



City of Lawrence

Financial Management Review

Division of Local Services / Technical Assistance Section

February 2008

INTRODUCTION

At the request of the Lawrence Mayor, the Department of Revenue's (DOR) Division of Local Services has completed this financial management review of the city.

We have based our findings and recommendations on site visits by staff members of the Municipal Data Management & Technical Assistance Bureau (MDM/TAB), the Bureau of Accounts (BOA), and the Bureau of Local Assessment (BLA). During these visits, the staff interviewed the mayor, members of the mayor's staff, some city councilors, the city attorney, finance director, comptroller, purchasing agent, information technology director, assessors, treasurer/collector, personnel director, school superintendent, city clerk, private auditor, and other municipal office staff.

DOR staff examined such documents as the tax rate recapitulation sheet, annual budgets, audits, cash and receivables reconciliation reports, and statements of indebtedness. The city also provided us with warrants, debt schedules, the city charter and ordinances, various job descriptions, and other assorted financial documents.

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

Since the adoption of its charter in 1983, Lawrence has operated under a mayor-city council form of government. The mayor is the chief executive officer, and a nine-member (six district and three at-large representatives) city council is the legislative body. The mayor serves a four-year term, with a two term limit, and the council members are elected bi-annually. All department heads and boards (except the school committee, city clerk, city attorney, and assessors) are appointed by the mayor, subject to city council confirmation.

By charter, Lawrence has a finance director, who is primarily responsible for developing the budget, monitoring the city's fiscal activity, and overseeing the offices of the comptroller, treasurer/collector, purchasing agent and information technology. While the assessors are appointed by the council, the mayor designates the chairman. The assessing office is also part of the budget and finance department, and its staff report, on a day-to-day basis, to the director.

For much of the time since 1983, the city has been under the scrutiny of the Department of Revenue's (DOR) Division of Local Services because of its financial difficulties. For an unprecedented seven and half years in the 1990s, city finances were managed by a state mandated Lawrence Fiscal Oversight Board. Even though the Lawrence board had few real powers and was far weaker than the Springfield Finance Control Board created in 2004, the city's financial management practices improved. The Fiscal Oversight Board disbanded in December 1997 when the city demonstrated it could balance its budget. However, DOR did not terminate its involvement. As a condition of disbanding the Board, the city was required to submit quarterly revenue and expenditure reports, a balanced budget by October 1, and an independent audit of its financial statements each year before DOR would certify its tax rate.

In the years immediately following the Lawrence Fiscal Oversight Board, city management complied with DOR conditions. City officials budgeted conservatively and were able to levy below the city's taxable limit. Close monitoring of spending prevented deficit spending, resulted in appropriation turn backs, and generated reserves that reached a record high \$13 million of free cash in FY2002. With an improved fiscal position, Lawrence built three schools (with 90 percent school building assistance aid from the state), began modernizing the assessing operation, and acted on other long deferred capital improvements (e.g., repairing city hall, building a water treatment plant, and replacing equipment and vehicles).

This momentum, however, began to falter in 2003, when Lawrence returned to poor financial management practices.

- In FY2003, ill-advised estimated local receipts were used for the tax rate despite evidence of a slowdown in the economy. Rather than make cuts to operate within available means, city officials proposed rate and fee increases that were never adopted by the city council or were projected for the full year rather than when the increase became effective.

- In FY2003 and FY2004, relying on non-recurring revenues, the city used \$8.15 million and \$7.2 million, respectively, in free cash to support annual budgets, and then in FY2005 used a combination of \$2.53 million in free cash and \$2.75 million in overlay surplus.
- Departments returned to the practice of overspending their appropriations. To resolve the operating deficits that resulted, the city council approved year-end appropriation transfers totaling \$2.2 million to close FY2006 overages and \$2.7 million for FY2007 deficits.
- Despite these sizable budget corrections, weak fiscal controls forced the city to raise over \$828,000 to cover additional FY2005 deficits and almost \$190,000 for FY2006 deficits. In FY2007, it appears the city has \$3.27 million in combined school, snow & ice removal, water, and sewer deficits.
- In FY2006, \$7.66 million in School Building Assistance (SBA) construction reimbursement receipts were used to fund the operating budget rather than extinguish short-term borrowing costs associated with the high school project.
- In both FY2005 and FY2006, the revenue projections were deemed exaggerated by DOR and in each year, the approval of the property tax rate was delayed five months until May.
- In FY07, free cash plunged to negative \$15 million. This was due to a combination of outstanding taxes and excise, overspent grants and operating deficits, and overdrawn capital projects, all of which contributed to a bond rating downgrade to Baa3.

Contributing to the lack of effective financial management oversight has been the amount of turnover in key positions. Since 2000, five different persons have been appointed as finance director, with 22 months being the longest term served by one individual. In between each appointment, there were vacancies lasting between five and nine months when an existing staff person, generally the comptroller, was appointed as acting director and required to perform two jobs simultaneously. Now, the city has a new finance director who has proven to be both diligent and cooperative in his interactions with DOR. Similarly over the last seven years, four persons have served as comptroller. One barely lasted seven months in the job and, between other appointments, the assistant comptroller served as the department head. As a result, the administration has not been consistent in its efforts to monitor and control spending.

For its part, the city council has engaged in budget disputes and determined not to approve the annual budget before July 1, forcing instead the approval of monthly appropriations to meet payroll and other essential payments (M.G.L. c. 44, §32). This pattern began in FY2004 and has continued into FY2008. Initially rejecting proposals to fund FY2008 budget shortfalls through further fee increases and by levying up to the city's property tax limit, the council repeatedly returned the budget to the mayor for revisions. Two subsequent plans were submitted and again not acted on. However,

because the mayor's last budget submission was not acted on within 45 days, it became effective under the interpretation of local charter provisions, as if it had been approved by council vote.

However, serious concerns persist. In a letter dated November 6, 2007 to the mayor, council, and key financial officers, the DOR Director of Accounts questioned the city's estimated revenues and projected spending, and estimated that Lawrence had a \$14.7 million FY2008 budget problem.

The city's response has been to request the permission of the Commissioner of Revenue to use \$9.52 million of the School Debt Reserve Fund (Ch. 319 of the Acts of 1998), which was originally established to meet the city's school construction obligations. Using such a large portion of the remaining estimated fund balance of \$13 million as a revenue source to balance the operating budget enabled the city to set its FY2008 tax rate. The city proposed to use \$4.3 million to meet a bond payment obligation and \$5.2 million to fund the FY2008 operating budget.

Putting aside the question whether this is a legitimate, or wise, use of the debt reserve, in reality, depleting this fund merely puts-off addressing Lawrence's structural deficit another year. Early projections point to a significant FY2009 budget shortfall. If the city's fiscal management does not improve, if cuts in spending are resisted, and if the city council continues to reject revenue enhancements, it is difficult to envision how a balanced budget will be developed and adopted. By that time, further depleting reserves will not be an option.

Conclusion - Overall, we found that many of the problems identified in this report are long-standing and continue to hinder the city's fiscal operations. Basic financial functions at the departmental level are not being performed and the staff struggle to complete daily activities due to their lack of training and knowledge, the ineffective use of computerized systems, and leadership voids. There is no semblance of a city-wide employee evaluation program and, as a result, any performance expectations are largely unstated, undocumented and diverse across city departments. Even with the presence of a new finance director, whose efforts we support, lacking will be the kind of accountability created when one person is empowered and directed to oversee, administer and coordinate all city departments.

Higher level financial management capability is untested and, historically, decisions have often been misguided. To balance recent budgets, city officials have relied on financial resources that will not be available in FY09 and beyond, but there has been no forward-looking analysis of this prospect. There has been little, if any, discussion of the future financial impact of union contracts that are unsettled since FY06. The apparent disregard for these types of factors have lead, in the past, to unrealistic budgeting, to failed spending controls and to an inability to collect revenues budgeted. Further hampering the city's ability to effectively function is a breakdown of communication and trust between the mayor and city council.

Under these circumstances, the DOR response to the city's request to use \$9.52 million from the school debt reserve has waited on some signal from the city council that it is willing to make difficult decisions to balance the FY2008 budget. Council action came in late January when it approved water rate increases and allowed the city to tax up to the its levy limit to raise needed

revenue. The council also acquiesced to budget reductions and lay-offs as necessary parts of the plan. With this news, the Commissioner of Revenue approved the release of \$9.52 million from the debt reserve fund to the city.

The use of the reserve fund, however, is a red flag and merely diverts attention from the deeper, and inevitable, fiscal crisis that lies ahead. It reflects a decision to take the easier route and raises serious concerns at DOR about the future ability of the city to balance its budget when all possible reserves are depleted. With that in mind, we are compelled to forewarn local leaders that any further state involvement, requested or otherwise, which is intended to effectuate a budgetary course correction for the city, will not reflect the light-handed intervention of the past. Options will be limited and will, in all likelihood, include the establishment of a finance control board for Lawrence, based on the Springfield model which would takeover, in a substantive and authoritative way, management of the city's finances. However, a control board is not the preferred course of action.

For the immediate future, it is the intent of DOR to keep watch over city financial activity, and to take stock of city officials' willingness to act deliberatively, intelligently and cooperatively in managing the city finances. Accordingly, it is the expectation of the Department of Revenue that:

- With the assistance of the Division of Local Services (DLS), the finance director will complete a forecast of city revenues and expenditures for FY2009 using the DLS forecasting application;
- The finance director will present the results of the forecast to the city council prior to April 1, 2008.
- No later than May 15, the mayor will submit a balanced FY2009 budget proposal to the city council;
- The finance director will be available to the city council, at its meetings and otherwise, to respond to budget-related questions;
- By July 1, the city will submit to DOR a pro-forma Recap and balanced budget approved by the city council;

Finally, among our primary observations, we see the need for a change in the culture at city hall and a shift from a loose work environment to one where clarity of purpose and accountability exists. As a critical step toward achieving this goal, we recommend that the mayor propose and the city council approve the appointment of a chief administrative officer, who would take full responsibility for the management of all city departments on a day-to-day basis. In making this choice, we underscore the importance of setting minimum professional qualifications and experience requirements that reflect a high level position and that justify an annual salary in the range of \$100,000-to-\$130,000.

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OVERALL FINANCIAL MANAGEMENT AND BUDGETING

During the course of our review, we looked at the overall financial management of the city, including the budget and finance office, financial practices, and personnel procedures and policies. In general, we comment on a neglect to monitor and report on the city's financial activity. We note the absence of forecasting and long-term planning through a capital improvement program. We see the need for greater communication in the budget process and to seek the guidance of a financial advisor. What follows is a summary of our observations and recommendations.

In addition to the department heads who report to the finance director, there is one budget analyst on his immediate staff. She helps produce the city budget, prepares monthly departmental expenditure and quarterly salary projection reports, answers questions from departments, and provides clerical support.

Even though all departments have access to expenditure information online in the city's financial system, the budget and finance office generates and distributes monthly reports. These reports show the expenditures to date, encumbrances and remaining budget appropriation balances. This information is extensive and should be used to verify internal appropriation balances, which has not been done consistently. For example, the school department developed its FY2007 spending plan based on an upward adjusted allocation of Chapter 70 funds rather than on the lower amount actually appropriated. The result was a \$760,000 operating deficit. Similarly, neither the water department nor the city treasurer noted a shortfall in the water enterprise fund debt service appropriation. Obligations were met, but resulted in another year-end deficit.

Currently, the budget and finance office does not prepare revenue reports. Consequently, city officials are unable to monitor current year's collections or to make course adjustments for revenue that fails to materialize. Revenue shortfalls are generally not known until the close of the fiscal year, and must be raised on the next Tax Recap Sheet.

By charter, the mayor is required to prepare a five-year capital improvement plan annually. However, at this time, no plan exists and capital acquisitions only occur on an ad hoc basis when resources are available. Similarly, no effort is made to analyze and forecast Lawrence's revenues and expenditures over multiple years.

Historically, the city has fulfilled loan and qualified bond reporting requirements with the help of a financial advisor, an individual or institution that assists a municipality in the issuance of bonds and notes. Since July 2006, however, Lawrence has not had a financial advisor, but relied instead on the city's underwriter to put the city's bond sale together. During this period of time, the city issued three state qualified bonds and one note, but state reporting requirements were not met and qualified bond coverage analyses were not prepared.

Under the current governmental structure, it is necessary that the mayor hire knowledgeable and experienced staff to professionally manage financial operations and monitor the fiscal stability of

the city. However, the city has had significant turnover in the finance director and comptroller positions in recent years. Complicating this lack of consistent management, the incumbents possess limited municipal finance experience. As a result, all staff training has occurred on the job, and few staff are cross-trained. Cited below are factors that have contributed to recent problems for the city.

- Late Adoption of the Budget and Delayed Approval of the Tax Rate – Because of high turnover, a single individual, well-versed in city finances, has not been regularly present, if at all, at city council meetings to communicate the fiscal condition of the city, to explain estimated revenues or to outline proposed spending plans. In the absence of information, council approval of a balanced budget has typically been delayed beyond July 1. Until a balanced budget is adopted, the city's Tax Recap Sheet cannot be submitted to DOR, its tax rate cannot be certified by DOR, and tax bills cannot be issued by January 1, impacting the city's cash flow.
- Deficit Spending – No one has consistently monitored expenditures and withheld payments to avoid departmental spending in excess of appropriations, which violates of M.G.L. c. 44, §31. In some instances, the city council has been asked to make year-end transfers to remove the deficits. In other cases, the city is forced to raise deficit amounts on the subsequent year's Tax Recap Sheet, which diverts funds from other purposes.
- Illegal Departmental Transfers – To avoid deficit spending, year-end transfers are permitted, but action must be taken prior to July 15 (M.G.L. c. 44, §33B). The city has made transfers after this deadline.
- Late Year-end Closings – As a result of the late departmental transfers, the city postponed closing its FY2007 books. This, in turn, delayed the completion of an independent audit, which is a condition imposed by DOR before it will approve the city's tax rate.
- No Revenue Anticipation Borrowing Despite Demonstrated Need – With little fund balance available and limited revenues taken-in during the first quarter of FY08, the city lacked the cash flow necessary to meet its expenses. Rather than issue revenue anticipation notes, Lawrence officials deferred payment of non-essential bills until the first quarterly state aid distribution was received in late September. The city also needed an emergency local aid advance in late December to meet its financial obligations. Failure to pay legally authorized expenditures timely continues to place a burden upon the city's vendors, which could impact future deliveries of goods or services.
- Longstanding Management Structure Weaknesses – Annual audit management letters and previous DOR management reviews have identified management, staffing, training, and process problems. The city has failed to construct a corrective action plan to address these issues and continues to suffer deficiencies in its financial management practices.

RECOMMENDATION 1: CREATE A CHIEF ADMINISTRATIVE OFFICER POSITION

We recommend that the mayor propose and the city council approve a new position of chief administrative officer. While the appointment of a new finance director puts the city in a better position to address its serious fiscal issues, the need for a day-to-day overall management presence in city hall remains critical. Throughout Massachusetts, the complex demands placed on city governments continue to expand, prompting cities to engage professional managers. We believe that Lawrence should follow suit and recommend that the mayor and city council work to create and fund a chief administrative officer (CAO) position.

We would expect that the mayor would delegate to the CAO his authority to manage all city departments and to hire or fire all employees, excluding the school department. He should grant the CAO whatever authority would be required to oversee and coordinate all city operations and to create accountability in city hall. The CAO should be expected to originate, recommend and carry forward city-wide initiatives. Among other tasks, he or she should have a major role in negotiating collective bargaining agreements. The CAO should be charged with implementing employee performance evaluations and, working with the personnel department, to develop accurate and up-to-date job descriptions. In general, he should manage the every day business of government and ensure that all departments work toward city-wide goals and objectives. The mayor and city council will retain all the authority vested in them by the city charter.

To find a person capable of fulfilling this role, the mayor and council must be thoughtful and realistic in setting minimum job requirements. Emphasis must be placed on measurable professional qualifications and relevant work experience which together can justify an annual salary that, in our view, must be in the range of \$100,000-to-\$130,000.

RECOMMENDATION 2: MONITOR FINANCIAL ACTIVITY AND AVOID DEFICIT SPENDING

We recommend that the city monitor its financial activity and avoid deficit spending. The finance director should maintain control over the city's fiscal operations at all times. The comptroller should approve a payment only if the available appropriation can absorb the expenditure. If accounts to be charged lack sufficient funds, the comptroller should contact the department to review the reason for the over expenditure, notifying the finance director in the process. If a transfer is necessary, it should be sent to council for approval and completed by July 15. Similarly, the treasurer should monitor the city's cash flow, keeping the finance director informed. If necessary, the treasurer should make arrangements to secure revenue anticipation borrowing for timely payment of city obligations.

RECOMMENDATION 3: IMPROVE BUDGET PROCESS

We recommend that the finance director build a balanced budget based on sustainable revenues and take actions to ensure it is adopted before July 1. Because of Proposition 2½, municipal budgeting

is revenue driven. Therefore, it is necessary that the finance director monitor revenue collections continually and determine what the city could realize during the subsequent fiscal year. Based on these revenue projections, the finance director would build the operating budget. Appropriations should fully cover anticipated expenditures and not exceed estimated revenues. Otherwise, mid-year service/staffing cuts could be necessary to bring the budget into balance. The finance director also should attend all council meetings or hearings to answer questions, provide analyses, and ensure that a balanced budget is adopted before July 1.

RECOMMENDATION 4: DEVELOP CORRECTIVE ACTION PLAN

We recommend that the finance director formulate a corrective action plan to address any weaknesses identified by its private auditor and this management review. When weaknesses in a management structure are identified, a corrective action plan should be developed, indicating what steps will be taken, who will be responsible, and when the action will be completed. The finance director should monitor the implementation of the corrective action plan and periodically inform the mayor and city council of progress made. Effective use of the recommendations of the audit report and financial management review can assist the city in improving its financial controls and practices, which can lead to increased public confidence in the government.

RECOMMENDATION 5: USE A FINANCIAL ADVISOR & COMPLY WITH DEBT ISSUANCE REQUIREMENTS

Given the amount, frequency, and complexity of the city's loans, we recommend that the finance director engage a financial advisor. A financial advisor should be a knowledgeable and independent party who guides the community through the intricacies of municipal borrowing. The advisor should assist the community in getting favorable bond terms, reasonable underwriting charges, and good service.

We recommend that the city comply with debt and qualified bond notice and filing requirements (M.G.L. c. 44, §28 and c. 44A). It is the responsibility of the finance director and/or the treasurer to make sure all legal and reporting requirements for a note or bond are met. While a financial advisor or underwriter may be hired to assist in a sale, the city's financial officers should manage the entire debt issuance process, ensuring that the work is complete, accurate and in compliance with state requirements.

RECOMMENDATION 6: PREPARE MONTHLY REPORTS

DOR recommends that the budget and finance office prepare a detailed analysis of the projected year-end results at least monthly. Based on departmental spending patterns as reflected in expenditure reports, the finance director should be able to reasonably estimate annualized spending for

the city. Comparing these projections to the budget will enable the finance director to identify potential problems early. This information should be distributed to the mayor, council, and department heads so that corrective action may be taken.

DOR recommends that the budget and finance office also prepare monthly revenue reports. While the information is not legally required, it can be useful. These reports provide essential information to monitor the financial performance of the city, to analyze the underlying causes of any shortfalls, excesses and one-time receipts, and to provide guidance in the budget process.

RECOMMENDATION 7: UPDATE CAPITAL PLANNING AND ESTABLISH MULTI-YEAR FORECASTING

We recommend that the finance director update the city's capital plan and develop a multi-year revenue and expenditure forecast. The finance director should update the city's capital plan and present a capital budget to city council annually. These documents should: (1) prioritize the various proposed capital projects; (2) estimate project costs; and (3) list the proposed method of payment (e.g., current revenue, debt, or debt excluded from the limits of Proposition 2½) for each project.

With assistance from the city's financial officers, the finance director also should produce a forecast for all operating funds. The forecast should span between three and five years and be updated routinely as new information becomes available. DOR has developed a revenue and expenditure forecasting application (www.mass.gov/dls/mdmstuf/Technical_Assistance/forecast/tapagelink.htm) available to municipalities. Forecasting, used in conjunction with the city's capital plan, would enable officials to evaluate budget requests with multi-year impacts, identify programs that may not be funded, capital requests that will have to be deferred, and to develop long-range financial plans.

RECOMMENDATION 8: CONSIDER MERGING FINANCIAL DEPARTMENTS

As a long-term goal, we recommend that the city consider merging the school department business office into the city financial offices. A few communities have consolidated financial operations because of the potential to streamline activities, eliminate duplication and, to some extent, reduce expenses. This approach was part of the focus of the Lawrence Financial Management Report in 1993 and was under consideration of the mayor a few years ago again. A merger may be accomplished by accepting M.G.L. c. 71, §37M or by a charter change.

For Lawrence, this is a long-term goal which should be pursued only after a strong management presence in city hall has been established and well tested. The experience of other communities has proven that a successful merger is highly depended on the leadership of all invested parties, on their trust of one another and willingness to work together.

RECOMMENDATION 9: IMPLEMENT BIWEEKLY WARRANTS

We recommend that the city adopt a biweekly vendor and payroll process. With the adoption of biweekly vendor and payroll, the cash flow of the city would improve and workloads in the treasurer's and comptroller's offices would be reduced, freeing time for the completion of other important tasks. Any adjustment to pay periods must be impact bargained.

RECOMMENDATION 10: CONSIDER GIC OPTION

City officials should also evaluate whether it is cost effective to enroll in the Commonwealth's Group Insurance Commission (GIC). As part of the Municipal Partnership Act [Chapter 67 of the Acts of 2007](#), cities and towns are permitted to join the state's group insurance program. Communities realize cost savings from participation in a risk pool of about 300,000 subscribers, which allows for significant purchasing power in the health care market, and GIC dictates plan design without collective bargaining. As a result, GIC rate increases have been significantly lower and less volatile than the rate increases experienced in most municipalities. From FY01 through FY06, GIC costs have increase 47.95 percent or 8.28 percent annually, on average, compared to a 75.28 percent overall increase in Lawrence.

Although the option to join GIC in FY09 closed October 2007, officials can negotiate the conditions for acceptance and submit a written agreement prior to October 1, 2008 for enrollment beginning in FY10. Additional information regarding participation in GIC is available on the [Commonwealth's GIC website](#).

RECOMMENDATION 11: CREATE A FINANCIAL TEAM

We recommend that the city establish a permanent financial team. It should be chaired by the mayor and chief administrative officer and meet on a regular basis throughout the year. Its membership should include at least the finance director, comptroller, treasurer/collector, chief assessor and school business manager. A financial management team can serve a means to open lines of communication and improve coordination between and among departments and officials.

The purpose of the financial team is to assist the mayor in compiling comprehensive financial information from a variety of sources to assist the city's policymakers in their decision-making process. The team can develop financial analyses, explore the financial impact of future events, and offer early strategies to deal with anticipated problems. Meeting at least monthly, it will provide input into the city's cash flow analysis, including the timing of major purchases and issuance of new debt. Collectively, this committee reviews financial documents (e.g., revenue and expenditure reports, balance sheet, audits, tax recapitulation sheet and city share costs for the schools) for completeness and accuracy. This information would provide a comprehensive picture of the city's financial health at any point in time.

PERSONNEL

While city employees are paid weekly, the school payroll is processed biweekly by an outside service and the information is electronically uploaded into the MUNIS financial management software. The police, fire, and DPW departments have been granted the authority to enter payroll into MUNIS remotely, but still forward the backup timesheets to the comptroller's office. All other departments submit timesheets to the comptroller's office for review and data entry on an exception basis (for other than normal hours and uses of accrued sick, vacation, or personal time). The comptroller's office runs payroll trial balances and makes adjustments as necessary before finalizing the payroll warrants. The comptroller's office then prints the paychecks, forwards them to the treasurer's office to be secured until distribution, and provides the check register and direct deposit notices for the bank.

After the payroll is processed, a series of management reports are produced, which summarize the gross payroll and tax withholdings, and detail voluntary deductions. These reports are used to calculate the city's match for health and insurance benefits, transfer funding from the general fund appropriation to the city's health trust fund, and identify which employees participated in each program. However, this activity has been set aside and done when the comptroller's office has time. Accordingly, we found transfers from the city's general fund to the health trust fund were six months behind, and some employees' payroll deduction had not been sent to certain insurance providers since May 2007, which triggered cancellation notices for a few.

In 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45 on the financial reporting and accounting of other post employment benefits (OPEB). OPEB are the benefits other than pension plans a governmental unit is providing or has promised to current and future retirees. These include healthcare coverage, life insurance, disability, and long-term care benefits when they are provided separately from a retirement plan. The purpose of GASB 45 is to require the accrual of the OPEB expense generally over the working career of plan members rather than on a pay-as-you-go basis, which is the current practice for most government sponsored plans. GASB 45 requires that each governmental unit, at a minimum, have an actuarial study of its OPEB liability performed and updated at least once every two years. There will also be new financial and audit reporting requirements, which Lawrence will be required to implement by the end of FY2008. Lawrence plans on having the actuarial study performed this year.

Over the last few years, Lawrence has used the services of a personnel consultant to prepare a handbook of city employment policies and procedures and to update job descriptions. This consultant also helped the city develop a non-union employees' classification and compensation plan, which group positions that require similar skills in uniform grades with steps between minimum and maximum pay ranges. We found that positions were placed in grades with assigned starting salaries based on years of employment, however, it is not clear how and when an employee may move within

the grade range. We also found a reference to a Performance Management Program, an annual job evaluation system that the city has yet to establish.

It appears that current salaries for union and non-union positions in the finance department may explain the turn over and extended vacancies. We found that the finance director position's salary range is \$80,000-\$95,000, the comptroller's is \$60,000-\$70,000, and the information technology director's is \$50,000-\$65,000. Given performance expectations, these are not competitive salary ranges typically needed to attract qualified candidates. We also found that the current assistant comptroller, who helps manage the staff and performs the department head's duties in his/her absences, has a salary range of \$35,000-\$45,000. The assistant comptroller earns less than the payroll supervisor (whose salary range is about \$47,500-\$54,500) as well as confidential secretaries (who are paid \$45,000-\$55,000).

RECOMMENDATION 12: PROVIDE TRAINING AND REVIEW SALARIES OF PROFESSIONAL STAFF

We recommend that the city annually appropriate funding for professional and continuing educational training in the financial offices. It is essential that professional staff, department heads and their assistants, receive training that will provide useful information about current laws and financial practices and will allow them to interact with their counterparts from other communities. More importantly, an assistant should be fully trained to assume the responsibilities of the department head for brief or extended absences, thereby avoiding potential disruptions in activity. The professional staff, in turn, would provide training, cross-training, and support to office staff to ensure activities are performed accurately, efficiently, and timely.

We also recommend that the city re-examine the non-union employees' classification and compensation plan. In order to attract qualified individuals with proven experience in municipal finance, it is necessary that Lawrence offer competitive salaries. Furthermore, the non-union plan should provide for some sort of annual or step increase in order to retain professional staff.

RECOMMENDATION 13: CONSIDER CHANGES TO THE PERSONNEL AND PAYROLL SYSTEMS

We recommend that the remote entry of payroll, time and attendance be performed by each department. Departments that are not entering payroll directly into MUNIS, and have the capability, should be instructed to do so. In addition, all departments should be instructed to complete daily timesheets and to enter each employee's use of accrued sick leave and vacation time. This would enable the comptroller's office to centrally manage payroll and track uncompensated balances, which must be reported at year-end on the city's financial statements.

We recommend that the city institute a personnel evaluation policy and conduct annual performance reviews for all employees. Increasingly, government is placing greater attention on

written job descriptions with goals, performance expectations, and provisions for annual employee evaluations. The city should develop its own evaluation program criteria by which each employee's job performance may be measured. Based on the annual evaluation, an employee may be rewarded (i.e., step increase) for a job well done and/or given suggestions if performance improvement is warranted. In the event an employee's performance is unacceptable, the policy would provide for procedures for a probation period or dismissal, if necessary.

At the same time, an evaluation program works best when it is recognized as a two-way process. Employee performance is an obvious focus, but employee opinion and comment during the process can also provide valuable insight to management. Ultimately, the evaluation process can evolve into a collaborative effort leading to improvements in job performance, the operation of government and in work place conditions. Performance evaluations may be instituted for non-union positions immediately, but will be subject to labor negotiations for other employees.

We recommend that the benefits coordinator be responsible for reviewing and preparing benefit-related reports, transfers and vouchers when each payroll is processed. As benefits coordinator, she is responsible for enrolling employees and ensuring that billed amounts from vendors accurately reflect current program enrollment. As part of the process, she should review benefit charges withheld, determine the city's portion (by fund) to be transferred, prepare payment vouchers, and provide necessary documentation for insurance program providers with each payroll.

We recommend that the city accept M.G.L. c. 32B, §18 that requires retired employees and their spouses, who are eligible for Medicare, to join at age 65. Once accepted, the city would continue to provide the same level of health care services, but shift a considerable portion of the cost to the Federal Medicare program. Adoption of this law would result in savings for Lawrence, the city's share of employee health insurance would decrease and the OPEB unfunded liability also would be reduced.

INFORMATION TECHNOLOGY (IT)

Lawrence's information technology (IT) department manages and services the citywide computer network, voicemail, telecommunications, printers, copiers, electronic mail, Internet access, city website, Microsoft office, and specialized software applications for non-school departments, except the police department. It is responsible for user support, training, security and virus protection, programming, backups, hardware, and maintenance.

The IT department consists of a director, a help desk manager, and technician. While the two staff positions are filled by city employees, the director is a consultant. Until a qualified director candidate is hired, a consultant was engaged and has now served in the position for almost two years. He was contracted to rebuild and upgrade the city computer and technology systems with the goals to improve efficiency and save money. To date, city has upgraded its network to fiber, replaced copiers, developed policies and procedures, installed generators to maintain integrity of the systems, centralized purchasing of supplies, and acquired licenses for all software. IT established a help desk to assist users, to address hardware/software problems, and to track all issues. The consultant estimates that improvements to date have saved the city over \$1.6 million dollars annually and anticipates additional yearly savings of about \$250,000 when plans to migrate the police department onto the city network are complete.

Lawrence uses MUNIS, a fully integrated financial management system. When it was purchased in 1999, it included a one year, on-site training and support package. However, the on-site training professional left after a few months and were never replaced by the MUNIS parent company. Some city staff learned the software system and its features on their own, while others only use some of the basic applications because of limited formal training. Currently, the MUNIS system is five generations behind the most recent version because of insufficient resources to purchase application upgrades. As of this writing, the city is seeking to identify funding to update MUNIS and to train all staff on the applications.

An advantage of MUNIS is the ability to enter information at the department level over the computer network. Currently, all departments with access to MUNIS can inquire about the status of their budgets, but only three have been granted remote access to post their weekly payroll. Payroll information for the remaining city departments are submitted to the comptroller, in hard copy, reviewed and then posted to the financial system. While the capability exists, departments do not remotely enter their own vendor bills or receipts directly into MUNIS. Because the school department operates a separate financial system, the payroll and vendor warrants are electronically uploaded into MUNIS, which does not always allow a seamless transfer and requires some manual data entry.

The City of Lawrence Internet website provides departmental listings and telephone numbers, meeting schedules, agendas, minutes, city charter, online services listings, news, and announcements. However, useful resources and references (e.g., city ordinances, applications, forms, and assessors' property database) are not provided and some department information is out-of-date. In the absence of

useful or complete information, users are directed to call or email the city hall offices for assistance, which causes work interruptions for personnel.

RECOMMENDATION 14: UPDATE THE FINANCIAL SYSTEM AND CONDUCT TRAINING

We recommend that the plans to upgrade MUNIS be made a priority of the city. We have identified a number of financial management weaknesses in the city's operations. A fully functioning financial management system will help the city address these problems, streamline operations, and begin to put its fiscal house back in order.

We recommend that the city cover the cost for IT staff to attend MUNIS training programs provided by the vendor. Training programs will help ensure that the IT staff fully understand the capabilities of the MUNIS system so they could assist in routine matters and address user issues as they occur. With training, staff would be more apt to benefit from MUNIS technical assistance through the city's on-going support contract.

RECOMMENDATION 15: EXPAND THE REMOTE ACCESS TO THE FINANCIAL SYSTEM

We recommend that remote entry capability be expanded to all departments. With proper training, department staff could be given responsibility for data entering payroll information, vendor bills, as well as receipts into the MUNIS system. This would distribute the burden of data entering without weakening financial controls. The comptroller or treasurer's office would now match the department's electronic submission against backup documentation before accepting and posting the information to the appropriate system (e.g., warrant, general ledger, or cashbook). Once a system is established, and even though hardcopy information is exchanged, the electronic transmission of financial data by departments will greatly reduce the amount of manual entries by the comptroller or treasurer's office, thereby freeing up staff to perform other management and analysis activities.

RECOMMENDATION 16: UPDATE & EXPAND THE WEBSITE

We recommend that Lawrence update and expand its Internet website. A comprehensive, up-to-date, and accurate website would help generate public awareness and confidence. In other communities, user-friendly and informative websites have proven successful in reducing the amount of time that city employees spend fielding questions in person or on the phone.

COMPTROLLER'S OFFICE

The primary responsibility of the comptroller's office is to maintain the city's general ledger and to perform the accounting functions. Typical accounting functions include reviewing invoices; preparing warrants; producing trial balances, revenue and expenditure reports; maintaining information on debt; and reconciling cash and receivables with the treasurer/collector. In addition, the office manages the city's payroll system and the city comptroller serves as a member of Lawrence's retirement board.

After having served in temporary contractual positions in Lawrence since 2005, the current comptroller is the fourth to be appointed to this position since 2000. The office is budgeted for six additional positions: an assistant comptroller, a payroll supervisor, an accountant, two principal clerks, and a part-time data entry clerk. However, a principal clerk and the part-time data entry positions are vacant and there are no plans to fill them due to the city's fiscal situation.

Throughout the year, the comptroller's staff prepares internal and external reports. Internally, the comptroller's office reconciles any expenditure report variances that a department documents. The staff also reconciles receivables with the treasurer/collector's office monthly. However, failed attempts to reconcile cash have resulted in a reportable condition in the city's independent audit over the last few years. A reportable condition is a deficiency in internal control, which if significant, may become a "material weakness." A material weakness is a reportable condition of such magnitude that it could potentially result in misstatements of financial condition and could impact Lawrence's credit rating.

Among the external reports, the comptroller's office prepares the Schedule A, a year-end statement of actual revenues, expenditures and various fund balances, and produces the balance sheet (and supporting documentation) for DOR that is used to certify free cash. The city's Schedule A generally is filed after the October 31 deadline, but never late enough to prevent the timely distribution of its third-quarter state aid. Typically, it appears that the final approval of the city Schedule A is delayed because some beginning fund balances vary from the prior year's ending balances without explanation.

As required with the annual balance sheet submissions, Lawrence provides detailed capital project account fund balances. Most accounts reflect activity from year to year, while some are unchanged, and others show deficit balances. Generally, capital project deficits are the result of not issuing bonds or temporary notes when cash is needed to begin or continue work. If not resolved, these deficits can have a negative impact on the city's certification of free cash. On the city balance sheet, other deficits which are unchanged over a number of years raise concerns that expenditures are in excess of borrowing authorizations.

RECOMMENDATION 17: CONDUCT CASH RECONCILIATION PROMPTLY

We recommend that the comptroller reconcile the city's cash with the treasurer/collector's office at least monthly. Frequent reconciliations shortly after the close of each month make it easier to locate and correct posting errors, and minimizes additional work at year's end. Regular cash reconciliations also enable city officials to verify that revenues reported are accurate, thereby ensuring the community's funds are safeguarded.

RECOMMENDATION 18: FILE ACCURATE SCHEDULE A REPORT

We recommend that the comptroller review the annual Schedule A report to make sure fund balances are accurate before submitting it to DOR. When compiling a Schedule A report for a fiscal year, it is incumbent upon the comptroller to compare prior year-ending fund balances to the reporting year starting balances to ensure they match. Any variances should be researched and corrected before the report is submitted to DOR, otherwise it raises concerns about the city's financial records. This also represents one of many error checks DOR performs on a municipality's Schedule A. The comptroller would benefit by working closely with the city's DOR Bureau of Accounts field representative to identify and correct, if warranted, other closely reviewed numbers.

RECOMMENDATION 19: ADDRESS CAPITAL PROJECT DEFICITS

We recommend that the comptroller review capital project deficits and determine if any will require city council action. Any capital project that has exceeded the authorized borrowing limit will require city council action to increase the borrowing limit or, if the project is complete, to fund the deficit. In the future, the comptroller and treasurer/collector should monitor city council approval of projects to be funded through borrowing. Meetings should follow with department managers who will oversee each project for the purpose of identifying estimated start dates and long-term cash flow needs. With this information, city officials can better devise and implement a borrowing strategy that avoids account deficits.

PURCHASING OFFICE

The purchasing office consists of four staff positions including the purchasing agent, assistant agent, a full-time clerk and a part-time clerk. This office is responsible for assisting departments with purchases of supplies and services, with the bid process on construction projects, and generally with efforts to remain in compliance with Massachusetts General Laws.

Lawrence requires approval of a purchase order (PO) in advance of all purchases of goods and services. As was observed in our 1993 report, departments continue to manually prepare PO requisitions, which are sent to the comptroller for approval, and then forwarded to the purchasing department. Purchasing office staff review the requisition, and if it complies with procurement and bidding laws, approves the PO request. Once a requisition is approved, the funds are encumbered and a PO is created. After the goods or services are received, a department attaches the invoice to the PO and sends them to the purchasing office for review. If the invoice and purchase order details match, they are forwarded to the comptroller for payment.

Lawrence's purchasing policies, guidelines, and forms are found in a procurement manual, which all departments are required to keep on hand for reference. Within the manual, it clearly states that the comptroller will not process any payment greater than \$50 without a fully executed purchase order. However, we were informed that purchases in excess of \$50 occur frequently without prior requisition approval.

RECOMMENDATION 20: RAISE MINIMUM PURCHASE ORDER AMOUNT

We recommend that Lawrence raise the minimum purchase order amount. Raising this threshold will reduce the paperwork and demands on the staff time in both the purchasing and comptroller's offices. Therefore, we suggest that the purchasing office conduct an analysis of POs issued during the course of a fiscal year to determine a reasonable threshold level. For instance, if 60 percent of all POs are for expenditure of \$500 or less, this amount might be set as a threshold under which a PO would not be required.

Even with higher PO thresholds, checks and balances to protect against departmental overspending will continue as part of the invoice verification process completed by the comptroller before any expenditure is placed on a vendor warrant. In addition, through a review of monthly expenditure reports, the comptroller can monitor spending and should warn a department head when an account is near depletion. If, moving forward, departments habitually and flagrantly overspend their appropriations, then the threshold level and the process can be revisited and appropriate action can be taken.

RECOMMENDATION 21: AUTOMATE AND STREAMLINE PURCHASING PROCESS

We recommend that the city automate and streamline the purchasing process. We recommend that the city take advantage of MUNIS features that would allow all departments on the computer network to complete an on-line requisition and electronically submit it to the purchasing office for approval. Once the requisition is approved by the purchasing office, department personnel will have authority to print hard copies of the PO, which would also be electronically stored in MUNIS. The information can be retrieved later (by vendor, date, purchase order number, or appropriation code), printed at anytime, and will have the effect of reducing paper consumption and filing needs.

ASSESSING OFFICE

The assessing office is responsible for determining full and fair cash valuations, classifying all property, assigning tax payments to owners, and generating the commitment authorizing the treasurer/collector to collect property taxes and excise. The assessing office maintains assessment data on approximately 14,200 real property parcels and personal property accounts and 45,000 motor vehicle excise accounts. In addition, the office processes approximately 1,000 building permits, 1,800 deed transfers (1,100 of which are property sales), 360 exemptions, and 110 abatements annually.

As a result of concerns raised by the DLS Bureau of Local Assessment during the 1997 triennial certification of assessed values, the assessing office acquired the Vision computer assisted mass appraisal (CAMA) system. Unlike the prior system, which required all property data maintenance and property valuation functions to be performed off-site by an appraisal consultant, the Vision CAMA system enables the assessing office to produce in-house generated values and to increase its management control. However, the assessors chose not to assume any of these responsibilities, continuing instead their complete reliance on an appraisal consultant, Real Estate Research Consultants (RRC), to perform all property inspections, data entry and analysis, and to complete revaluation and interim year adjustments. Over the last three fiscal years, Lawrence has spent over \$721,000 on these professional services and is budgeted to spend another \$280,000 in FY2008.

Currently, the assessing office has a staff of six including a three-member board of assessors that work full-time, two assistant assessors, and a clerk. Each of the working assessors, one of whom is the chief assessor, is knowledgeable and has the Massachusetts Accredited Assessor (MAA) professional designation. The chairman of the board manages the staff and reports to the finance director on non-policy matters. The board approves the full and fair cash valuations and classification of all property, acts on all abatement and exemption applications, and reviews the work performed by the appraisal consultant. The assistant assessors and clerk gather relevant records (e.g., deed transfers, legal information, and granted abatements and exemptions) and forward them to the consultant to enter into the CAMA system. In-house, they process exemption and abatement correspondence, handle the motor vehicle excise accounts, respond to public inquiries, and perform other support as necessary.

During the course of our project, we reviewed the city's records, maps, and reports. State law requires that real estate taxes be issued to the property owner as of January 1 of each year. However, if the title to the property is transferred later, a collector may issue "care of" bills to the new owner to encourage timely payment of the bill (M.G.L. c. 60, §3), which Lawrence does not do. We also found that records for many of the properties taken by foreclosure in recent years do not reflect a change in ownership. At DOR's urging, the assessing, collector, and legal offices are working cooperatively to review foreclosed properties and correct any ownership errors. In addition, we discovered that the assessors are assessing taxes to seven owner unknown properties, without authorization from the Commissioner of Revenue. Upon closer inspection of these files, we found all were classified as tax

exempt, most did not have any inspection date, a couple had incorrect map and lot information, and one showed a structure, but no acreage.

RECOMMENDATION 22: PERFORM DATA ENTRY RESPONSIBILITIES IN-HOUSE

We recommend that the clerks be trained to data enter property information. Information pertaining to the current fiscal year would be entered immediately. The subsequent year's data would be set aside until after the tax rate is set, at which time, a new working database could be created by Vision. Bringing these tasks in-house allows information to be data entered from source documents and enables immediate verification. Currently, staff are in the practice of rushing to review the contractor entries just prior to issuing the first quarterly bill. In addition to increased management control, the city could see a potential cost savings.

RECOMMENDATION 23: AUTHORIZE "FUTURE OWNER" OPTION IN VISION

We recommend that the assessors authorize and set up the future owner option in Vision. Activating and using the future owner option in Vision will allow the collector's office to print and mail tax bills with a "care of" so that they can be addressed to new owners when properties have been transferred after the legal assessment date of January 1. The issuance of "care of" tax bills would reduce the amount of returned mail to the collector's office that would have to be researched. It would improve the timely payment of tax bills, and decrease the outstanding tax receivables.

To further avoid return mail, we recommend the assessors work with Vision to reposition the name of the prior property owner to a location on the tax bill away from the address (e.g., outside the window if an envelope is used). Otherwise, the mail could be diverted to the prior owner's forwarding address because his name appears on the first address line rather than to the new owner, care of the local property address.

RECOMMENDATION 24: INCREASE SELF-SUFFICIENCY

We recommend that the city improve the functionality of the assessors' office and reduce the city's dependence on outside consulting. Given Lawrence's financial situation, the assessors should consider assuming more responsibility within the office. With proper planning, training, and support, the assessors, and staff, would improve the internal management of the database and reduce outside contract costs. Duties that could be completed in-house, and re-allocated to either the chief assessor, the two remaining board members, two assistant assessors and a clerk, include the following:

- All data entry
- Building permit and sale inspections
- Interim year adjustments and triennial revaluations for residential properties
- Cyclical re-inspections

To perform these activities, the assessors would need to attend the CAMA vendor's training to learn more about the operating system, including how to make changes to the cost and land tables.

In addition, the assessors should establish a cyclical inspection program, which involves completing an interior and exterior inspection of all city property over a period not to exceed nine years. From these inspections, any changes in the property characteristics are entered into the CAMA system, which updates the parcel data and may result in additional new growth for the city. The benefits of this program are that they provide the assessing office with current, accurate data, and it reduces the cost of having a full measure and list program completed by a contractor.

We recommend that the data collection, annual adjustments, and revaluation of commercial, industrial, and personal properties be contracted to an outside consultant. Because the valuation of commercial, industrial, and personal property involves a more complex process than the methodology applied to residential properties, it would be best that the city continue to contract these out.

RECOMMENDATION 25: CONSIDER RESTRUCTURING THE OFFICE OVER THE LONG TERM

We recommend that, at the appropriate time, the city consider restructuring the assessing office. Increasingly, communities are moving away from the full-time, working assessors to a part-time board and full-time professional staff. Under the latter structure, a director of assessing would be appointed by the mayor and be responsible for the day-to-day management of the office and completion of value-related tasks. The director would receive support from an appointed, part-time board, which would act on abatements and exemptions, approve the new growth estimates and overlay amounts as well as address other policy issues. The director would be assisted by clerical staff and additional, qualified appraisers/assistant assessors, who could perform residential building permit, sales, and cyclical inspections, as well as assist in the determination of values.

TREASURER/COLLECTOR'S OFFICE

Lawrence's treasury and collection operations are managed by the city treasurer/collector, who has served as the combined department head since 1994 and previously as the treasurer. Until recently, staff included the treasurer/collector, an assistant collector, an assistant treasurer, a principal clerk, a head cashier, four data entry cashiers, and three treasurer's clerks. However, in December 2007, staff was reduced by one position.

The treasurer's side of the office is responsible for cash management, including the investment, disbursement and borrowing of cash. The collector's staff, on the other hand, is responsible for collecting approximately 14,200 property tax bills quarterly, 45,000 motor vehicle excise bills annually, and 12,900 water/sewer bills quarterly. In addition, this office generally prepares over 4,100 municipal lien certificates annually.

The collector's office receives property tax and utility payments by escrow service, Internet, mail, and at the counter. According to the city, about 50 percent of the real estate bills are received through escrow and Internet services, and the office processes all other payments. All payments by mail and over the counter, are batched and turned over to the assistant collector, who runs adding machine tapes on the bills and collections. If they balance, the funds are deposited and the bills are returned to the staff for data entry into MUNIS. Cashiers at the counter have cash registers that tabulate the receipts taken in, but do not post to customer accounts because they are not connected to MUNIS.

Lawrence out-sources the entire billing (original and past due), mailing, and collection of motor vehicle excise to its deputy collector, which the city pays for postage costs of these mailings only. Payments are processed through a lockbox service, which deposits all receipts into a city account. The deputy collector then prepares weekly turnover reports. For past due motor vehicle excise amounts, the deputy collector also completes online license and registration markings for non-renewal status with the Registry of Motor Vehicles. Past due collections also are deposited to the lockbox and the deputy's fees are paid through the city's warrant process.

Over the last three years, the city's real and personal property tax collection rate (net of overlay) in the year of commitment ranged between about 90 and 93 percent. These poor collections affect the year-end operating results, which have contributed to the negative free cash. According to reports of detailed receivable balances as of 6/30/07, there are significant amounts of outstanding tax, excise, and utility payments due the city. Not including tax title, foreclosed, and utility accounts, Lawrence has over \$7.51 million in outstanding receivable balances. This includes over \$4.24 million in real estate (dating back to 1994), over \$2.65 million in motor vehicle excise (dating back to 1988), and over \$620,000 in personal property (dating back to FY1994). As has been noted in DOR's previous reports on the collector's operations, these outstanding receivables contain many credit balances. Because it is not known if these are true refunds due to taxpayers, the collector's office needs to research these and take necessary actions to clear them from the city's books.

Once a real estate tax bill becomes past due, the collector issues a demand notice. If the demand notice does not result in payment, the collector should initiate tax taking procedures, which is not the case in Lawrence. The most recent tax title taking was done for FY2002 outstanding property taxes, which was completed last year. Because Lawrence has over \$9.2 million in tax title, the city is in the process of conveying a bulk purchase of outstanding properties to Plymouth Park Tax Services. This company would pay the city an agreed upon price and pursue collections from owners and/or take the properties through foreclosure.

Historically, once in tax title, properties have lingered. Over the last couple years, however, the city attorney's office has been pursuing foreclosure options through Land Court. Prior to pursuing foreclosure, the city attorney's office had to disclaim a number of liens and then initiate new tax takings because of inaccurate information referred to as scrivener's errors. To date, the city foreclosed on over 120 properties, taking them as city-owned or reselling them and placing them back on the tax roll. In reviewing the collector's records against the list of foreclosed properties, we discovered a number of problems. Some foreclosed properties' outstanding receivable and/or tax title amounts had not been transferred to the city's foreclosure account in the general ledger, some parcels continued to be assessed to the old owner, and some became tax-exempt as a city-owned property yet tax bills continued to be issued.

Departments turn over revenues to the treasurer's office with a report on a daily basis. These receipts are counted, deposited to the bank, posted into the cash book, and entered into the treasurer's receipt module in MUNIS each day. The departmental report formats vary, some are automated and others are manually filled out. Generally, these reports are based on the comptroller's revenue chart of accounts numbers and descriptions. However, the treasurer's office often receives a turnover with a new revenue source that does not have a fund or account code number which delays posting into MUNIS. The delay would be resolved if receipts were being entered at the department level as previously recommended. The treasurer's office completes a daily turnover to the comptroller, who matches it up to the department turnover reports and posts the revenues to the general ledger.

The treasurer's cash book is the source of original entry for recording receipts and deposits, disbursements summarized by warrant, and the total cash position of the city. A cashbook provides control that enables the treasurer to reconcile with bank statements, cash on hand, and the general ledger balance on a monthly basis. In Lawrence, the treasurer enters daily activity and maintains the cash book in Excel, which is comprised of about 40 bank accounts. After receiving the monthly bank statements, the treasurer reconciles most of the accounts and the assistant treasurer is responsible for reconciling the payroll and vendor checking accounts. The treasurer prepares a summary report of the bank account reconciliations for the comptroller's office, which is used to reconcile the city's cash. However, we found that this report did not include balances for the city's payroll and vendor accounts, which had not been reconciled in almost six months.

While reviewing the city's checking account statement, we also found almost 600 outstanding checks (totaling about \$415,000) that were more than three months old, the oldest of which dates back

to 2002. These outstanding checks are in addition to the over 760 returned or unclaimed checks, commonly referred to as tailings, that total almost \$145,000 and date back to 1995.

The treasurer/collector maintains spreadsheets to track the city's debt service for the general fund as well as the water enterprise fund. The worksheets identify each issue, original amount of the loan, outstanding amount at the beginning of the fiscal year, scheduled principal and interest payments, and the projected ending balance. These records are used to produce the statement of indebtedness for DOR and budgeting for debt annually. They are not used to reconcile to the monthly expenditure reports.

RECOMMENDATION 26: CONTRACT WITH LOCKBOX SERVICE

We recommend the collector consider contracting with a lockbox service to process tax and utility payments. Typically offered by a financial institution, a lockbox service receives, processes, and deposits payments made to municipalities for property taxes, excise, and utility payments. At the end of each processing day, the community receives payment information on disk or other medium, which can be uploaded and posted electronically. This process makes posting automatic, accelerates deposits, makes funds available sooner, and improves investment earnings. Additional interest earned and efficiencies gained help offset the cost to the city for the service.

RECOMMENDATION 27: CONNECT THE CASH REGISTERS TO MUNIS

We recommend that the city connect the cash registers to MUNIS so all transactions processed are tabulated and customer accounts are posted directly. By processing these transactions as they occur, the staff would view a customer account, advising him or her of any other outstanding amounts, and eliminate the need to handle each transaction a second time. At the end of each cashier's shift, a collection batch report of all transactions would be produced from the system and the cash drawer would be separately counted. If the totals agree, then the transactions would be posted and the funds turned over to the assistant collector for deposit. Otherwise, the staff would have to identify and correct any errors before posting and depositing collections.

RECOMMENDATION 28: PURSUE COLLECTION REMEDIES

We recommend that the treasurer/collector research the real estate receivables. For any receivable amounts that could be placed in tax title, the treasurer/collector should act before the city's automatic lien expires, making sure the city attorney reviews any taking instrument for accuracy prior to filing. A tax lien is valid for three and a half years from the end of the fiscal year for which the taxes were assessed, unless the property's ownership is transferred or the tax is discharged by a municipal lien certificate. Going forward, the treasurer/collector should transfer subsequent taxes into previously established tax title accounts and initiate new proceedings shortly after the demand bills

become past due. Taking firm action early in the process not only produces better results, but serves notice that the city is serious about tax collections.

For those receivable amounts that are determined to be uncollectible, the treasurer/collector should work with the assessors and Commissioner of Revenue to have them abated and cleared off the city's books. If overlay account balances exist for the years in question, the abated amounts should be charged to them, otherwise they may have to be raised on the tax recapitulation sheet or appropriated by the city council.

We recommend that the treasurer/collector use the services of the deputy collector to pursue outstanding personal property tax accounts. The deputy collector may be able to obtain money owed the city or provide evidence (e.g., death, absence, poverty, insolvency, or other inability of the person assessed to pay) that the accounts are uncollectible. Once the collector is reasonably sure that the accounts are uncollectible, he should work with the assessing office and Commissioner of Revenue to have them abated and cleared off the city's books.

We recommend the collector contact the assessing office about abating motor vehicle excise determined to be uncollectible. Abating the older amounts will help clean up and reduce the city's receivables on its balance sheet. Having previously committed all outstanding amounts to the deputy collector, any amount that eventually may be collected and turned over to the city may be easily recommitted by the administrative assessor on a special warrant so the collector may accept the payment.

As for any properties that have been foreclosed and residual charges (e.g., taxes, utility charges, tax title balances) remain on the city's books, we recommend that the treasurer/collector transfer them to the city's foreclosure account. These amounts would remain in the foreclosure account until such time that the property is sold, at which time any proceeds would be deposited to the general fund and the liability would be extinguished. If the city has already sold a property, then the treasurer/collector and comptroller should contact the Director of Accounts on the proper handling of these adjusting entries.

RECOMMENDATION 29: RECONCILE BANK BALANCES AND CASH PROMPTLY

We recommend that the treasurer reconcile all bank accounts monthly so prompt cash reconciliations may be conducted with the comptroller's office. Shortly after the end of each month, the treasurer's office should internally reconcile the cash book to all bank statements. The treasurer should oversee this process to ensure that the assistant completes the checking accounts timely. Once reconciled internally, the treasurer's office should reconcile with the comptroller's general ledger,

ensuring funds are not missing and financial records are correct. Prompt and frequent reconciliations are essential in order to maintain control over cash.

We recommend that the treasurer's office research the outstanding checks. Returned or unclaimed checks that are not cashed within three years of issuance are deemed abandoned under M.G.L. c. 200A, §5. A municipal treasurer holding abandoned checks may turn them over to the state treasurer (M.G.L. c. 200A, §7). Alternatively, the treasurer may advertise the unclaimed checks himself and hold hearings to settle any claims (M.G.L. c. 200A, §9A). Having complied with all legal requirements of M.G.L. c. 200A, any remaining unclaimed monies are credited to the municipality's general fund.

RECOMMENDATION 30: RECONCILE DEBT RECORDS WITH COMPTROLLER REPORTS

We recommend that the treasurer reconcile her debt records with the comptroller's at least quarterly. The reconciliation of independent offices' records should be conducted periodically throughout the fiscal year. Reconciling the treasurer's internal records to the monthly expenditure reports would uncover any variances and/or problems that may require corrective action so potential deficits are avoided.

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Patricia Cook, Treasurer/Collector
Maria Arias, Assistant Treasurer
Denise Goujon, Treasurer's Clerk
Myrtle Gullon, Treasurer's Cashier
Regine Kemembin, Treasurer's Clerk
Ronald Martin, Assistant Collector
Diane Hileman, Collector's Clerk
Maria Halloran, Head Cashier
Janice Cerullo, Collector's Data Entry Cashier
Sara Conway, Collector's Data Entry Cashier
Robert Runge, Collector's Data Entry Cashier

Joseph Giuffrida, Chief Assessor
Alexcy Vega, Assessor
Breda Daou, Assessor
Linda Hassam, Assessor's Principal Clerk
Belky Jimenez, Assessor's Clerk
Jessica Dubois, Assessor's Clerk
Frank Bonet, Personnel Director
Judith Perkins, Benefits Coordinator
Carolyn Traficanti, Purchasing Agent
Rita Brousseau, Assistant Purchasing Agent
Bryan Cahoon, IT Consultant/Acting Director
Charles Boddy, City Attorney
Richard D'Agostino, Assistant City Attorney
Susan D'Agati, City Attorney's Assistant
William Maloney, City Clerk
Dr. Wilfredo Laboy, School Superintendent
Mary Lou Bergeron, Asst. School Superintendent
Christine Bufagna, School Budget & Finance
Robert Harding, Consultant, Corby Capital
Markets
Frank Biron, CPA, Melanson & Heath
Jay Springfield CPA, Melanson & Heath