



City of Haverhill

Financial Management Review

May 2002





INTRODUCTION

At the request of the mayor, the Department of Revenue's Division of Local Services (DLS) has completed a financial management review of the City of Haverhill.

We have based our findings and recommendations on site visits by a technical assistance team and consultations with field representatives of the Division's Bureau of Accounts, Bureau of Local Assessment, and Information Technology section. During site visits, the team interviewed the mayor, members of the mayor's staff, city council president and other council members, the collector/treasurer, board of assessors, auditor and staff members, as available, in each office. Among others interviewed were the information technology director, members of the mayor's ad hoc transition teams, water/waste water department and the city's independent auditors.

DLS staff examined such documents as the tax recapitulation sheet, city reports and warrants, annual budgets, debt schedules, balance sheets, cash reconciliation reports, statements of indebtedness, city charter and ordinances and various job descriptions as well as other assorted financial records. Internal memoranda and other materials were also provided to us by the city.

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

We encourage the mayor, when formulating overall strategies for improving the city's financial management, to consider the observations, analyses and recommendations contained in this report. These are recommendations only and can be implemented, at the city's option, provided there is sufficient cooperation among the various boards, committees and officials.

EXECUTIVE SUMMARY

Haverhill is a city of 59,000 people, situated approximately 30 miles northwest of Boston at the New Hampshire state border and 15 miles west of the Atlantic Ocean. Rolling topography slopes to meet the banks of the Merrimack River which bisects the city, is navigable and still within the tidal influence of the ocean. With a land area of 33.11 square miles and a population density of only 1,781 people per square mile spread throughout its several villages, Haverhill offers elements of both city and rural living. Wide ranging architectural styles among residential neighborhoods, a downtown historic district and good proximity to major highways contribute, as well, to its general appeal.

As an example, the number of people taking residence in the city increased 6.2 percent, or by over 3,400, between 1999 and 2000. At the same time, the number of single family, condominium and apartment parcels in the city grew by 282, the largest increase in eight years. The average assessed value of a single family home increased from \$148,094 in FY01, when it was ranked 212th in the state, to \$191,120 in FY02 and 161st in rank. Equalized valuation, which is a measure of relative community wealth used by the state, increased 22.1 percent in Haverhill between 1998 and 2000, compared to the overall state increase of 18.9 percent.

These are positive signs for Haverhill which, like many older Massachusetts cities, has worked hard to make the transition out of a deep-rooted, industrial economy toward one that offers more diversification and stability. For many years, part of that effort involved Hale Hospital. Founded in 1880, the hospital was acquired by the city in 1931 and rebuilt in 1984 at a cost of \$30 million. It was hoped that hospital profits would provide a steady, supplemental revenue source for the city.

Unfortunately, the economics of the health care industry changed dramatically and, by 1999, Hale Hospital stood alone as the last municipally owned hospital in the state. Haverhill stayed the course with Hale in the persistent belief that original profit projections would materialize. There was also significant public support for a hospital, and Hale in particular, to be located within the city, and an emotional tie to Hale as the long-time employer of city residents. However, independent audits revealed that the hospital had been running millions of dollars in operating deficits which, together with earlier construction bond obligations, required subsidies from tax dollars and placed enormous strain on city finances. Finally, the decision was made to sell the hospital and forge a recovery plan.

The elements of the recovery plan included approval of special legislation that authorized the city to issue up to \$30 million to cover hospital operating deficits, and allowed the debt service burden to be spread over 20 rather than ten years. The city also refunded prior capital

improvement bonds at lower interest rates. With negotiations continuing to the last possible hour, ownership of Hale Hospital was transferred to a private company in August 2001.

Now, the city is in a position to move forward, but at a cost. Of \$146.8 million in total outstanding FY02 city debt, \$40.3 million is associated with Hale Hospital to cover operating deficits and prior construction bonds. By FY04, when full payment begins on all bonds issued to date, \$3.4 million of \$10.9 million in annual debt service will be attributable to Hale Hospital. Facing 20-years of significant debt service for which the city receives nothing in return and confronting severe budget constraints arising, in part, from revenue declines at the state level, the city is under pressure to meet annual budget needs, plan for the future and, at the same time, protect the integrity of the recovery program. Under these circumstances, the city's success in making the transition from crisis-oriented government to forward looking management, as well as its capability to manage everyday finances, takes on greater meaning.

Under a Plan A government, the mayor has primary responsibility to administer all aspects of government on a daily basis, including the city's finances. However, as a practical matter and under most other city plans, the mayor has help in the form of a chief operating officer, chief financial officer or city manager. Because that help is not built into a Plan A government structure, we strongly recommend it be created. In Haverhill, the role is filled, in part, by the city auditor who also serves as director of finance and records (finance director). His contributions are significant, but the demands of running a major city department and the persistent pressure exerted by Hale Hospital events, have limited what he can legitimately accomplish. The city benefits from knowledgeable, experienced department heads whose staff and offices function well, but each concentrates on day-to-day duties. The mayor has assigned development of the FY03 budget to a new "budget advisor," who is also finance director of the water/wastewater department, but it is uncertain how or whether a permanent fiscal role will emerge in the future.

As a short-term plan to fill the present need, the city should place renewed emphasis on the overall coordination of financial operations. Further, it should identify a person of suitable municipal experience, judgement and temperament to direct the budget process, monitor the city's financial condition throughout the year and initiate long-term strategic planning and analysis. Toward this end, the auditor, as finance director, should continue to oversee the financial management of the city. One of the aide positions in the mayor's office should be elevated to budget director status where budgeting, financial monitoring and strategic planning responsibilities would reside.

Over the long-term, the city should consider fundamental changes to the permanent structure of government. On the basis of population, annual expenditure level, and overall complexity of its fiscal circumstances, we strongly recommend the city explore implementing a chief operating officer's position to coordinate the day-to-day administration of city affairs.

Equally important, management must have the tools to do the job. It is known that the city must evaluate its computer technology status and make critical decisions by January 2003. In particular, it must weigh the costs and benefits of competing hardware and software options, and specifically, determine whether to abandon its 20-year old, in-house software in favor of a more adaptable, fully integrated financial management software package. We encourage city leaders to consider the opinion of its IT director in making this decision and that she considers the computer needs of finance offices. A long-term view relative to the use and funding of these upgrades also makes sense. At stake is the ability to create efficiencies in government and to enhance communication, as well as accelerate the flow of information between city departments. With technology upgrades, the city will increase its capability to control, analyze and report on its fiscal condition, and will establish a much-needed foundation for projecting into the future.

Conclusion - Hale Hospital finances have overshadowed all of city government over the last ten years, and though issues are resolved, will continue to be a factor in the city's financial future. For many in the finance-related aspects of local government, the experience has been near overwhelming. It has consumed resources and put the city in perpetual crisis mode diverting attention away from the need for on-going fiscal oversight and long-term planning. As a result, the city has fallen short in efforts to formulate a capital needs plan, develop debt policies or forecast long-range budgetary goals. On the positive side, circumstances have prompted the mayor and city council president individually to consider how local government might work better as the city begins a period of fiscal recovery.

Now, with one major decision in the past (Hale Hospital), and one approaching (technology upgrades), with a new mayor taking initiatives to re-examine how his office operates and communicates information, and with a city council seeking to be a more active participant in the success of government, Haverhill has reason to look forward with optimism.

Nevertheless, more is required. Firmly establishing budgetary and strategic planning responsibilities is a crucial first test of the city's determination to improve on the practices of the past and a first step toward renewing the peoples' confidence in local government. Because the mayor's selection of a budget director will be a very significant and visible decision, we strongly encourage him to consider carefully the prerequisites for the position. Credible knowledge of municipal finance and experience in government should stand as threshold qualifications. The city cannot afford a novice in the position, or wait for the completion of on-the-job training. The budget director should possess skills that enable him or her to work at eye-level with finance officers. He or she should have the wherewithal to present and defend the mayor's budget and fiscal policies before department heads, the city council and others.

However, the appointment of a budget director should be viewed as a necessary, but short-term, plan. At a time when dramatic revenue declines are forcing layoffs among municipal employees, it represents a prudent course of action that can be accomplished quickly and at minimal cost, from an existing position and within the current structure of government. For long-term success, to sustain continuity in government and to stabilize the city's finances for decades ahead, the city must consider a change in its fundamental structure. For Haverhill, we favor the appointment of a chief operating officer - with financial as well as operating oversight.

In this context, a summary of our findings and recommendations follow.

Overall Financial Management - City government remains strong at the department level, where managers and staff are experienced in municipal finance. The auditor/finance director has in the past effectively managed a major department, guided the annual budget process and assisted finance officers. However, the city now enters a period that demands more closely directed and scrutinized financial activities.

In the short-term, we recommend that one of the mayor's two aide positions, with a salary adjustment, be occupied by a budget director with responsibility for annual budget development, year-round budget monitoring, as well as long-term planning and analysis. As finance director, the auditor can continue to coordinate finance departments and oversee the city's financial operation. In the long-term, we strongly recommend the city consider a change in government that would establish an appointed chief operating officer who would assist the mayor with day-to-day administrative and financial management responsibilities. In any event, we recommend that the mayor direct the formal creation of and meet periodically, or as necessary, with a financial management team. The team should continue to meet on a more regular, perhaps monthly basis under the leadership of the finance director.

By way of recommendations, we support the efforts of the mayor and the city council president to improve communications and cooperation as each carries out its respective duty to manage and oversee the business of government. However, as each moves forward, we suggest they be mindful that, under a city structure, the mayor has sole responsibility for the day-to-day administration of government which the council cannot encroach upon in the exercise of its duties and prerogatives. We also recommend the city consider extending the term of mayor to four years and staggering the terms of city councilors in order to create continuity in municipal government.

Information Technology - Haverhill is approaching a complicated decision, which will have a long-lasting impact on the integration of technology and municipal finances at city hall. Whether the city chooses to upgrade its present hardware and remain with its existing assemblage of

software applications, or invest in new hardware and more sophisticated financial management software, we encourage a thorough cost benefit analysis be completed.

We further recommend that the mayor create a technology committee to help monitor the city's technology status and formulate a long-term plan for software and hardware upgrades. A need also exists to re-examine the communication link between IT and city hall staff with the intent to generate more frequent and meaningful dialogue on computer issues, to create training opportunities, expand the use of available software and generally gain operational efficiencies.

Other Finance Offices - The auditor, treasurer/collector and assessors are knowledgeable, experienced managers, all of whom appear committed to a high level of performance. Each has staff who are equally able and effective in carrying out requisite responsibilities.

Our recommendations for these departments are relatively few, in some instances more significant than others and in every case, intended to add to office efficiency. Among them, we emphasize the importance of a deputy finance director who has the knowledge of procedures and authority needed to ensure that the auditor's office continues to function in his absence. We also recommend the city formally establish water and sewer enterprise funds.

Regarding the assessing office, we offer guidance as the city faces difficult staffing decisions in the face of a declining budget. We suggest the city consider establishing a full-time, professional assessor position and restructure the Board of Assessors to comply with state statutes and local charter provisions. We also recommend that the city begin identifying the work necessary to implement the accelerated new growth option in anticipation of its possible adoption.

Finally, we recommend that the city accept the provisions of MGL Chapter 41 §38A, which broadens the authority of the collector to receive all city revenues. In this way, one office collects, deposits and posts all city revenue, including water and sewer payments. We also recommend expanded use of the city's lock box service and standardized turnover sheets.

SUMMARY OF REPORT RECOMMENDATIONS

- 1) *Overall Financial Management* - Establish the position of budget director for the short-term and consider a chief operating officer in the long term. [page 9]
- 2) *Overall Financial Management* - Formally create a financial management team [page 11]
- 3) *Overall Financial Management* - Emphasize long-term capital and debt planning [page 12]
- 4) *Overall Financial Management* - Formalize communication between the mayor's office and city council [page 13]
- 5) *Overall Financial Management* - Consider four-year term for mayor and staggered terms for city councilors [page 15]
- 6) *Overall Financial Management* - Rescind manual signature and co-sign policies for checks [page 15]
- 7) *Computers/Technology* - Create a technology committee. [page 18]
- 8) *Computers/Technology* - Enhance employee support, training and expanded use of software [page 19]
- 9) *Computers/Technology* - Develop user information guidelines and policies [page 20]
- 10) *Auditor* - Appoint and train a deputy finance director [page 22]
- 11) *Auditor* - Review special revenue and enterprise accounts [page 23]
- 12) *Auditor* - Assistance in the GASB Statement 34 implementation [page 24]
- 13) *Assessors* - Review office structure [page 27]
- 14) *Assessors* - Plan for accelerated new growth implementation [page 29]
- 15) *Collector/Treasurer* - Adopt the city collector option [page 31]
- 16) *Collector/Treasurer* - Expand the lockbox service collections [page 32]
- 17) *Collector/Treasurer* - Standardize departmental receipts reports [page 33]

OVERALL FINANCIAL MANAGEMENT

Under the current organizational structure, the city's financial management responsibilities reside primarily in the auditing, assessing, collector and treasurer departments with peripheral involvement by the water/wastewater and purchasing departments. Information technology provides technical support services to all departments. In each case, the department head is appointed by the mayor, as are two mayor's aides of equal standing and general responsibilities. In accordance with changes to the city's government structure, last adopted approximately 35 years ago, the mayor oversees the day-to-day management of all municipal departments and of all financial matters.

Currently, the city auditor functions in the additional capacity as director of finance and records with duties that include "budgetary preparation and control, treasury management, general accounting and auditing functions, data processing, assessment administration, purchasing and records management." As city finance director, the auditor communicates with other finance officers on matters of immediacy that involve their respective areas of responsibilities, particularly during the budget process. However, he acknowledges that the contact occurs on an individual basis and meetings as a group are rarely scheduled. In past years, he has orchestrated the budget process through his office, but with the vacancy in the deputy finance director position, responsibility for FY03 budget development was assigned to the water/wastewater department finance manager in a capacity as budget advisor.

Finance offices each work with 20-year old financial management software which offers no budget module, is resistant to customization and is generally inferior to cutting edge software presently on the market and in use throughout Massachusetts cities and towns. Despite software limitations and operating under the persistent shadow of the Hale Hospital fiscal legacy, finance offices function well in the completion of routine tasks, record keeping, warrant preparation, and monthly reconciliations of cash, receivables and indebtedness. What recommendations we do offer relative to the city finance offices are included in the various other sections of this report.

Aspects of the city's financial management that draw our attention relate more to global issues and tend to fall outside the purview of individual finance officers. Accordingly, in the pages that follow, we address issues concerning full-time budget oversight and utilization of finance officers, long-term capital planning, debt policies, communication between the mayor and city council. We also discuss matters of city-wide interest involving the terms of elected officials.

FINDING 1: BUDGET DIRECTOR AND CHIEF OPERATING OFFICER

Haverhill has become a city of substantial size in terms of population and expenditures. Of 351 cities and towns, it is the Commonwealth's 16th largest community, was 17th in general fund expenditures in FY02, and sixth in total outstanding debt. Against this backdrop, the city's financial situation has become both complex and delicate as it acclimates to a 20-year debt program to recover from Hale Hospital financial obligations, and grapples with more immediate and severe budget constraints.

To its detriment, the city regularly addressed these type of issues with a financial plan formulated on a year-to-year basis, and over time, waned in its commitment to devote the resources to, or assign responsibility for long-term planning. Now, pressure to operate efficiently and intelligently is felt at all levels of government, and particularly in the mayor's office where accountability for the city's overall performance ultimately rests. During a simpler time, the function of the mayor to serve as both the chief administrative and financial officer was a manageable task. But, that is no longer the case as circumstances today are far more complex than in 1965 when Haverhill adopted the Plan A form of government.

As he seeks ways to balance the budget and, at the same time, improve administrative and financial efficiency, the mayor has delegated preparation of the FY03 budget to the water/wastewater department finance director, under the title of budget advisor. He, in turn, has produced a series of FY03 budget proposals accompanied by long-term revenue projections. The mayor has also initiated monthly department head meetings and opened lines of communication with the city council. However, we are aware of no corresponding long-term plan for capital improvements and the mayor has not scheduled similar meetings separately with his finance officers. It is uncertain, as well, about the status of the budget advisor's responsibilities once the budget process is completed. This gives rise to questions whether critical budgetary monitoring and financial planning functions will be assigned and carried out.

As finance director, the auditor fulfills some, but not all, of these responsibilities. The city benefits from the length and depth of experience among its other appointed finance officers including the collector/treasurer and assessors. All contribute to the effective day-to-day administration of the city business, and all work together when called upon to ensure the integrity of financial checks and balances.

However, a critical need still exists and can only be addressed by creating, as a short term solution, a budget director position to be replaced by a chief operating officer in the long term.

RECOMMENDATION 1: ESTABLISH THE POSITION OF BUDGET DIRECTOR IN THE SHORT-TERM

AND CHIEF OPERATING OFFICER IN THE LONG TERM

As a necessary step for the short-term, we recommend that the mayor convert one of the two aide positions in his office to a budget director position. As a long term solution, we recommend the adoption of charter changes to establish a position of chief operating officer. With a relatively small salary adjustment, one of the mayor's aide positions can be redefined as a budget director with responsibility for budget development, year-round budget monitoring and long-term planning. The auditor/finance director would continue to oversee the financial operations of the city and coordinate the activities of the finance-related departments. In this way, two critical financial management needs are satisfied at minimal cost and with no additional layer of bureaucracy.

However, we would envision the budget director as an interim post where important financial functions are consolidated while the city considers the implementation of broader changes in government that would include the creation of a chief operating officer position. At that time, the responsibilities of the budget director would be incorporated into those of a chief operating officer.

The budget director, and then the chief operating officer, would monitor revenue and expenditure trends through monthly reports already generated by the IT department. He would initiate the annual budget process with early meetings with the mayor, finance director and others, to discuss revenue projections and guidelines for departments as they prepare their appropriation requests. He would meet with department heads, assemble and review their requests, and present his recommendations to the mayor. Working with the finance director and other finance officers, he would create revenue and expenditure forecasts, and working in concert with department heads would identify the city's capital needs and develop a long-term capital improvement plan. Ultimately, the city should expect accurate, timely and reliable budget and forecasting information which can help ensure prudent spending, improve efficiencies in city hall, achieve optimum use of resources and form a basis for sound policy decisions.

In an expanded role, the chief operating officer would assume the duties of the budget director and become more involved in a broader range of financial issues including the recommendation of budget, debt and reserve policies to the mayor. He or she would assist the mayor, as well, in the administration of non-finance offices of government and in the management of non-finance related issues. In this capacity, he or she would facilitate communication between and among departments, formulate personnel policies and monitor employee performance evaluations, review service and health care contracts, initiate grants proposals, and generally make sure departmental operations proceed smoothly and efficiently.

The mayor would continue to appoint all department heads, and serve as the city's chief executive officer with overall responsibility for setting the course of city policy. However, department heads would report to the chief operating officer. As an appointed position, the chief operating officer will provide continuity to local government and will help ensure that services are delivered in a coordinated manner and that city operations are as cost effective as possible.

The budget director and chief operating officer represent major appointments for the mayor and ones that require thoughtful consideration. In the evaluation of prospective candidates, knowledge of municipal finance and experience in government are paramount. Given the serious and complex issues Haverhill faces, the city would not be best served by a budget director or chief operating officer who is a novice in municipal finance management practices, or who requires on-the-job training. Each must be a person who is credible, or has the capacity to build credibility, if he is to effectively work with department heads and the city council on behalf of the mayor during good and bad economic times. Although he serves the mayor, each must be a team player if the goals of the administration are to be realized.

We recommend that a chief operating officer position be established within the city charter, and that it be considered as part of a comprehensive review that also examines possible changes in the terms of office for the mayor and city council members (as discussed later). Through the charter review process, language that confuses responsibilities among the chief operating officer and other city officials can be identified and addressed. The use of a charter provision to establish a chief operating officer position underscores the importance of the role, and signals an intent to ensure continuity and stability in government over the long term. As a statutory Plan A city government, Haverhill can alter its charter through the submission and approval of special legislation, or home rule petition under MGL Ch. 43B.

FINDING 2: FINANCIAL MANAGEMENT TEAM

Over the last few years, many government practices have suffered and initiatives have stalled due to the enormous drain on time and energy created by Hale Hospital. One example is the level of communication between and among finance officers. In what has evolved as typical, the city's finance officers are in daily contact with the auditor/finance director, but meet together, only on an ad hoc basis and usually in response to an immediate issue. More recently, they have been part of department head meetings with the mayor. Given the depth of experience and knowledge of the auditor, treasurer/collector and assessors in municipal finance, the city may be under utilizing a potentially valuable resource.

RECOMMENDATION 2: FORMALLY CREATE A FINANCIAL MANAGEMENT TEAM

We recommend that the mayor direct the formal creation of a financial management team. With or without a budget director, the mayor should formally establish and require regular meetings of a financial management team. Members of the financial management team can include, but need not be limited to, the auditor, budget director, collector/treasurer, assessor, IT director, and the school business manager. The financial management team should report to the mayor on a quarterly basis, or as necessitated by events, and at other times meet under the leadership of the finance director.

The financial management team can function as a resource to the mayor in the formulation of policy. The team can help develop financial analyses, explore the financial impact of future events and offer early strategies to deal with anticipated problems. It can participate in the collection and analysis of data and serve as a resource to the budget director as he assembles information intended to form the basis for decisions concerning debt limits, reserve fund levels, revenue/expenditure estimates and annual budget guidelines. The financial management team meeting is also a natural forum when decisions involve more than one finance officer, as in the preparation of tax recapitulation sheets including establishment of overlay and new growth levels.

As a by-product of these meetings, the city's finance officers are kept well-informed of administration policies and initiatives. They can be clear about the expectation placed on their respective offices. Meeting in a group dynamic, they will have the opportunity to exchange ideas, raise issues, create efficiencies and improve inter-office relations. The city's ability to anticipate financial problems will be enhanced and its ability to respond improved.

FINDING 3: LONG-TERM CAPITAL AND DEBT PLANNING

The benefits of capital planning and investment in capital projects are self-evident, but budgetary stress often causes a community to divert financial resources to more immediate personnel and operational needs. This appears to be the case in Haverhill where overall capital and debt planning appears lacking. In preparation of the FY02 budget that surpasses \$134 million, \$5.5 million was requested by departments for direct capital outlay, but only \$380,662, or 0.03 percent of total expenditures, was eventually approved. It is our understanding that in the most recent version of the projected FY03 budget \$250,000 is recommended for capital outlays.

As an alternative funding source for capital improvements, the city has issued bonds with an outstanding indebtedness in excess of \$146 million as of March 2002. Of that total, \$103 million is for school, sewer, water, general and other purposes while the remainder is debt obligations associated with Hale Hospital and the Glynn Nursing Home. Looking forward, the city faces the

prospect of necessary school repairs to address accreditation issues, a landfill closure and elimination of combined sewer overflows along the Merrimack River.

RECOMMENDATION 3: EMPHASIZE LONG-TERM CAPITAL AND DEBT PLANNING

We recommend that the mayor emphasize capital planning. The mayor should direct his budget director to take the steps necessary to identify and prioritize capital needs, to develop a long-term improvement plan, and to formulate a debt or expenditure policy designed to meet the goals of the plan. In the absence of a budget director, the mayor should create a capital improvements committee to accomplish these tasks. Committee members might be drawn from the ranks of current finance officers, city council or from the general public. A mix is also possible.

For a discussion of the typical responsibilities of a capital improvements committee, we direct you to the Division of Local Services' website at www.dls.state.ma.us/publics.htm.

We recommend that the mayor meet, as soon as possible, with the city's financial advisor and commit to a debt policy. The financial advisor has worked with the city on debt issues and the Hale Hospital bail out for years. As a recently elected mayor, whose immediate advisors have some but generally limited experience in city government, it is essential to thoroughly understand the implications of the city's debt plan already in place. The mayor should meet immediately and, through his finance director, communicate regularly with the city's financial advisor to review Haverhill's debt plan and to assess the potential impact of financial actions by the city. Out of these exchanges should emerge a debt policy that protects the integrity of the current recovery plan and also addresses the on-going capital needs of the city.

FINDING 4: COMMUNICATION BETWEEN THE MAYOR'S OFFICE AND THE CITY COUNCIL.

Communication between the mayor's office (including finance offices) and the city council have, in recent history, been driven by the management preferences of long-standing mayors. Following an open-seat election last November and in the wake of the Hale Hospital experience, the new mayor has taken initiatives to enhance the exchange of information and ideas between the two major branches of city government. To its credit, the city council through its president has reciprocated with a willingness to enter discussions on immediate and long-term matters of importance to the city's financial management. Most recently, the mayor, together with selected finance officers, has begun meetings with individual council members to discuss the state of fiscal affairs in Haverhill.

In this context, our recommendations below are intended to further foster communication between the mayor's office and the city council, and to support steps already taken and progress already made.

RECOMMENDATION 4: FORMALIZE COMMUNICATION BETWEEN THE MAYOR'S OFFICE AND THE CITY COUNCIL

We recommend that the mayor meet with the city council at the start of the budget process.

During this meeting, the mayor and his staff should report on historic fiscal trends and updated revenue and expenditure forecasts. Open discussion should focus on upcoming major projects as well as decisions to be made over the ensuing 18 months that will have budgetary implications. This early meeting would set the tone for the budget process and lay a foundation for fiscal policy decisions. An immediate outcome from such a meeting would be a consensus on broad fiscal guidelines for the annual city budget.

We recommend that the mayor appear before the city council to present his final budget proposal.

In the course of delivering his annual budget message at this meeting, the mayor should report how the final budget proposal adheres to the broad guidelines previously established. He can discuss his priorities, particularly where budget provisions deviate from the guidelines. More importantly, he can offer councilors a budgetary overview before they meet with department heads. During their open hearings, council members will have the opportunity to question a future budget director or department heads about underlying reasons for budget decisions. For the current year, it is uncertain who will accompany department heads at city council hearings and speak on behalf of the mayor in defense of the budget.

We recommend that the mayor and the city council president meet regularly to identify and begin work toward the resolution of important issues.

By meeting privately on a regular basis, the mayor and council president can establish mutual priorities, anticipate concerns and begin work toward the resolution of potential conflicts. We would expect topics of conversation to include, but not be limited to, accessibility to information, budget format, technology status, long-term planning, and so forth.

FINDING 5: FOUR-YEAR TERM FOR MAYOR AND STAGGERED TERMS FOR COUNCILORS

A two-year term for an executive officer tends to work counter to the effective implementation of long-range financial strategies and goals. Often, acceptance of a new policy and the final form it takes may only be accomplished over time and after adjustment through a series of budget cycles. Even when the term of a mayor continues through re-election, the administration of the city's business suffers as a portion of his or her time and attention is invariably directed to concerns outside of city hall. On balance, a two-year term for the chief executive officer of a city does more to harm than benefit to continuity in government policies and practices.

With nine city councilors, length of term is not as severe a threat to year-to-year continuity as is the risk of a large turnover because all nine seats are up for re-election every two years.

RECOMMENDATION 5: CONSIDER FOUR-YEAR TERM FOR MAYOR AND STAGGERED TERMS FOR CITY COUNCILORS

We recommend the city consider increasing the current term of office for a mayor from two to four years. MGL Chapter 43 §17C describes the petition process for Plan A cities by which the question of a four-year term can be placed before the voters for approval. The change might also be accomplished through a home rule petition to the legislature under MGL Chapter 43B.

We further recommend staggered terms for city councilor members (i.e., three members elected each year for three year terms). By staggering terms, the city can avoid the potential disruption caused by a substantial turnover of membership every two years. Any plan to stagger or change the length of city council terms will require a home rule petition to the state legislature.

FINDING 6: MANUAL SIGNATURE AND CO-SIGN POLICIES FOR CHECKS

Under the Haverhill Administrative Code (§2-110), all city checks drawn in amounts of \$1,000 or more must be manually signed by the treasurer, and if in amounts of \$2,000 or more, must be manually co-signed by the city auditor. A separate section of the code (§2-70) requires the city auditor to co-sign checks of \$1,000 or more.

These requirements tend to run counter to contemporary municipal management practices where electronic signatures, direct deposits and other wire transfers, which transpire with no signatures, are frequent occurrences. They duplicate safeguards that already operate through action of the auditor to verify payments and the warrant process, where the mayor's review and approval is required. They impose restrictions on the mobility of the treasurer and auditor, and create a risk that in their absence certain important tasks might be delayed.

RECOMMENDATION 6: RESCIND MANUAL SIGNATURE AND CO-SIGN POLICIES FOR CHECKS

We recommend that the mayor propose amendments to §2-110 and §2-70 of the Haverhill Administrative Code rescinding requirements for manual signatures and co-signatures on city checks. With biweekly payrolls, salaries are far greater in size than when these practices were instituted. Under the present system of checks and balances, these signature requirements are unnecessary, cumbersome practices that can be discontinued without harming internal financial controls.

COMPUTERS AND TECHNOLOGY

Haverhill's municipal offices are connected through a city-wide computer network providing email, Internet access and Microsoft office applications. Approximately 120 terminals work off one server. The city uses in-house financial system software applications. Developed about 20 years ago, the software applications reside on an AS400 mainframe accessible by many departments though predominantly used by the financial offices (e.g., auditor's, collector/treasurer's and assessors' offices) and the water/wastewater department. The city also uses HTE software for tax billing and collection functions. The assessor's office relies on Patriot Property computer assisted mass appraisal (CAMA) software for assessing data and administration purposes, which resides on a separate server not accessible to other city hall offices.

The information technology (IT) director has worked for the city for 11 years. She started as a programmer and has been in her current position for seven years. Other full-time IT office staff include a network system manager, a network assistant, two programmers and an operator. The IT office is responsible for installing hardware and software, programming, and providing technological support to all city hall offices. Training is offered to city employees at a reduced rate from Northern Essex Community College but only if there is a sufficient number of requests for a particular program (i.e., Microsoft Access). Otherwise, IT staff members assist individuals with particular questions or issues.

The IT office prints all bills for the collector's office, other city mailings (e.g., demand notices and water conservation letters) and all warrants. The office also produces routine reports for the auditor's, collector/treasurer's and assessors' offices. At times, these reports can be voluminous, containing year-to-date financial transactions and other information. In addition, the office data enters payroll information changes, verifies the information and prints all checks and direct deposit stubs. The office also converts data from outside sources (e.g., Registry of Motor Vehicle excise information, assessment data from the CAMA system, and tax service payments) to facilitate the transfer between the in-house system and HTE software applications. The converted data is reviewed by the appropriate financial office(s) for accuracy before it is uploaded to the HTE software or the city's in-house financial system applications.

The inflexible nature of the in-house financial system software applications has caused frustrations throughout city hall. For example:

- The in-house system does not allow for the electronic transfer of information throughout departments and as a result, departmental staff must often re-key data.
- Departmental staff are unable to view their available budget appropriations on the computer screen.

- The in-house system does not provide departments with the capability to create customized reports. In order to perform analyses, data must be input again off system into Excel spreadsheets.
- Duplicate input is also required to keep the fixed asset and infrastructure database up to date. Purchases are handled through the warrant process using the in-house system and then the information has to be data entered a second time in the database.
- In addition, city officials stated that the HTE software is cumbersome. For instance, several steps are required to make a single address change.

The city of Haverhill leases hardware (AS400) to operate its software packages. The current lease expires in January 2003 and the city is exploring options to upgrade both its hardware and software. The city is reviewing its in-house financial system and investigating the possibility of upgrading it or replacing it with a fully integrated financial software system. Whether the city chooses a new municipal software package capable of handling the entire city's financial accounting and reporting needs, or upgrades the current software and hardware, costs will be a serious consideration. These may include expenses for software and hardware acquisition, software installation and data conversion, as well as for training time and ongoing support.

However, technology improvements offer the promise of greater benefits over the long-term, and warrant the completion of a cost benefit study before any final decisions are made. As a matter of policy, DLS endorses most community efforts to advance and expand the role of technology in the operation of local government. At the same time, it is not the role of DLS in the preparation of this report, or otherwise, to recommend or endorse one software developer or its product over any other. Because of the current budget constraints, the city may want to explore financing options such as borrowing to implement technology improvements and/or upgrades. In the interim, the city should at the very least, expand the use of spreadsheets and simple databases, particularly for long-term revenue and expenditure forecasting. Additionally, we offer the following recommendations.

FINDING 1: TECHNOLOGY COMMITTEE

The city does not have a group that focuses on citywide technology issues and there is no long-term technology plan.

RECOMMENDATION 1: CREATE A TECHNOLOGY COMMITTEE

We recommend the city form a technology committee. This committee can be retained on a permanent basis to provide meaningful and objective guidance in regard to the city's technological issues. A technology committee can serve as an additional resource in evaluating hardware and software needs, reviewing products and completing cost benefit analyses. The committee should complete an annual report on the city's technology status containing recommendations that could be used for long-term planning. The committee should be comprised of residents of the city and city officials who have appropriate knowledge or work experience. The IT director along with some end-users should also serve on the committee.

The city has an urgent need for some decision making regarding the upgrade of technology. The technology committee could establish a logical order of technological goals and oversee their implementation. As new or upgraded software applications are considered, this committee should be involved in determining which system(s) would best serve the city's financial offices. The committee should first study the roles and responsibilities of each department and how each uses the system. Then they can explore the potential of expanding to a fully integrated software system. An integrated system would have the capability of electronically transferring data between all departments and it would give departments the ability to view their working appropriation of the budget online. Transferring data electronically eliminates the need to data enter information more than once, freeing up valuable staff time and reducing the potential for errors. For example, after data is input, it would be possible to transfer departmental receipts from the treasurer's system to the auditor's office for review before posting to the general ledger.

FINDING 2: EMPLOYEE SUPPORT, TRAINING AND EXPANDED USE OF SOFTWARE APPLICATIONS

Based on discussions with department staff, there is limited use of Excel spreadsheets. Many individuals have limited or no training on Microsoft Office products, and some do not realize that applications are available at their terminals. We also found individuals are performing manual or repetitive tasks that could be automated, freeing up staff time and resources.

RECOMMENDATION 2: ENHANCE EMPLOYEE SUPPORT, TRAINING AND EXPANDED USE OF SOFTWARE APPLICATIONS

We recommend ongoing communication between staff, department heads and the IT director. Department heads and staff should communicate their reporting needs to the IT director. They should be encouraged to consider ways in which technology might improve operations in their

departments. The IT director and her staff may be able to assist in automating information which could streamline many office duties.

For example, during the course of our review, one staff member from the auditor's office was reviewing a hard copy of the ledger for negative balances after the warrant was posted. She indicated a need for an automatic exception report from the IT department which has since been provided. She also brought to the attention of the IT director that she was making the same entry into three separate areas of the in-house system. The IT department responded, and now, once entered, the information is automatically posted to all three areas.

We recommend the IT director survey office staff on their knowledge and use of available software applications. This information may help to develop appropriate level training and ongoing, refresher courses. The IT director may want to consider coordinating introductory and refresher courses with the personnel department. The training courses would help staff better understand how the software can be useful to them and the potential to automate certain manual or repetitive tasks.

We recommend expanding the use of Excel spreadsheets and/or Access database software. Spreadsheets and simple databases can help organize the data and records of many city hall departments. Until new, or upgraded, financial system software is fully implemented, the utilization of spreadsheets and databases represents an interim step forward toward the more efficient automation of certain tasks.

FINDING 3: USER INFORMATION GUIDELINES AND POLICIES

Currently, many users store information on the hard drive of their PC without uniform backup procedures in place. Users run the risk of losing important and potentially sensitive information if the PC crashes or becomes infected with a virus.

The city does not have policies in place for email and Internet use by staff. This raises the potential for problems due to questionable uses of the Internet or viruses that might corrupt city data.

RECOMMENDATION 3: DEVELOP USER INFORMATION GUIDELINES AND POLICIES

We recommend that the city establish a backup policy for all users. The city should develop instructions on how often a backup should be performed and where the information should be stored. A PC user could backup data to floppy disk or transfer files to the network which is regularly backed up by the IT department.

We recommend that the city establish e-mail and Internet policies. It is advisable to develop a written guideline outlining the proper and allowable use of email and Internet applications. The city should contact their counterparts in other communities that have established these written policies for examples.

AUDITOR'S OFFICE

An auditor/director of finance & records¹, deputy finance director, administrative assistant, head administrative clerk, three account clerks and a part-time clerk staff the auditor's office. The auditor's office is responsible for maintaining the city's general ledger and performing the accounting functions, including preparing warrants, producing trial balances and expenditure reports, and reconciling cash and receivables with the collector/treasurer. In addition, the auditor serves as the director of finance & records, overseeing and coordinating the city's financial operations. Under the current proposed FY2003 budget, the auditor's office will lose one position, reducing the staffing to six and a half positions. However, given the elimination of the hospital as an operating department, this reduction in staffing should not affect the auditor's office responsibilities.

The auditor's office generates monthly expenditure and revenue reports. The expenditure reports are distributed to all department heads, mayor's office and council. These reports show the expenditures to date versus the budget appropriations. Historically, the revenue reports were only distributed to the mayor's office during the budget process, but are now distributed to the mayor's office and council monthly. The revenue report is another helpful management tool that shows budget to actual revenues.

FINDING 1: DEPUTY FINANCE DIRECTOR

In September 2001, the deputy finance director retired. The deputy finance director's position is responsible for certain aspects of the budget preparation, assists the auditor in directing and coordinating the fiscal affairs of the city, and assumes the auditor's responsibilities when he is absent. Until recently, this position was vacant. One of the auditor's account clerks has been temporarily appointed as the acting deputy finance director until June 30. She data enters the budget requests, produces budget documents, and generally assists the water/wastewater finance manager in putting together the budget. She will also attend the council hearings, keeping track of their discussions and proposed changes to the mayor's budget.

According to city officials, the acting-deputy finance director has not been fully trained nor has she assumed any other responsibilities to assist the city's auditor. A deputy finance director should be trained to assist the auditor in performing routine and essential financial functions (e.g., coordination of the city's financial activities, general ledger accounting and journal entries, and preparation of monthly trial balance and reconciliations). Not hiring a permanent

¹ The departments under the finance director's management are information technology, assessing, collector/treasurer, purchasing, photocopying facilities, retirement, insurance, and archives

replacement trained to assume the full responsibilities of the office leaves the city vulnerable in the event that the auditor were to leave.

RECOMMENDATION 1: APPOINT AND TRAIN A DEPUTY FINANCE DIRECTOR

We recommend that the city move quickly to permanently fill the deputy finance director's position, training the individual on all aspects of the auditor's office. It is important that the person hired for this position be qualified by education and experience to provide substantial assistance to the auditor and fill-in in his absence. Failing to fill this position increases the possibility that critical financial management and accounting responsibilities may not be met timely, placing the city at risk and impacting its financial recovery plans.

FINDING 2: SPECIAL REVENUE AND ENTERPRISE ACCOUNTS

In reviewing the city's financial statements, we noted that the city has many special revenue accounts. According to city officials, many of these accounts were established through general enabling legislation or special legislation while others may have been established as a matter of practice. At issue is whether all the accounts are legally authorized to be segregated from the general fund. Some of the accounts in question are listed below.

- Enterprise funds -- The city established water and sewer enterprise funds without adopting MGL Chapter 44 §53F½.
- Inspectional fees – Many of the city's code enforcement and inspectional fees are not treated as general receipts. Instead, these fees are reserved, closing to independent accounts that are available for subsequent appropriation.
- Landfill tipping fees – Haverhill receives revenues from the Ogden Martin facility. This local receipt is general fund revenue and should not be held in a separate fund.
- Premium & interest on bonds and notes – In 1992, the state revised its municipal borrowing procedures and the recognition of premiums and interest on bonds and notes was changed. These revenues are now considered local estimated receipts, whereas previously, these amounts were earmarked in separate accounts and used to reduce debt service payments. Despite the change in the law, the city continues to account for these amounts separately.

A community may establish separate revenue accounts from the general fund only when there is clear legal authority to do so. Unrestricted revenues, including property taxes, state aid and other local receipts, are available to support general government operations. The city's revenues are part of the general fund unless otherwise provided by statute (MGL Chapter 44 §53).

RECOMMENDATION 2: REVIEW SPECIAL REVENUE AND ENTERPRISE ACCOUNTS

We recommend that the city formally adopt the enterprise fund legislation (MGL Chapter 44 §53F½) for its water and sewer operations. For each enterprise, the city should adopt the enterprise enabling legislation, stating the purpose (or service) and when it is to take effect. The following is the recommended format for the adoption vote.

“To see if the city will accept the provisions of Chapter 44, Section 53F½ of the Massachusetts General Laws, establishing (the service) as an enterprise fund effective fiscal year (year).”

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

FINDING 3: GASB STATEMENT 34

The Governmental Accounting Standards Board (GASB) Statement 34 is an accounting and reporting standard that requires all governments to maintain a capital asset and infrastructure inventory which is reported on the entity's financial statements. The implementation of GASB Statement 34 will be a potentially difficult and complex task for Massachusetts' cities and towns. There will be start-up and ongoing costs associated with planning, inventorying, valuing and maintaining the city's fixed assets and infrastructure. There will also be new financial and auditing reporting requirements.

Due to the size of total revenues, Haverhill is a “tier 1” community and is required to implement this new reporting requirement in FY2002. Currently, the city has an inventory of all vehicles, computer and major equipment, and the city just developed an in-house Access database to track and record the city's assets and infrastructure information. The city does not have an inventory of its properties, buildings and infrastructure. Working with the city's private auditor, the auditor's office is working on a plan to hire an outside consultant to value the city's properties, buildings and infrastructure. Because this new database is not integrated with the city's in-house financial system, all changes to the database will be reported on an inventory control card. Despite having processed a capital acquisition through the warrant process, the auditor's staff will have to data enter the information reported on the inventory control card a second time into the database, reflecting any changes. Even with the outside consulting

services and new reporting procedures, the success of getting this project completed on time will require the immediate and ongoing assistance of many of the city's departments.

RECOMMENDATION 3: ASSISTANCE IN THE GASB STATEMENT 34 IMPLEMENTATION

We recommend that the mayor bring together key operating departments to stress the importance of the GASB 34 project and assign tasks and deadlines for work to be completed.

These departments will be assisting the auditor's office in gathering information for the consultant's evaluation as well as reviewing the consultant's final product to ensure all assets and infrastructure are properly included. Once implemented, departments will be required to review the inventory annually, making sure new acquisitions are included and retired items have been removed.

ASSESSING OFFICE

A three-member board of assessors and three clerks staff the assessing office. The assessing office is responsible for maintaining assessment data on approximately 19,290 real property parcels, 1,210 personal property accounts, 57,000 motor vehicle excise accounts and 360 boat excise accounts. In addition, the office processes approximately 1,800 building permits, 1,500 deed changes, 1,000 exemptions, 75 abatements (200 in recertification years), 50 special assessment accounts and 2 tax deferrals annually.

Appointed by the mayor, the assessors work full-time in the office, managing the office, measuring and listing new and improved properties, and re-inspecting all property sales. The assessors maintain the city's real property assessment records and personal property accounts on a computer assisted mass appraisal (CAMA) system that is used to compile analytical reports and property tax commitments. The assessing office prepares timely reports for DOR, including new growth and taxable parcel count reports. The assessors work with the auditor to prepare and submit the tax recapitulation sheet with adequate backup documentation.

For each abatement request, the board as a whole visits the property in question and renders their decision at a regularly scheduled meeting. When an abatement or exemption is granted, the taxpayer is notified and the information is entered into the HTE system, applying it to the taxpayer's account. A monthly report of abatements and exemptions granted is sent to the collector's and auditor's offices.

The clerks maintain all records, process deed transfers, handle exemption and abatement applications, data-enter property and legal information on the CAMA system and handle the motor vehicle excise accounts. In addition, the clerks maintain special assessment records, handle public inquiries and perform other support as necessary.

The office originally acquired a CAMA system in 1989. In 2001, this system was upgraded from a DOS to a Windows operating system and new hardware was installed. The city's CAMA system resides on a server located in the assessing office. There are seven personal computers connected to the CAMA server for staff use and one stand-alone computer located on the counter with property data information for public viewing. The staff computers are connected to the city's in-house financial system for transferring change of property ownership, abatement and exemption information.

Following DOR's advice on best practices, the assessors perform interim year valuation adjustments to properties and they conduct a cyclical reinspection program. By law, the assessors are required to submit their values to DOR for certification every three years. In the intervening years, the assessors analyze sales data and income & expense statements, and

make timely adjustments to the city assessment data on the CAMA system to reflect changes in the market. Interim year valuation adjustments are important in an appreciating market (so property owners are not subject to dramatic valuation changes once every three years) and in a declining market (by minimizing abatement exposure). The city's cyclical reinspection program requires every property be inspected at least once every ten years. Because this program is done in-house, the assessors must inspect additional properties beyond the approximately 3,300 property inspections completed due to building permits and sales. This program is done to maintain the most current database, capture any growth due to construction or improvements performed without a permit, and to maintain the public's trust in the community's assessment practices.

While the assessors perform data quality analysis and interim year valuation adjustments using the CAMA system, the city's triennial revaluations are done with the assistance of an outside consultant. The extent to which the office uses an appraisal consultant relates to the amount and nature of work that must be completed as each recertification deadline nears. In FY1996, a consultant was hired to appraise the commercial and industrial properties, value the personal property accounts and update the city's land schedules at a cost of about \$107,000. In FY1999, the city completed a full residential property recertification program with consulting services in the amount of \$135,000. During the FY2002 recertification, only two assessors were working in the office due to the retirement of the third member; this vacancy lasted about eight months. A consultant was again hired to appraise the commercial and industrial properties and update the city's land schedules at a cost of about \$106,000.

FINDING 1: OFFICE STRUCTURE

Currently, three assessors with appraisal skills and local market knowledge staff the office. This office is responsible for generating about 40 percent of the city's revenues in FY02. Annually, this office performs inspections of properties with physical and/or ownership changes, prepares market data analysis so that cost-saving interim year valuation adjustments are made, and completes additional inspections with the goal of maintaining a current database. According to the assessors, an appraisal consultant is also used for specialized appraisal needs and/or to supplement the data collection work of the office.

Given the financial constraints of the city, the assessors are prepared to continue their work with little or no reliance on appraisal consultants in recertification years (FY2005 is the next scheduled year). However, the mayor's FY2003 budget proposes eliminating of one assessors' position. The elimination of an assessing position would result in a two-member board, conflicting with MGL Chapter 41 §24 which requires a city assessing board to be comprised of an odd number of members between one and nine.

During our review, we also found that the current three-member board conflicts with the city's administrative code (Chapter 7) that states one assessor shall serve in-lieu of a board. Despite the code, the city has annually budgeted three working assessors since 1982 to handle the workload of the office. However, city officials also report that for over a decade (1983-1994) the third assessing position was often vacant or temporarily filled for about a year at a time. In 1994, the city was able to secure the appointments of three assessors, two of which still serve in the office.

RECOMMENDATION 1: REVIEW OFFICE STRUCTURE

Over the long-term, we recommend that the city consider restructuring the assessing office. Given the importance of the assessing office, the conflict between the city code and the operating structure, and the potential of having an even number of assessors due to budget constraints, the city should consider an alternative office structure. We recommend that the city consider adopting a three-member, part-time board of assessors and a full-time director of assessing appointed by the mayor. This proposed structure reflects the trend of communities moving away from full-time boards of assessors and towards part-time boards with professional staff performing the daily work of the office.

The part-time board of assessors would be responsible for approving the city's property assessments, acting on abatement and exemption recommendations, and establishing policy. A three-member board would serve as a resource or sounding board to the professional staff when faced with value-related decisions, and any vacancy or turnover of the board would have minimal impact on the office operation. The director of assessing would be a professional position in charge of office staff and daily operations. The director would be responsible for maintaining the city's assessment data on the CAMA system. Because it is inefficient to have a highly skilled individual with appraisal knowledge perform routine, regular fieldwork, the director would schedule staff or consultants to perform the bulk of the data collection. While the director's time will be spent predominantly in the office, he can perform some fieldwork in order to maintain local market knowledge (e.g., inspect selected sale properties and review abatement cases). Staffing levels (clerical and data collection positions) and appraisal consult contracts would be determined based on financial resources available and operational requirements of the office.

As the assessing office confronts budget decreases and considers staff changes, priority should be placed on the continued ability to manage its database in-house, perform valuable interim year adjustments and cyclical inspections with minimal impacts. It is important that this office comply with state statute and fulfill its appraisal and state assessment certification requirements in a timely fashion. Failure to complete its appraisal and certification responsibilities could result

in late tax rates, delays in recertification years, and lack of public confidence in the assessing practices of the city.

FINDING 2: ACCELERATED NEW GROWTH

The city is considering adopting a local option statute (MGL Chapter 59 §2A(a)) that allows a community to value and assess new growth (e.g., new construction or other physical additions to real property) occurring by June 30 for the fiscal year beginning July 1. In other words, it allows the community to assess improved parcels as of June 30 and ensures the property owner is paying his fair share of the cost of government operations for the fiscal year beginning July 1 rather than a year later. In the initial year of adoption, the city will be able to capture and assess the prior calendar year's new growth and an additional six months of growth through June 30, 2002; thereafter, the city will value and assess new growth from July 1 - June 30.

If adopted, this local option law will provide additional taxable levy for operations as well as require additional work of the assessors in the initial year of implementation. This will require the assessors to identify all the additional improved properties that will have to be inspected prior to setting the tax rate by December. For those properties with a potentially significant change in condition (i.e., destruction or new construction), the assessors may adjust the estimated tax bill amount, minimizing the impact of the final tax liability for the property owner (actual tax bill). In order to do this, the assessors would have to identify the potentially effected properties and adjust the preliminary tax notices before their July 1 issuance.

RECOMMENDATION 2: PLAN FOR ACCELERATED NEW GROWTH IMPLEMENTATION

We recommend that the assessing office identify the work necessary to implement Chapter 59 §2A(a) and determine if sufficient staffing and/or resources are available to complete the work. Having just completed a recertification year and with only a few months left in FY2002, the assessing office will be hard pressed to implement this program if adopted, but the potential to gain additional revenue to balance the FY2003 budget may be well worth the initial investment.

TAX COLLECTOR/TREASURER'S OFFICE

The city has a combined tax collector and city treasurer's office. Appointed by the mayor, the collector/treasurer has worked in the office for 22 years and served in her current position since 1991. The office also has an assistant collector, assistant treasurer, two supervising cashiers, two cashiers, a municipal lien clerk, and three treasurer's clerks.

On the treasurer's side, the office is responsible for the payroll and cash management, including the investment, disbursement and borrowing of cash. The office uses the city's in-house financial system and financial spreadsheet software to process its work. The treasurer uses Excel to record the daily transactions of the cashbook, including deposits and departmental turnovers, disbursements and transfers among the city's bank accounts. Also using Excel spreadsheets, the treasurer reconciles the bank accounts to the bank statements, reconciles receivables, prepares cash flow projections, produces the monthly treasurer's receipts report and prepares analysis as needed.

On the collector's side, the office posts payments into the computer system and prepares municipal lien certificates. The office is responsible for collecting approximately 20,500 property tax bills quarterly, and 57,000 motor vehicle excise bills, 200 boat excise bills and 14 farm excise bills annually. The office is also responsible for collecting about 12,000 combined residential water and sewer utility bills semiannually² and 2,500 non-residential water and sewer utility bills quarterly. In addition, all inspectional department receipts are processed by the collector's office; a bill and payment are sent to the collector's office via a pneumatic tube, the payment is entered into the cash register system and receipt is sent back via the tube.

In an effort to collect payments and/or reduce the city's receivables, the collector uses statutory remedies and outside services when necessary. The city liens its overdue water and sewer charges on the property tax bill to ensure eventual collection. The collector uses the services of a deputy collector to pursue payments on behalf of the city, including marking the registration or license for non-renewal status at the Registry of Motor Vehicles. For outstanding personal property accounts and boat excise, the collector uses the services of an attorney.

For delinquent real estate taxes, the collector uses a series of remedies. The office issues a dunning notice on any property tax account that has a past due balance after each of the first three quarterly payment due dates. If the real estate tax remains unpaid after the fourth quarter due date, the office issues a demand notice. If the demand notice does not result in payment, the office initiates take taking procedures within six months. In an effort to improve collections, the city also assigns (or sells) its property tax receivables to third parties, depositing the

² These bills will be issued quarterly beginning in FY2003.

revenues in the general fund and liquidating the associated receivable. If a property that has been previously assigned is outstanding in a subsequent year, the collector makes the tax taking and then initiates foreclosure proceedings with the assistance of an attorney.

The collector/treasurer's office uses the HTE system and the city's in-house financial system to process its work. The property taxes, motor vehicle excise and boat excise are collected on the HTE system. Once collected and deposited, these collections are data-entered by batch into the city's in-house financial system. The city's in-house financial system is used for processing payroll and payables, and for collecting and reporting all utility, tax title and foreclosure³ amounts. The municipal lien certificates are produced manually.

All commitments are sent to the IT department to convert and/or print the bills. Once the information is loaded on the HTE or city's in-house financial system, it is always reviewed by the collector's office for accuracy. For the motor vehicle excise, the assessors also review the Registry's information for errors, wrong addresses, and exempt vehicles. Once approved, the IT department produces all bills using the HTE billing module. All bills are sent to an outside vendor to stuff and mail.

The collector/treasurer provides a monthly report of her cash and receivables for reconciliation purposes. The auditor compares the information with the general ledger. In the event of non-reconciliation, the auditor and collector/treasurer research and/or meet to review and resolve any variances.

FINDING 1: AUTHORITY OF THE TAX COLLECTOR'S OFFICE

The city has a collector of taxes. As such, the tax collector is authorized to collect taxes and certain other charges (e.g., excise, betterments and special assessments) committed for collection. The collector of taxes is not authorized to collect all accounts (e.g., water, sewer, and inspectional receipts) due a community. To collect these receipts, a community may extend the collector's authority by adopting MGL Chapter 41, §38A.

Compounding this issue is the current collection practice for water and sewer bills. Accompanying each water and sewer bill is an envelope addressed to the collector's office. If payment is made at the collector's office, the staff accepts and posts the payment. However, if the payment is made by mail, these payments are forwarded to the water and sewer department. The water and sewer staff open the envelopes, enter the payments on the water and sewer billing program with a pending status, and return batches of bills and payments back

³ When a property is taken into tax title, the account is flagged in the HTE system and transferred to the city's in-house financial system, liquidating the receivable in the HTE system. If the property is foreclosed, treasurer would flag the property and the city's in-house financial system is programmed to transfer the account from tax title to foreclose.

to the collector's office. The collector's office verifies that the batches and cash balance, releases the pending status, and turns the cash over to the treasurer for deposit.

Having more than one department receiving utility payments is not an advisable practice. More importantly, without adequate separation of duties—one office committing the charges and the other collecting the payment—the community loses an important check and balance that may compromise financial control.

RECOMMENDATION 1: ADOPT THE CITY COLLECTOR OPTION

We recommend that the city accept MGL Chapter 41 §38A. Acceptance of this statute will change the office to a city collector and authorize the office to collect all accounts due the city. As such, this office should collect and process all water and sewer payments after receiving a formal commitment from the water and sewer department.

FINDING 2: COLLECTIONS

Generally, the collector's work is data entered manually, but there are a few exceptions. The property taxes paid via tax services are done electronically. Five tax services provide electronic payment information for about 40 percent of the city's property accounts quarterly. The collector's staff is able to review the information, reconcile it to the accompanying check payment, and post to the HTE system. The city also uses a lockbox service to process the first motor vehicle excise billing of every calendar year. This is done because over 40,000 (or 70 percent of the total) bills are issued at once, placing a tremendous demand on the staff.

In the FY2003 budget proposal, the collector's office budget is being reduced and one cashier position is proposed to be laid off. Because the collections are generally processed manually and the utility bills will be issued quarterly in FY2003, this reduction in staffing could have an adverse effect on the office.

RECOMMENDATION 2: EXPAND THE LOCKBOX SERVICE COLLECTIONS

We recommend that the city consider expanding its lockbox services to process all receipts.

With a proposed reduction in staffing in the collector's office, greater use of a lockbox service may ensure that the city's collections will continue to be processed timely. Because of the direct deposit of cash by the lockbox service, this will also free up the treasurer's staff time from making the one or more daily bank deposit visits.

FINDING 3: DEPARTMENTAL RECEIPTS REPORTS

Departments turnover all receipts with a detailed report upon receipt or at least weekly. Departmental turnover reports are generally submitted on the State 910 Form, providing vague descriptions of the types of receipts reported. The treasurer reviews each turnover, verifies the revenue source and deposits the funds in the bank. These revenues are manually entered into the city's in-house financial system by the treasurer's staff, having to refer to the city's chart of revenue accounts often to make the entry.

RECOMMENDATION 3: STANDARDIZE DEPARTMENTAL RECEIPTS REPORTS

We recommend that the treasurer, in cooperation with the auditor, standardize the departmental turnover reports. For each department, a turnover sheet should be created in an Excel spreadsheet which clearly lists all the revenues handled by that department or board, including a brief description, operating fund and the revenue account codes. These reports will enable the treasurer and auditor to process the information quickly without having to inquire with a department as to the source of the funds.

ACKNOWLEDGEMENTS

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Louis T. Fossarelli, City Councilor
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Eleanor Goldoni, Auditor's Administrative Assistant
Sandy White, Auditor's Head Clerk
Maureen Minion, Accounts Payable Clerk
Charlene Holland, Account Clerk
Steve Gullo, Assessor
Mary Marino, Assessor
Helene Murphy, Assessor (retired)
Frank Novak, Assessor
Mary Roy, Tax Collector and City Treasurer
Nancy Basso, Assistant Tax Collector
Sandy Vose, Assistant City Treasurer
Larry Panaro, Water/Wastewater Finance Director
Maureen Snow, Water/Wastewater Clerk
Pamela Carr, Information Technology Director
Edward English, Network System Manager
James Giusti, Giusti, Hingston & Company CPA
Paul Accardi, CPA, Committee on Municipal Finance
Steve Bucuzzo, Committee on Municipal Finance