

Memorandum

To: One Falmouth Committee

From: Nathan Poore, Town Manager and Barbara Powers, Interim School Superintendent

Re: Town-School Finance and Human Resources Consolidation Analysis

September 18, 2009

Much of this report includes information submitted by John McNaughton who prepared the report for a staff meeting in February 2009.

This report addresses the issue of a potential consolidation of functions and personnel between the Town and School finance and human resources departments. Before beginning the discussion, it should be noted that although there are many similarities between the functions of the two departments, there are also significant differences, as the missions of the two entities are distinct (education and municipal services, with each entity reporting to a different elected board).

Also, the school department also has an extra layer of specific reporting and accounting requirements mandated by the State Department of Education. Finally, this memo deals only with finance operations and does not discuss personnel functions (except for benefit-related payroll functions) or information technology.

EXISTING ORGANIZATIONAL STRUCTURE. The Town Finance department currently has three budgeted positions: the Finance Director, the Budget Analyst/Purchasing Director and the Bookkeeper. Using the basic line and staff delineation, the Budget Analyst position performs a great deal of independent staff work for the Town Manager and Town Council. The Assistant Town Manager is also the Human Resources Director for municipal operations. Approximately 70% of her position is dedicated to personnel matters.

The Finance Director and Bookkeeper positions are basically operational “line” positions which administer a wide range of day-to-day operations for the Town, including cash management, investments, daily bank deposits, accounting, tax collection and billing administration, payroll, accounts payable and benefits and insurance management. A few of these operational functions provide the most potential overlap with the school department. The Town has approximately 80 full-time equivalent employees, paid bi-

weekly; and 120 part-time and/or seasonal employees (fire, EMS, etc.), paid either bi-weekly or monthly; and processes about 100 accounts payable invoices per week.

Of the four full-time town positions, 3.2 full time equivalent (FTE) positions are required to perform all finance and human resource functions. The Assistant Town Manager provides 0.3 FTE toward general management and operations while 0.5 FTE of the Budget Analyst position works on special projects and assists with general management and operations.

The School Department business office has 3.2 FTE positions, including 0.4 FTE of the Director of Finance and Operations and four part-time employees whose operational areas are broken down as follows: 1.2 FTEs for human resource/benefit management, 0.6 for payroll, 0.4 for accounts payable and 0.6 for accounting. The School department has about 350 full-time equivalent positions plus 150 temporary/part-time (substitutes, drivers, etc).

EXISTING CONSOLIDATED FUNCTIONS. There is already a significant amount of cooperation and overlap of Town and school finance functions. The Town finance department currently contributes toward the following functions for the school department:

- Revenue collection
- Daily cash management (transfers from main Town bank account to school payroll and payable accounts)
- Investment account management
- Accounting and preparation of annual financial report
- Capital borrowing and debt management
- Worker's compensation insurance administration (the Town and school are on the same insurance policies)
- Property and casualty insurance administration
- Bank account reconciliation

POTENTIAL FUTURE CONSOLIDATION. There are three general areas of potential future operational consolidation between the Town and School departments:

- Accounts payable
- Payroll administration
- Accounting
- HR/benefits management

Before discussing each of the potential areas, there are three logistical issues that will complicate any consolidation process: (1) Physical location. Currently, the two departments are housed in separate buildings; (2) Computer system interface. Currently, the Town and school each have separate computer finance software based on their separate financial reporting requirements; and (3) State Education Department reporting

requirements. As discussed below, the school is required to use a state-mandated chart of accounts, which in effect would require maintaining two separate sets of books.

Accounts payable. The accounting and reporting requirements for this function are fairly comparable. The main issues would be housing the combined accounts payable position and deciding which computer software to use for accounts payable posting.

Payroll administration. This consolidation would be more complicated, as there are two separate payroll and benefit systems and procedures to be administered. This function would require more communication with the Town and school administrations to ensure that personnel and benefit procedures (union contracts, etc.) are being properly followed. Once again, there would be issues of housing of personnel and choice of computer software.

General accounting. This is perhaps the most difficult area to fully integrate because, as noted above, the School department is required to use a state-mandated chart of accounts designed specifically for state Education Dept. reporting requirements. Essentially, this would require two sets of books, each with a separate chart of accounts, one for general accounting use and the other for the state. The Town's software allows for a toggling between two separate account systems, but this would still require a great deal of duplication of effort. Currently, the Town only maintains summary revenue and expenditure "control" accounts for the school, which are then rolled up into the Town's overall accounting system.

CONSOLIDATED DEPARTMENT STRUCTURE. As noted, there would be some potentially significant implementation costs, including housing of the combined department or positions, choice of computer software and data conversion of consolidated data.

On a marginal cost basis, because there are so few FTE positions to begin with, there would be a need to cross train and create some redundancy in order to allow for vacation, sick time and overload situations (fiscal year-end, etc.).

We evaluated the job duties and functions for each position to determine the needs in a consolidated structure. The following table best describes a comparison of current operations compared to a consolidated structure.

| Position | Current Function FTE (Town) | Current Function FTE (School) | Consolidated Structure FTE | FTE Savings |
|---------------------------|------------------------------------|-------------------------------|----------------------------|-------------|
| Director/Admin | 1.0 | 0.4 * | 1.0 | 0.4 |
| Accounting | 0.5 ** | 0.6 | 1.0 | 0.1 |
| Human Resources | 0.7*** 0.2**** 0.9 total FTE | 1.2 | 1.5 | 0.6 |
| Payroll | 0.4 ***** | 0.6 | 1.0 | 0 |
| Accounts Payable | 0.4 ***** | 0.4 | 1.0 | (0.2) |
| Admin Asst / AP-PR Backup | 0 | 0 | 0.5 | (0.5) |
| Total | 3.2 | 3.2 | 6.0 | 0.4 |

* 0.6 FTE of the School Business Manager is used to manage several operations outside of the finance and human resource departments.

** 0.5 FTE of the town's Budget Analyst/Purchasing Director position is used for special and on-going general management projects. This position is also an important back-up position for the Finance Director who is responsible for a majority of the existing crossover/overlap tasks listed above.

*** 0.3 FTE of the Assistant Town Manager is used for general management.

**** 0.2 FTE of the Town Bookkeeper position is used to assist with benefit management.

***** 0.4 FTE of the Town Bookkeeper position is used to process payroll.

***** 0.4 FTE of the Town Bookkeeper position is used to process accounts payable.

CONCLUSION. Although, as noted above, there is already a significant amount of cooperation and sharing of functions between the Town and school finance departments, there is the potential of more consolidation. Financial savings are not significant and difficult to calculate at this point, although in any event there would likely be extra efficiencies and economies of scale by combining functions. Finally, there could be significant implementation costs, depending on where the consolidated positions would be housed and on how difficult it would be to integrate computer systems.

There are two general management operation challenges that must be considered. The Director of Finance and Operations provides a great deal of operations oversight and management for transportation, buildings and grounds maintenance, IT, food services, collective bargaining, construction and Superintendent/Board operations. If consolidation includes 0.4 FTE of the position, it is unlikely that the operations management position can be filled with a part-time position.

The second challenge includes the remaining 0.3 FTE of the Assistant Town Manager and 0.5 FTE of the Budget Analyst. It is likely that these remaining available FTE would be combined to fund an executive assistant positing to support general town management functions.

Finally, we recognize, appreciate and value a vertical team approach in both the Town and School function areas. A consolidated structure could isolate the finance and human resource functions from the rest of the organization, creating a horizontal team approach. The School’s Director of Finance and Operations, Town’s Finance Director, Budget Analyst and Assistant Town Manager are involved and exposed to operations discussions and meetings on a weekly basis. They provide a great deal of insight, expertise and operational knowledge that carries over to their “line” position responsibilities. The Director of Finance and Operations is instrumental in the day to day operations of the School Department. A consolidated finance director will not have the same exposure to the overall operation because he/she will be too involved supervising a consolidated Finance/HR department. This regular exposure to the operations is also important for the 3 town positions. The vertical approach adds tremendous value in budget development.

The 0.4 net FTE savings is all that could be anticipated. Other than the 0.4 FTE savings, it is likely that the wages for the new positions will compare with current wages resulting in very little change in costs for personnel.

We have offered one final table to highlight the pros and cons of a consolidated structure.

| Pros | Cons |
|---|--|
| 0.4 FTE savings | Different chart of accounts |
| Efficiency and specialization with cross training and back up | Unique education reporting and account requirements |
| Perception that consolidation is more efficient and that to not consolidate is inefficient. | Physical location – investment to consolidate functions |
| | Physical location – possibly a separate off-site location limiting easy access to staff. |
| | Computer interface and expense to consolidate software |
| | Loss of vertical team structure |
| | How can the School Department fill a professional operations management position with funding for 0.6 FTE? |

We look forward to a discussion with the One Falmouth Committee on September 21, 2009. Please let us know if you have any questions.