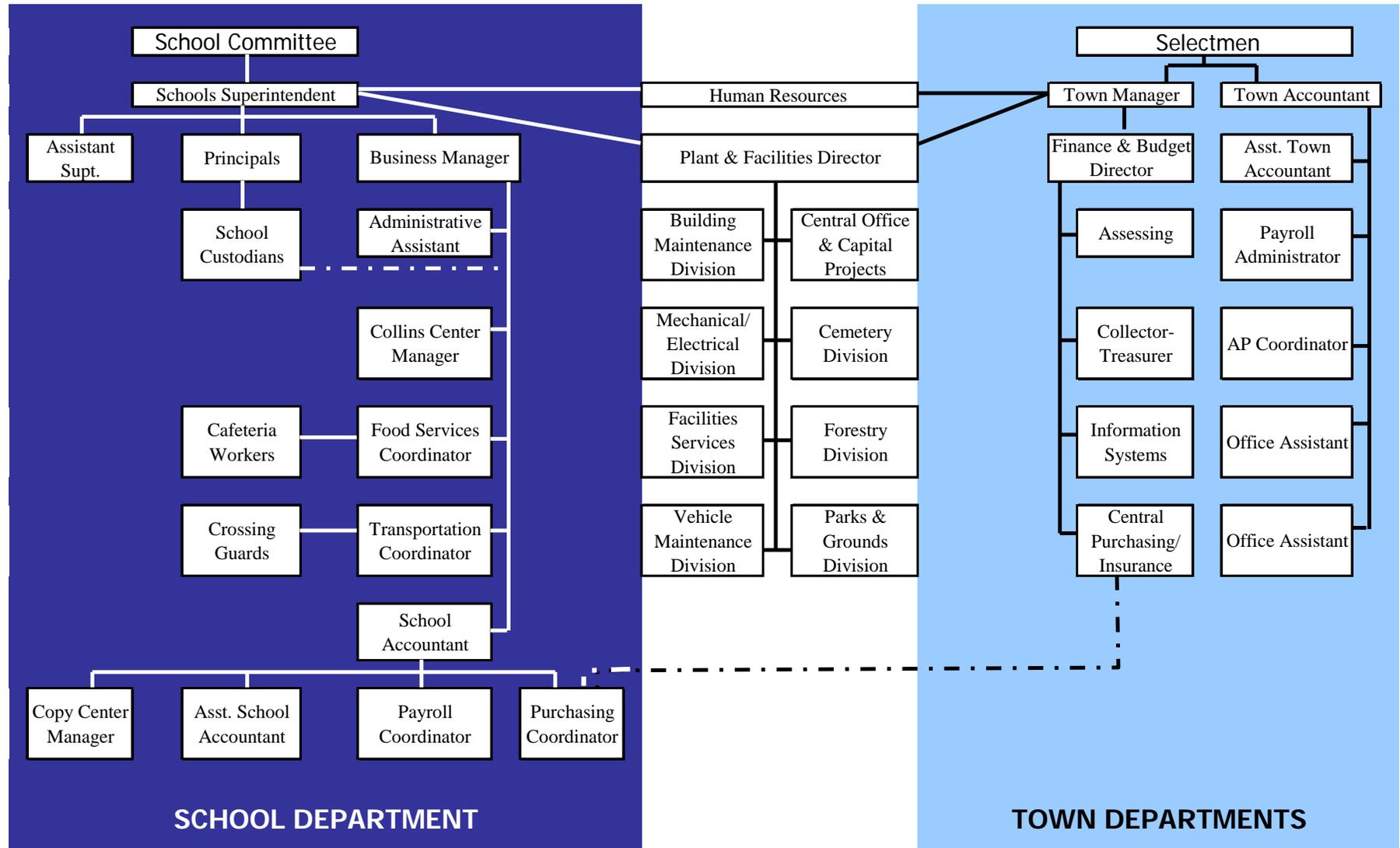
The school payroll coordinator reviews status changes authorized by human resources and obtains attendance data from the on-line (aesopsonline.com) database service where employees enter their time and attendance. She then data enters payroll into MUNIS on an exception basis and prepares the warrant. The vast majority of the staff is paid biweekly (over 900 persons) and about 100 persons

are paid weekly. The school payroll coordinator runs payroll warrants, prepares retirement deduction reports, and maintains attendance and personal leave balances.

The school purchasing coordinator oversees the requisitions for school services and supplies by determining the best method of procurement such as direct purchase, bid or request for proposal. She prepares central bid packages and reviews the five-part purchase order form initiated by a school or program for completeness and accuracy. All purchase orders are reviewed and approved by the town purchasing agent as well. The school purchasing coordinator also enters the purchase orders into MUNIS.

When bills are submitted to the school business office for payment, the school purchasing coordinator examines each invoice for accuracy and matches it to the corresponding receiving document/purchase order for payment. She investigates invoices and statements that do not have purchase orders and follows up on outstanding items relating to purchase orders (i.e. returned items, credit memos, back ordered items.).

*Diagram 1*  
**Town of Andover**  
**Financial and Shared Operations**



## CONSOLIDATING THE BUSINESS MANAGER'S ROLE

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We begin the analysis with an overview of the primary responsibilities of the school business manager and a discussion of whether or not it makes sense, either fiscally or operationally, to consolidate these responsibilities with other town finance offices. The successful consolidation experience in Barnstable, a district of similar size to Andover, will be evaluated and used as context for this discussion.

We will examine whether or not the town's governmental structure facilitates a consolidation of this type as well. We will also review the DESE licensure requirements for school business administrators to determine if these requirements affect a decision to distribute the business manager's responsibilities among other financial offices. Finally, we will look at the dynamics around the town's budget process, the degree of support and advocacy for school spending and the level of trust among town policy makers.

### THE BARNSTABLE CONSOLIDATION EXPERIENCE

The Barnstable schools have a total enrollment of about 5,500 pupils and a FY2010 general fund budget of approximately \$58 million. Though total enrollments are similar, in Andover, the FY2011 foundation enrollment (6,054) represents a relatively high 18.1 percent of the town's total population (33,418). In Barnstable, the foundation enrollment (5,492) represents a fairly low 11.9 percent of total population (46,184). Of particular note, foundation enrollment in Barnstable has declined by 19 percent or 1,313 pupils between FY2000 and FY2010 while in Andover the enrollment has increased by 461 pupils or 8.3 percent over this period.

The government structure in Barnstable is quite different from the form of government in Andover. Barnstable has adopted a town manager/town council form of government where the town manager serves as the town's chief executive and administrative officer and a 13-member town council serves as the legislative body. In Andover, the selectmen act as the executive branch of government, the town manager handles administrative duties and a town meeting open to all registered voters serves as the legislative body. With an open town meeting, the turnout and composition of the voters attending a meeting is variable, and can affect the outcome of votes.

According to Barnstable's finance director, essential ingredients to a successful consolidation include unequivocal support from elected and administrative town and school officials, mutual trust between municipal and school leadership and a formal agreement to share revenues. In this case, both communities use a budget allocation model designed to divide available revenue among fixed costs and departmental budgets. Given recent demographic trends, it is not surprising that there has been more buy-in of the budget allocation model among elected officials in Barnstable and that the school committee typically accepts their apportioned share of the budget.

In Barnstable, the finance director oversees all finance department operations (accounting, treasury, collections, assessing and purchasing) and plays a lead role in budget development and

financial analysis. The school department has a dedicated person, the assistant finance director, who focuses solely on school finance, prepares the school budget and oversees all school accounting. She is a certified school business manager, but reports to the town's finance director.

Finance department policy is to present all financial information in an open, transparent manner, but to remain strictly neutral in budget or other conflicts that may arise between school and town officials or administrators. Town and school offices are physically located in the same building and the superintendent and town manager meet weekly with the finance director to foster good communication and working relationships.

Another contributing factor to the town's success cited by the finance director was decentralizing the processing of payroll and payables. Rather than have the accounting department key-in payroll and vendor payment information that is originally collected at the department, building or program level, this responsibility was shifted to each department, or building/program with the schools. Entering this data on a decentralized basis forced each department or program to take ownership of their data, freeing up the finance department to perform higher level audit functions rather than data entry.

## RESPONSIBILITIES OF THE SCHOOL BUSINESS MANAGER

Among the most important responsibilities of the school business manager is to develop the school department budget, and take a leadership role to communicate the associated budget plans and impacts to the school committee, town officials and citizens. Often this involves presenting the budget during public hearings and advocating for the budget on behalf of the school superintendent and committee. The business manager also serves in a confidential and advisory role to the superintendent and school committee by preparing financial plans, analysis and recommendations to assist them with important policy decisions such as collective bargaining positions, the setting of user fees and the preparation of the annual budget.

Another primary responsibility of the business manager is to work with principals and program administrators to plan and design financial and accounting controls. Oversight of the day-to-day accounting related to the approximately \$66 million spent by the school department is essential to ensure that financial results are stated accurately, and that spending is consistent with the approved budget and the requirements of state law. This involves the review of all payroll and vendor payments prior to the warrants being approved by the school committee. The business manager also reviews all purchase orders, bid specifications and contracts. The business manager oversees the preparation of financial reports periodically for the committee and the state, including the End-of-Year Pupil and Financial report submitted to the Department of Elementary and Secondary Education (DESE).

Although the budgetary and accounting responsibilities are considered the most substantive roles for the position, the business manager oversees the school lunch program, the pupil transportation operation and, in many districts, plays a strong role in the maintenance of school facilities. In Andover, the school business manager directly supervises the director of food services, the coordinator of transportation, and the school accountant. Facilities maintenance is handled primarily by the

consolidated plant and facilities department, though the business manager oversees any custodial overtime and handles grievances that may arise.

## POTENTIAL COST SAVINGS

A first step in the analysis is to assess the feasibility of shifting the responsibilities of the school business manager to the existing municipal finance departments. If the functional responsibilities of the position were to be distributed among other finance offices, are there opportunities to save scarce budget dollars? For example, is it possible that the finance and budget department or the town accountant's office could assume many or most of the responsibilities of the business manager? Or is it likely that the additional responsibilities and associated workload in these offices would be unmanageable with existing staff and require additional personnel such that there would be little or no cost savings?

It is our strong conclusion that the budget, accounting and financial management responsibilities of the business manager in a district that spends \$66 million annually requires a high level, full-time position. Realistically, the existing municipal finance offices, such as the town accountant and finance and budget department, are not equipped personnel wise to handle these responsibilities without additional staff. Therefore, it may be possible to shift these responsibilities to the town finance departments, but there does not appear to be much opportunity for cost savings in this scenario if a position with a salary similar to the business manager's must be shifted as well.

## LICENSURE REQUIREMENTS FOR SCHOOL BUSINESS ADMINISTRATORS

Another issue is the DESE regulations that stipulate the license requirements for a certified school business administrator to oversee the district's finances. As noted above, if the substantive responsibilities of the business manager were consolidated with existing finance offices, it would be necessary to hire someone with the requisite license, skill and experience to be successful. Regardless of who fulfills the school business manager responsibilities, DESE regulations call for the person responsible to be licensed as a school business administrator. In our view, certification is especially important given the fact that the district is among the largest in the state.

DESE's regulations (603 CMR 7.09) cover the prerequisite background needed to achieve initial certification as a school business administrator. First, a candidate needs to possess at least an initial license in another educational role and to have completed at least three years of employment in a district-wide, school-based or other educational setting. Completion of at least three years of employment in a business management or other setting accepted by the DESE can be substituted for the above school experience. Potential school business administrators must also pass the MTEL Communication and Literacy Skills test.

The regulations also require that the school business administrator possess subject matter knowledge in the areas of financial planning and management, accounting systems, management of state and federal funds for special services (food service, transportation and special education),

municipal and school finance laws and regulations, personnel and collective bargaining, and purchasing and facilities, among others.

Lastly, a candidate must complete an approved post-baccalaureate program including a supervised practicum of 300 hours in the school business administrator role, or 300 hours in an apprenticeship with a trained mentor consistent with DESE guidelines or submit to a panel review where the candidate's portfolio of work is assessed by DESE staff. The requirements for certification are fairly rigorous and are not easily attained without a significant time commitment.

#### IMPACT OF GOVERNMENT STRUCTURE ON POSSIBLE CONSOLIDATION

In Andover's government structure, the town accountant is appointed by the selectmen and, by design, the office functions independently of the finance and budget department. In this structure, moving the business manager's responsibilities to the finance and budget department is awkward since this department does not oversee accounting. Moving just the budgetary, analysis and financial planning aspects of the job to finance and budget might make sense organizationally, but shifting the school accounting to the town accountant's office splits up the two most substantive roles of the business administrator between these offices. Splitting up these significant responsibilities raises questions about where the certified school business administrator should be located: in the finance and budget department or the town accountant's office.

The fact that the town has an open town meeting as the legislative body may impact a decision to consolidate as well. An important role of the business manager is to analyze and quantify the potential programmatic impacts of divergent budget amounts on school operations. These impacts then become central elements of the argument to be made by school advocates during budget hearings and debate leading up to town meeting. Given that Andover's legislative body is an open town meeting, this give and take surrounding potential impacts on the school budget is an essential part of getting school advocates to attend town meeting and support an adequately funded school budget.

#### BUDGET ADVOCACY AND FINANCIAL POLICY

Perhaps the most compelling issue that must be examined is the exclusive, and often confidential, role the business manager plays in analyzing policy options and advising the superintendent and elected school committee. The school committee regularly makes decisions regarding the district's curriculum and textbooks, facilities, staffing levels and class sizes, and how services such as special education, transportation, food service and custodial services are provided. The business manager serves as the school department's point person for developing a budget document that reflects these policies, analyzing revenue sources and potential shortfalls, communicating associated budget impacts to local officials and school stakeholders and advocating for a fair share of scarce town revenue.

If the business manager's position were to be moved to the town finance departments, would the school committee and superintendent be comfortable seeking this type of advice from the town

finance departments? Or would the natural competition for annual budget dollars cause the superintendent and school committee to question the willingness of town finance departments to support their needs?

In theory, when all town and school policy makers endorse and accept the budget allocations determined by the financial model, the school budget responsibilities might be transferred successfully to the municipal finance and budget department. For example, the buy-in by all local and school officials and the willingness of the schools to accept their allocated budget share was identified as a key factor in the success of the consolidated finance department in Barnstable.

In Andover, there has been less widespread acceptance of the annual school budget allocation yielded by the model. Some on the school side believe that recent budget allocations have not been sufficient to maintain the desired level of services and, in recent years, staff positions have been eliminated. For FY2011, the school department requested a general fund budget of \$63.7 million, an increase of 6.7 percent over FY2010 levels. The town manager has proposed a FY2011 school budget of \$61.1 million, representing an increase of 2.26 percent. After the tri-boards reached a recent budget compromise, town meeting approved a \$61.9 million school appropriation, about \$800,000 higher than the manager's recommendation.

So while consolidating the budgetary responsibilities of the school business administrator with the town department of finance and budget may yield a cleaner organizational structure and a more cohesive budget development process, there are practical reasons why this may not be acceptable to the school committee and superintendent. Of foremost concern, it appears clear from our interviews that, in recent years, the school department has not been satisfied with the town manager's recommended budget and has argued for a higher budget than indicated by the town's budget model.

Without a business manager, the school department would have less capacity to produce and disseminate the budget analysis necessary to convince residents to attend town meeting and vote for a higher school budget. Where the elected school committee members believe that it is part of their job to advocate for sufficient resources for the schools, it will be difficult for them to relinquish a business administrator that reports exclusively to the school officials. While the analytical work around the budget could conceivably be done on the town side, the town's political culture and the associated budget dynamics are likely to make this a difficult transition as it leaves the superintendent and school committee without a trusted expert on financial matters.

Another factor is that the business manager responsibilities that would logically remain with the schools, such as oversight of the school lunch and pupil transportation programs, would need to be assigned to either existing school administrative staff or a new person hired for this purpose.

## CONCLUSION

At the present time, shifting the business manager responsibilities to the town finance departments doesn't appear to be a good fit for Andover, from either a fiscal or operational perspective. Andover's current organizational structure is not well suited to consolidating the business manager's responsibilities as the most substantive responsibilities would have to be split between the

finance and budget department and the separate town accountant's office. Legitimate questions arise about where the licensed business administrator would be located, whether the town could attract qualified people to fill these fragmented positions and whether school department financial management needs would be adequately met in this scenario.

The predominant argument against moving the business manager to the town finance departments is more political in nature. The nature of the annual debate around the town's budget process and the school department's allocation is not likely to change soon given the tight fiscal climate, enrollment trends and the town's legislative body. Despite the success of previous town-school collaborations, we are not certain, at least in the short-term, that the necessary level of support for this consolidation is such that the school committee will agree to the consolidation of the business manager's position.

## CONSOLIDATING PURCHASING, ACCOUNTS PAYABLE AND PAYROLL FUNCTIONS

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In the sections that follow, we diagram the workflow in the town accountant's office and school business office and discuss whether it is possible to consolidate town and school accounting responsibilities such as payroll, vendor payments and purchasing. Our assumption in this discussion is that the business manager would remain in the school department, but that routine processing of payroll, payables and purchasing would be consolidated with town financial offices. The business manager would continue to oversee how the information is submitted by individual schools or programs to the accounting department.

In this discussion, we suggest other efficiencies that should be built into an implementation plan to consolidate these functions. In most respects, they should be thought of as integral and necessary components of a consolidation plan and allow the town to maximize the economies of scale that may be realized by merging these operations.

### PURCHASING AND ACCOUNTS PAYABLE PROCESSES

The purchasing guidelines in Andover require that all purchases under \$5,000 should be handled using best business practices, ensuring that the town gets the best price and value given the set specifications. A blanket purchase order up to \$1,000 may be requested for smaller purchases through a particular vendor. A department must get at least three verbal quotes (or written) for purchases between \$5,000 and \$10,000 and three formal written quotes for purchases between \$10,000 and \$25,000.

Andover has the MUNIS purchasing module, but only the school business office and town accountant's offices have access to it. Using this module, these offices enter the purchase order information that has been approved on five-part preprinted forms for the school and town departments.

Town departments manually compile quotes, using a tally quotation sheet that requires information like vendor contact data, a description, cost and/or unit price, and terms of delivery. Based on this information, one quote is selected and the purchase order is created. Reportedly, because there is not a standardized template, each town department has created its own format, enters the relevant information and prints the final onto the pre-printed, multi-sheet forms using an impact printer. The purchase order and tally quotation sheet are submitted to the purchasing agent for review and approval. If the purchasing agent has questions or requires changes to a purchase order, it is sent back to the department to be re-printed and then re-submitted for approval. When a purchase order is approved, the town accountant's office is notified so the information is entered into the MUNIS purchasing module and funding is encumbered.

In the school department, virtually everything is obtained with purchase orders. The school purchasing coordinator centrally bids the major scholastic, cafeteria, custodial, medical supplies. For independent or unique purchases, departments must solicit their own bids using the manual quotation tally sheet and print out the purchase order on the five-part form. When completed, these are

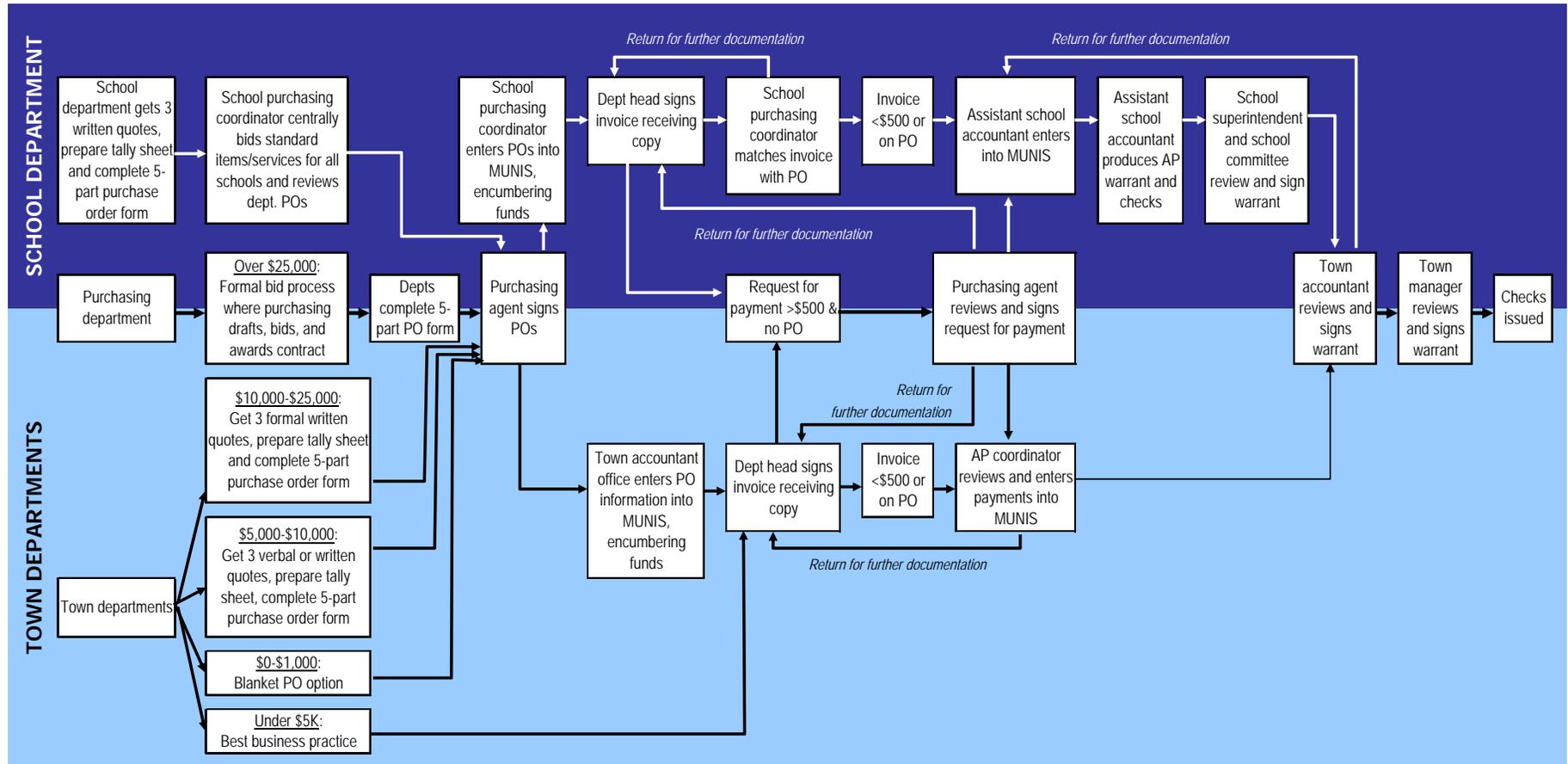
forwarded to the school purchasing coordinator, who checks for completeness and assigns a number before sending them to the purchasing agent for final approval. Again, if additional information is required, it is sent back to the department. Once the purchasing agent approves a purchase order, the school purchasing coordinator enters the information into MUNIS and the funds are encumbered.

When it comes to paying invoices, specific parameters have been established to ensure that the community is getting the best price and departments are abiding by state procurement laws. If a purchase order has been executed or the purchase is for less than \$500, a school department invoice is sent to the school business office be paid and a town department invoice is sent to the town accountant for approval.

If there is no purchase order and the purchase is more than \$500, the invoices (and tally quotation sheet if necessary) must be sent to the purchasing agent first. Invoices of this type are processed as requests for payment. All requests for payment are reviewed by the purchasing agent to make sure that purchasing laws and procedures were followed. If she has questions or requires additional information, the invoice may be sent back to the department for changes and resubmission. When the invoice is approved by the purchasing agent, school bills are sent to the business office and town invoices are forwarded to the town accountant's office.

According to the purchasing agent, during FY2009, her office handled 1,155 purchase orders and 3,138 requests for payment from town departments and 2,867 purchase orders and 471 requests for payment for the schools. Since purchasing is essentially a manual process, with the MUNIS purchasing module used only by accounting and the school business office to encumber funding, the purchasing agent cannot electronically query and sort payments by vendor or type of purchase to determine if purchases should have been bid or if a more effective bid might have been possible.

*Diagram 2*  
**Town of Andover**  
**Purchasing and Accounts Payable Processes**



## PAYROLL PROCESS

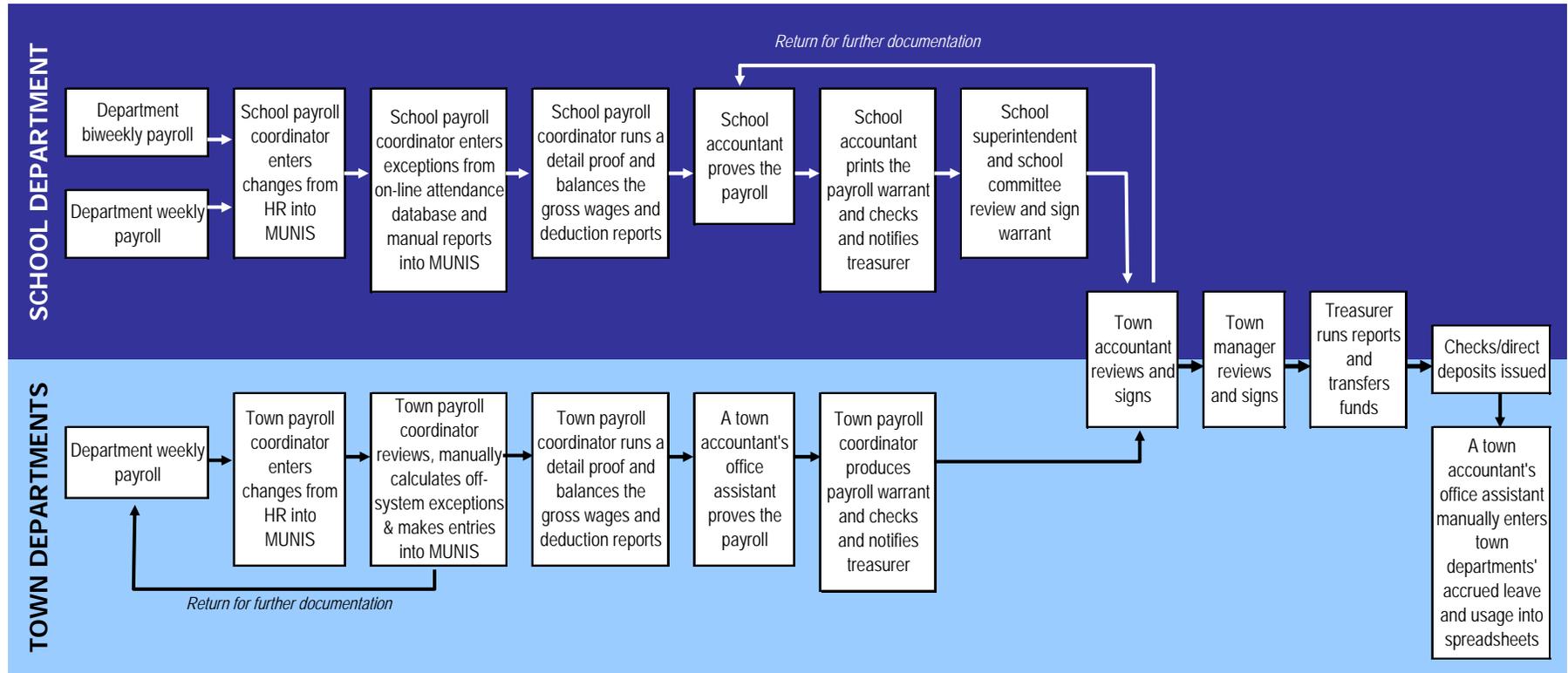
The school department tracks time and attendance using an on-line database for all staff except the crossing guards, custodians, food services, and substitute nursing personnel. Time and attendance for these individuals is kept manually with time cards or in spreadsheets. The information is keyed into MUNIS on an exception basis by the school payroll coordinator. Once entered, the school payroll coordinator runs a detailed proof and balances the gross wages and deduction reports, which the school accountant proves. The payroll warrant and checks are printed and the school payroll coordinator notifies the treasurer.

The warrant is approved by the school superintendent and the school committee before it is sent to the town accountant for review and approval. If there are questions or further documentation is required, the town accountant will send it back to the school business office. The final step in processing the payroll warrant is the review and approval by the town manager, which authorizes the treasurer to disburse the checks and release direct deposits.

Town department time and attendance reports are kept manually by each department. This information is sent to the town payroll administrator for review and entry into MUNIS. Base pay tables are in the MUNIS system, but in many departments contractual pay types are so varied and complex that an individual's pay must be calculated using off-system spreadsheets, with the final result entered into MUNIS each week.

Once all are entered, the town payroll administrator runs a detailed proof, balances the gross wages and deduction reports, and compares them to the prior week's payroll. One of the town accountant's office assistants proves the payroll. The payroll warrant and checks are then printed and the treasurer is notified. The warrant is reviewed and approved by the town accountant and then by the town manager, prior to the release of payroll. As time allows, one of the town accountant's assistants updates the personal leave information kept in a series of Excel worksheets.

*Diagram 3*  
**Town of Andover**  
**Payroll Process**



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## CONSOLIDATION RECOMMENDATIONS

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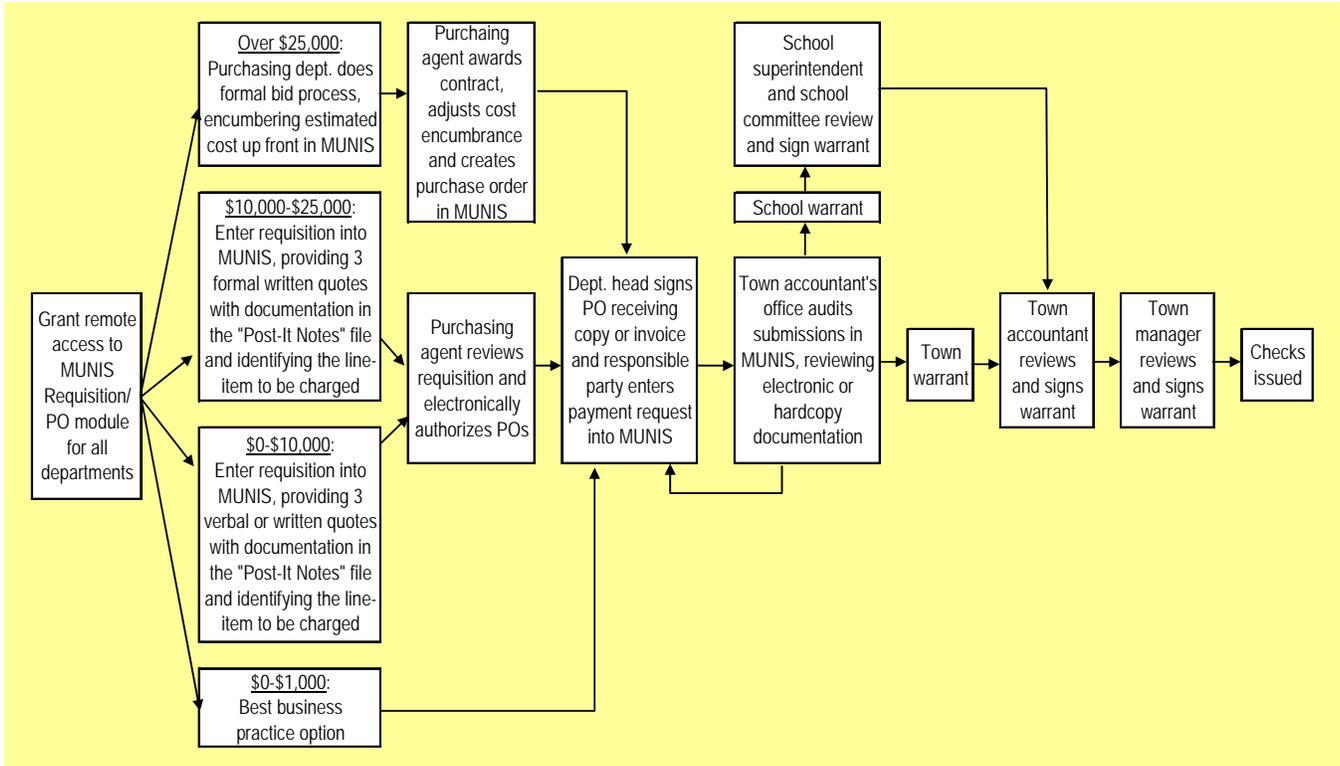
Currently, only the town accountant's and school business offices have access to the town's financial management accounting, payroll and purchasing modules. As such, both offices review payroll and invoice submissions and centrally enter these data into the MUNIS system to produce the warrants. Similarly, purchase orders are compiled at the department level off-system. They are not entered into MUNIS by the accounting and business office staff until after the purchasing agent affixes her signature to the town's manual 5-part form. Despite having financial management software (MUNIS) that allows department level staff to data-enter requisitions, invoices and payroll so that the accounting or business office may review and post the information, the town uses long established manual processes.

We recommend that the MUNIS system be expanded to allow for the decentralized data-entry of purchasing requisitions, vendor invoices and payroll at the departmental, school or program level. If the town were to purchase the necessary MUNIS licenses, setup appropriate user access rights and security, and provide training and guidance, all town departments could be responsible for entering their data into MUNIS. According to the report of the town's IT consultant, Blum Shapiro, much of the necessary infrastructure for decentralized processing is already in place.

Any off-system paperwork (e.g., documents, spreadsheets, and formal quotes) would be attached to the electronic submission as a portable document format (or PDF) file. This would create efficiencies in accounting processes, reduce paper consumption and free up financial staff time to conduct higher level review and auditing functions. We advise a staggered implementation schedule, with large departments/programs that have capable staff in place implementing the new processes first.

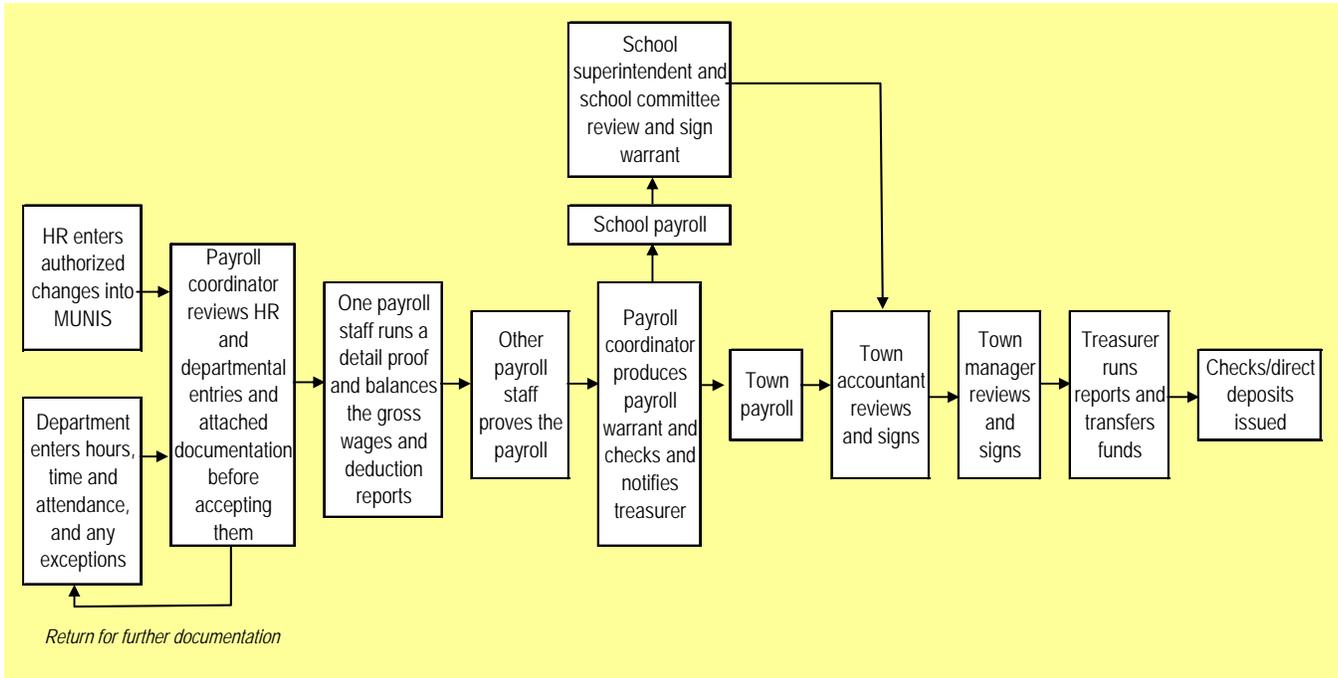
In this model, the appropriate department head, building principal or program manager (or their designees) will be authorized to enter requisitions and invoices at the department level. With preset access and security levels, departments would only be able to enter data in these modules and would not have direct access to the accounting records. The information will then be available for review, audit and approval by the accounting staff prior to being posted to the accounting records. The data will flow through the system from requisition to payment without the need to repeatedly enter the same information or go through multiple review processes. The diagram on the following page describes the proposed process.

*Diagram 4*  
**Town of Andover**  
**Proposed Purchasing and Accounts Payable Processes**



Similarly, department heads, building principals and program managers (or their designees) should be responsible for entering payroll. Again, through preset access and security levels, departments will have limited access to MUNIS so that they may enter payroll information. Due to the complex salary schedules and added pay types for some town departments, the accountant’s office should provide these departments with the spreadsheets they currently use to calculate payroll. Departments will enter the information they currently compile into these spreadsheets so that they can be reviewed and approved by the accounting staff. This will provide departments with a systematic, electronic means to provide payroll data for the review, audit and approval of the accounting department. As displayed in the diagram on the following page, this process is intended to simplify workflow, have departments take ownership of their submissions, and create additional time for the accounting staff to audit entries.

*Diagram 5*  
**Town of Andover**  
**Proposed Payroll Process**

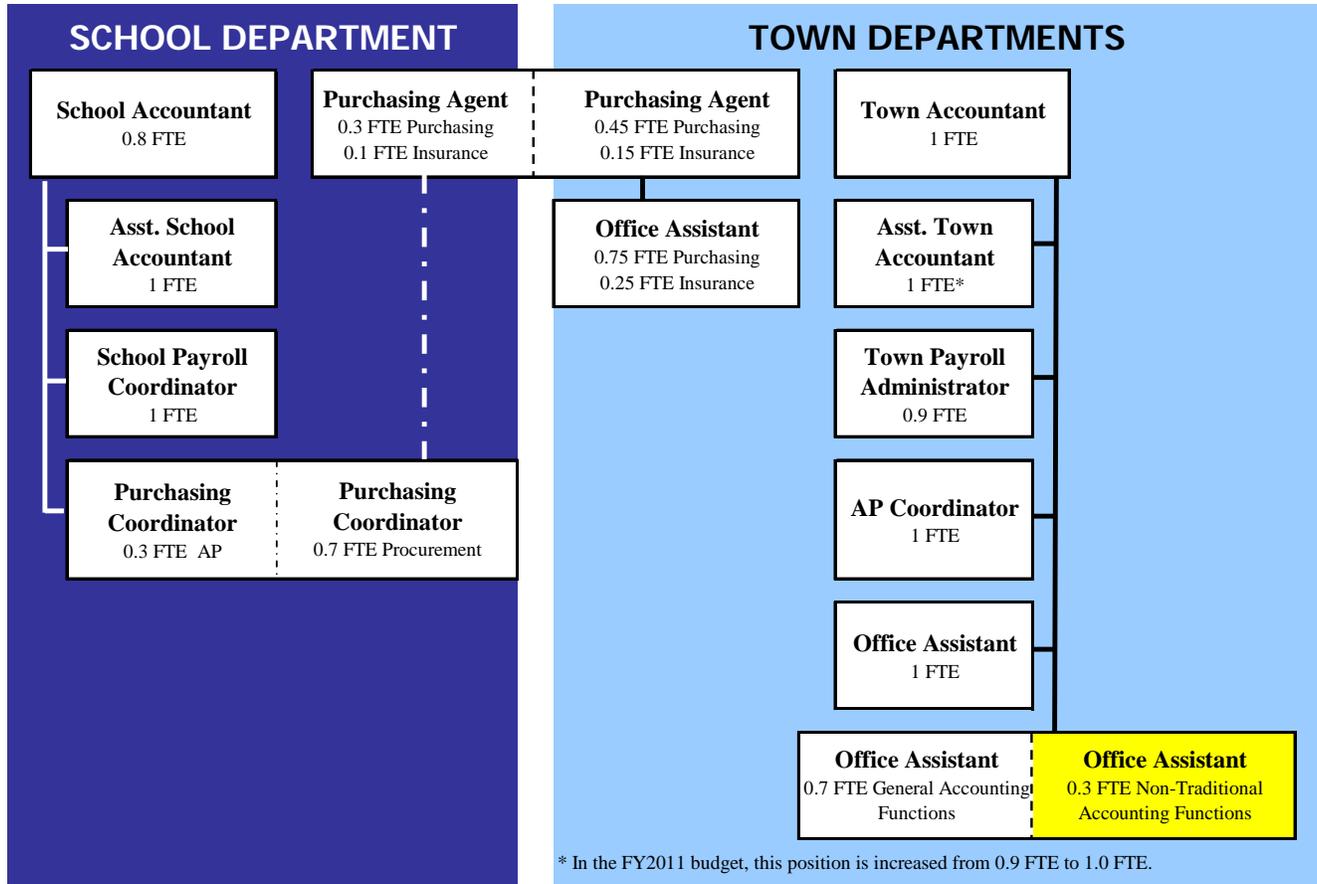


**PROPOSED STAFFING IN CONSOLIDATED ACCOUNTING AND PURCHASING DEPARTMENTS**

To determine the required staffing in consolidated accounting and purchasing operations, we considered the staffing needed for current accounting, procurement and insurance functions performed by the town accountant’s office, the purchasing department and the school business office. As shown in the diagram on the following page, the town accountant’s, purchasing and school business offices have 5.9 FTEs, 2 FTEs, and 3.8 FTEs (excluding the business manager), respectively, for a total of 11.7 FTE staff.

Based on the primary position responsibilities and our interviews with town and school officials, we have allocated these positions among four functional areas in the accompanying table: accounting, non-accounting, procurement and insurance responsibilities. Accounting includes traditional activities such as accounts payable, payroll, posting to the general and subsidiary ledgers, preparing analyses, periodic and year-end reporting, correspondence and other recordkeeping. Non-accounting roles include the water and sewer billing and direct-billing of health insurance. Procurement includes duties such receiving requisition requests, centrally bidding items and construction projects, signing contracts or issuing purchase orders as well as authorizing requests for payment. The insurance responsibilities involve handling insurance claims against the town.

*Diagram 6*  
**Town of Andover**  
**Current Accounting & Payroll and Purchasing & Insurance Operations**



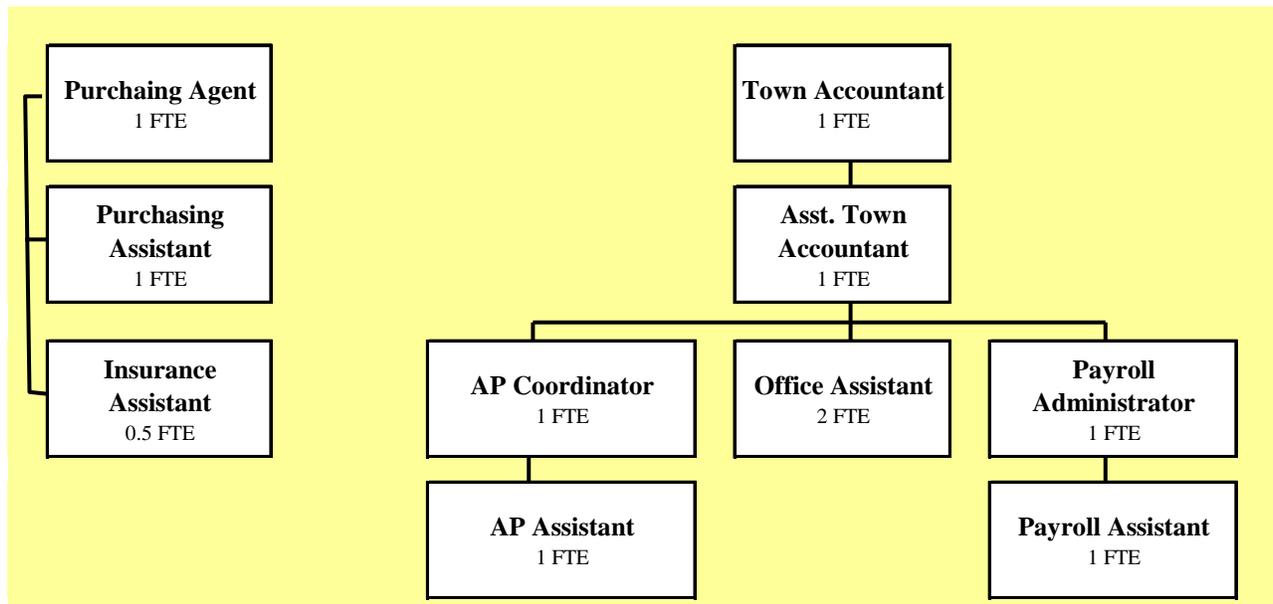
*Table 1*  
**Town of Andover**  
**Allocation of Staff by Function**

Office	Accounting	Non-Accounting	Procurement	Insurance	Total
Accountant's	5.6	0.3	0.0	0.0	5.9
Purchasing	0.0	0.0	1.5	0.5	2.0
School Business	3.1	0.0	0.7	0.0	3.8
<b>Total</b>	<b>8.7</b>	<b>0.3</b>	<b>2.2</b>	<b>0.5</b>	<b>11.7</b>

Initially, we recommend that the consolidated accounting department be staffed with 8 FTEs and the purchasing and insurance function with 2.5 FTEs. This represents a potential reduction of the about 1.0-1.2 FTE staff positions. Inherent in the proposed staffing recommendation is the assumption that the town makes more extensive use of technology including decentralizing the data entry responsibilities for payroll, purchasing and payables to the department level. We also assume that the non-traditional accounting responsibilities (0.3 FTE) are transferred to other departments.

Given the eventual need to upgrade to MUNIS version 7.0, the training needed at the departmental level to enter payroll and purchasing data and the planning necessary to merge the school and town accounting operations, we believe that this consolidation may take a year to fully implement. After the new procedures are fully implemented, any necessary troubleshooting is completed and initial resistance from staff wanes, it may be possible to operate the accounting and purchasing operations with only 9.5 FTEs. To operate these departments successfully with this lower staffing level, the town will need to implement some of our other recommendations, many of which are aimed at streamlining aspects of the accounting process.

*Diagram 7*  
**Town of Andover**  
**Proposed Shared Services**  
**Accounting & Payroll (8 FTE) and Purchasing & Insurance (2.5 FTE)**



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## OTHER RECOMMENDATIONS

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In this section, we make additional recommendations designed to streamline operations in the town's financial offices.

We recommend that the town move to a bi-weekly payroll process and require direct deposit rather than issue paper paychecks. Moving to a bi-weekly payroll will result in a more efficient payroll processing and reduce the workload in the accounting office. Requiring direct deposit will eliminate the need to issue manual checks, make cash reconciliations easier by eliminating outstanding payroll checks and avoid the need to cancel and re-issue lost checks. Both of these payroll related recommendations will need to be bargained with the town's labor unions. The fact that all town and school labor contracts expire on June 30, 2010, makes this a good time to consider this recommendation.

We recommend that the town's purchasing guidelines be revised. While the school department uses purchase orders for virtually all purchases, town departments use them primarily for purchases over \$5,000 or the occasional blanket PO for under \$1,000. To ensure that proper business practices have been used, the purchasing agent must sign requests for payment over \$500. This review is time consuming, but since it occurs after the goods have been delivered or services rendered is less useful in guiding purchasing practices and can delay payment to vendors. Reducing the purchase order threshold to \$1,000 will place the community in line with similar communities and help meet purchasing department goals of getting the best price with the given specifications.

Through the use of MUNIS management reports, the purchasing agent should be able to review spending patterns by vendor, type of purchase and department to determine if bids should have been used or if purchasing across departments may be aggregated and bid more effectively. With new purchasing guidelines, purchasing agent review of purchases less than \$1,000 could be discontinued.

We recommend that the town make full use of the MUNIS budget module to develop and monitor departmental budgets. Use of the budget module will allow the accounting office to load the approved budget directly into the appropriation ledger without the need to re-key the information. This will save a modest amount of time in the accountant's office, but more importantly, it will give the departments a way to track their budgets during the fiscal year without the need to maintain off-system spreadsheets. This recommendation compliments the earlier recommendation to move to decentralized processing of payroll and payables, as use of the budget module allows for complete tracking of these entries during the fiscal year.

We recommend that the school custodians be placed under the supervision of the plant and facilities department. Plant and facilities is the department best positioned to oversee and set the standards for the maintenance of school buildings. School principals will continue to have input into the maintenance priorities, but decisions about how to best accomplish these objectives would rest with the experts at plant and facilities. Transferring the custodial staff to the plant and facilities department would have to be bargained with the custodial union.

Over the long-term, we recommend that the town, through the collective bargaining process, seek to simplify the payroll and leave accrual calculations. To be clear, this recommendation is not meant to reduce salaries in any way, rather the intent is to streamline the calculations so that they could be done in the MUNIS payroll system rather than in off-system spreadsheets. With less complex salary and leave calculations, the MUNIS payroll and budgeting modules can be fully utilized. This will free-up staff time and eliminate the need for much of the off-system tracking. We recognize that implementing this recommendation could take several years.

We recommend that the treasurer/collector consider the MUNIS tax collection and cash receipts modules. Fully utilizing the MUNIS integrated financial management software in the treasurer/collector's office will expedite the posting of revenues in the town's accounting records, eliminate the need to convert the ADMINS collection data for upload to MUNIS and free up a modest amount of staff time in the accounting office. According to the cost estimates in the town's draft IT report, acquiring these modules, with the associated training, maintenance and data conversion costs may make these purchases prohibitively expensive. However, eliminating the lag in posting revenues to the accounting records should be a priority when considering future information technology choices.

## CONCLUSION

Overall, we found that operations in the school business office and the town accountant's office are efficient and the staff works diligently to ensure the accuracy of the town's accounting data. There does not appear to be much duplication of effort between these offices, though historically manual procedures have created additional workloads in each of these offices.

While there are potential economies of scale to be realized through consolidating the municipal and school accounting functions, a merger of this type warrants careful consideration and planning. However, the fact that the town has already merged plant and facilities maintenance and human resources successfully is a strong indicator that this consolidation is feasible as well.

An integral part of achieving maximum cost savings is decentralizing the payroll, purchasing and payables processes so that departments/programs with spending authority are directly responsible for entering their data into the MUNIS system. Decentralized processing constitutes a significant change to the way the town currently handles these transactions and will require the acquisition of additional MUNIS licenses and thorough training on the payroll, purchasing, payables and budgeting modules.

We anticipate that much of the savings that accrue in the first year or so (about \$50,000) will have to be re-invested in software/hardware costs, re-engineering the workflow and re-training of staff. In subsequent years, it may be possible to operate the consolidated accounting and purchasing departments with 9.5 FTEs and an estimated savings of about \$100,000. This assumes that decentralized processing has been implemented successfully and some of our other recommendations regarding payroll, purchasing and budgeting are adopted.

If the town decides to pursue this consolidation, MGL Chapter 71, §37M is the local option statute that allows a city or town to consolidate administrative and finance functions of the school

committee with those of the city or town. In Andover, local adoption requires a majority vote of both the school committee and the town meeting. A decision to consolidate can be revoked by majority vote of either the school committee or town meeting.

A memorandum of understanding between the selectmen and the school committee that describes in detail how the agreement would work is an appropriate means to implement this merger. Although the salaries and job duties of the accounting and business office staff are similar, they are represented by different bargaining units. Since a merger of these offices is likely to be considered a change in the terms and conditions of employment for these employees, impact bargaining with these unions will be necessary.

## ACKNOWLEDGEMENTS

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

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Debra Silberstein, School Committee (former)  
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