



City of Marlborough

Financial Management Review

December 2006

INTRODUCTION

At the request of the Marlborough Mayor, the Department of Revenue's Division of Local Services (DLS) 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, city councilors, the city solicitor, the comptroller/treasurer, tax collector, former city auditor, acting city auditor, board of assessors, IT director, personnel director, city clerk, private auditor, and other municipal office staff.

DLS 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

Located between Boston and Worcester, Marlborough is a city of about 21 square miles and a population of 37,699 persons (2004 estimated US Census). The city's 2004 equalized property valuation (EQV)/capita is \$123,166 or just below the statewide average of \$127,176. Marlborough's 2005 unemployment rate is 3.6 percent, lower than the statewide average of 4.5 percent, and the city's 1999 income/capita is \$28,723, which is about 111 percent of the statewide average of \$25,952.

First incorporated as a town in 1660, Marlborough began as an agricultural community. Because of the waterpower of rivers (e.g., Assabet and Sudbury) passing through it, Marlborough developed into a mill and shoe factory community by the 1800s, which led to an influx of immigrant workers and a growth in the population.

As a growing community, Marlborough expanded existing services and provided new ones. Marlborough established a public water distribution system, built sewers, organized a police force and fire department, and built schools. While the selectmen served Marlborough well, the expanding community required more attention. So after 230 years as a town, Marlborough petitioned the general court and became a city in 1890. The selectmen were replaced by a mayor, who is the chief executive officer and, as such, manages the city's operations, prepares the budget, and makes appointments that are subject to council approval. Town meeting was replaced by a city council¹, which is the legislative body responsible for making appropriations, authorizing debt, and adopting ordinances. Yet, despite having adopted a city form of government, Marlborough continued to offer a small-town feel. This is because the mills and factories were only part of the community. Many farms, orchards, and other open space continued to exist in the community, giving Marlborough its unique charm.

Following World War II, many mills and shoe factories closed. However, because of the city's access to the state's burgeoning highway system, including Interstate 495, Interstate 290, and the Massachusetts Turnpike, Marlborough attracted other manufacturing and high-tech industries to headquarter and expand existing facilities. These businesses have located in rehabilitated mill structures as well as built new facilities where undeveloped land and/or former farms and orchards once existed.

In addition to spurring business development, the location of the city has contributed to further increases in residential construction and population growth. Between 1986 and 2006, Marlborough's single-family parcels have increased from 5,381 to 6,939 or about 29 percent. In addition, the city's condominium units have more than tripled, increasing from 624 to 2,237. With this growth in housing, the city's population also grew. Since 1980, it grew from 30,617 persons to 37,444 persons, an increase of about 22 percent.

As a result of this growth, Marlborough's budget has increased substantially. Over the last 25 years, the budget has increased from about \$25.6 million (FY1981) to \$113.4 million (FY2006), or an increase of over 340 percent. During that time, the city's property tax revenues have more than

¹ Originally, the city council was made up of a seven-member board of alderman and a 14-member common council. However, as a result of the adoption of the 1922 Plan B city charter, the council was reduced to one board made up of four at-large and seven ward members.

quadrupled, state aid has more than doubled, and local estimated receipts have increased more than seven-fold.

Because Marlborough has never approved a Proposition 2½ debt exclusion or override, the escalation in property taxes is due exclusively to the annual statutory 2.5 percent increase and new growth that is generated by new construction and building renovations. In addition, the city has not levied to its maximum allowable levy limit since FY1988, and since that time has had between about \$1.4 million and \$8 million in excess levy capacity annually after setting the property tax rate. The growth in state aid reflects changes in the state legislature's annual appropriations as well as state distribution formulas that incorporate equity factors (e.g., property wealth and income). Because Marlborough is at or above the state averages, the city receives a low percentage of its total revenues (13 percent in FY2006) from state aid. Local receipt increases are a combination of growing motor vehicle excise, increasing license, permitting, and other departmental fees, as well as full cost recovery of services such as the city's water and sewer operations.

Over the last 25 years, Marlborough also has used fluctuating amounts of other available funds (e.g., free cash, stabilization funds, and one-time revenues) to support the city's annual budget. Generally, Marlborough has had positive free cash certified by the Department of Revenue's Director of Accounts. Free cash is the remaining, unrestricted funds from the operation of the previous year, including unexpended prior year's free cash, actual receipts greater than estimates, and prior year's budgetary appropriation turnbacks. It was only in two recent years, FY2003 and FY2004, that the city had negative certifications when free cash was -\$3,062,196 and -\$1,639,891, respectively.

Based on Marlborough's balance sheet (as of 6/30/02), the negative FY2003 free cash certification was due primarily to over \$4.3 million in capital project deficits and a \$2.3 million health self-insurance deficit. According to city officials, Marlborough installed a new integrated financial system during 2002 and they had not realized that there was incomplete expenditure data that caused the deficits until after the end of FY2002. If city officials had known about the deficits, they would have issued bond anticipation of notes (BANs) timely or made appropriation transfers.

According to Marlborough's comptroller/treasurer, the self-insured health deficit was due to the incomplete data as well as the fact that several employees developed serious illnesses and medical care costs had escalated. As a result of this deficit, the city raised the employees' premiums 11 percent in FY2003. Unfortunately, by the time Marlborough's FY2002 independent audit was released (March 2003), the health deficit grew to about \$3.25 million. This was because the city did not properly account for all medical services provided during the fiscal year that are paid at a later time, referred to as incurred but not reported (IBNR) claims. Consequently, Marlborough again increased the employees' premiums another 30 percent in FY2004 in hopes that it would eliminate the deficit and put the insurance fund solidly in the black.

Generally, operating deficits impact the certification of free cash and should be raised prior to setting the next property tax rate. Because Marlborough did not raise them timely in FY2003, the Department of Revenue (DOR) required additional financial information prior to setting the FY2004 tax rate. Based on the FY2003 closing information disclosed by the city, Marlborough was required to

raise a health insurance deficit of over \$4 million in FY2004. When DOR certified the city's FY2004 free cash later in the fiscal year, it was again negative primarily due to the health insurance deficit.

Because of Marlborough's and a few other communities' self-insured health fund experiences and past practices on reporting liabilities, Chapter 61 of the Acts of 2005 was enacted in August 2005. This act amended M.G.L. c. 32B, §3A, which authorizes public employers to operate self-insured plans. The act required an annual audit, mandated the recording of claims that have been incurred but not paid as of the end of the fiscal year, and compelled a community to raise any deficit prior to setting the subsequent year's property tax rate. By the end of FY2004, Marlborough's health deficit was down to just under \$2 million (that was raised prior to setting the FY2005 tax rate), but it did not result in a negative certification of the city's FY2005 free cash. With careful monitoring of expenses and fund balance as well as adjusting employees' premiums annually based on reasonably projected cost increases, Marlborough's health insurance fund has not had a deficit since.

This experience contributed to a change in the city's management. Marlborough elected a new mayor, who took office in January 2006. In Mayor Nancy Stevens' inaugural address, she stated that her administration would be reinventing city government, departing from business as usual and exploring innovative strategies to streamline and improve operations. As a part of this plan, Mayor Stevens requested that the DOR conduct a comprehensive review of Marlborough's financial practices.

During our review, we found that the city already has begun reorganizing some operations. Marlborough expanded the legal department for improved efficiency and reduced contractual expenses. The city increased the salary of the solicitor, attracting an experienced practitioner, created an assistant solicitor's position, and transferred the procurement function into the office. The city also reorganized its technology services, combining the city and school operations under the management of one director for improved efficiency and accountability.

In reviewing Marlborough's financial operations, we looked at its organization, policies, and practices. To improve coordination and accountability, we recommend that Marlborough consolidate the city's financial offices into a finance department under the management of a chief financial officer and also combine the treasurer's and collector's responsibilities. We recommend that the financial offices streamline collections, pursue outstanding amounts, improve revenue reporting, reconcile cash timely, and perform additional assessing inspections and other activities in-house. We also recommend that Marlborough expand its use of automated systems and provide computer training. Furthermore, we recommend that the city abbreviate its budget authorization format and have the independent audit completed within six months of the fiscal year's end.

Many of the staff are dedicated and have served the city for numerous years. Some vacancies in recent years, however, have been difficult to fill because salaries are not commensurate with the level of stated responsibilities. In order to attract and retain the most qualified individuals, Marlborough should review the current salary ranges and institute job performance reviews. Also, in order to avoid disruptions or delays in financial operations due to brief or extended office vacancies, the city should create certain assistant department head positions.

We found that Marlborough's charter is difficult to understand and some of the ordinances are not current. We recommend that the city perform a comprehensive review of its charter and ordinances to make sure they are current, clear, and accurate. Additionally, in order to institute long-term planning, we recommend that Marlborough consider establishing a four-year term for the mayor and staggered, four-year terms for the council.

Overall, the recommendations in this report are based on best management practices that encourage efficiencies, checks and balances, and accountability. These would build on the stated goals of Mayor Stevens and the recent positive momentum of the city. With experienced, well-trained staff and good policies and procedures in place, Marlborough will be able to improve control, plan for the future, and position itself for whatever lies ahead.

SUMMARY OF REPORT FINDINGS AND RECOMMENDATIONS

OVERALL FINANCIAL MANAGEMENT & BUDGETING

1. Consolidate and Reorganize the Finance Departments 8

2. Implement Budget and Other Financial Practices 9

3. Adopt Changes to the Personnel System 10

4. Adopt Four-Year Terms for Mayor and City Council 10

5. Review the City’s Charter and Ordinances 11

INFORMATION TECHNOLOGY

6. Attend Training on Financial Applications 13

7. Survey Current Operations and Provide Training 13

8. Expand the Remote Access to the Financial System 13

9. Update and Expand the Website 14

COMPTROLLER/TREASURER’S OFFICE

10. Improve Revenue Reporting 16

11. Reconcile Cash Timely 16

12. Resolve Tailings 16

CITY COLLECTOR’S OFFICE

13. Streamline Collection Procedures 18

14. Pursue Receivables, Tax Titles, and Foreclosures 18

15. Establish Deputy Collector Account 18

ASSESSING OFFICE

16. Conduct Additional Inspections 20

17. Follow-up on Income and Expense Requests 21

18. Verify Residency Exemption Requests 21

19. Conduct In-House Interim Year Adjustments 21

20. Consider In-house Residential Revaluation Programs 22

CITY AUDITOR’S OFFICE

21. Upgrade the Finance Assistant to an Assistant Auditor 23

22. Reconcile Cash timely 24

23. Address Capital Project Deficits 24

OVERALL FINANCIAL MANAGEMENT & BUDGETING

During the course of our review, we looked at the city's overall general management and budgeting practices. These included Marlborough's governmental structure and ordinances, the budget and financial practices, and personnel policies.

Marlborough has a charter that provides a structure for the city's government. The charter was originally created in 1890 through the adoption of a special act of the legislature. Since then, Marlborough's charter has been amended by special acts of the legislature, the adoption of a Plan B form of city government in 1922, and through various changes in general statutes. The end result is a charter that is not very clear and has some conflicts that make it difficult to determine exactly how the city is operated.

The city's ordinances, or Code, are comprised of 57 chapters that provide details on department responsibilities, regulations, and procedures. In reviewing these ordinances, we found that some are not current. For example, Chapter 3 §1 states that the regular meetings of the council shall be weekly when in fact the council as a whole only meets twice per month. In another example, Chapter 15 §10B states that the comptroller/treasurer oversees the collector's office when, in fact, the collector reports to the mayor.

There is a mayor, who is the chief executive officer, and an 11-member (seven ward representatives and four at-large members) city council, which serves as the legislative body. Unlike the school committee members, who serve four-year staggered terms, both the mayor and council are elected biannually. All department heads and boards (except the school committee and city clerk) are appointed by the mayor and subject to council confirmation (except the city solicitor). Each office's general duties and responsibilities are codified in the city's ordinances, including those of the assessors, auditor, collector, and comptroller/treasurer.

For those unfamiliar with the city's governmental structure, the title comptroller/treasurer may be misleading. Generally, the term comptroller denotes an accounting officer, but Marlborough has a separate city auditor's position that provides essential checks and balances for the financial activities. Under city ordinance, the comptroller/treasurer performs the duties of the treasurer and acts as the water registrar, committing the water and sewer charges for collection. In addition, the comptroller/treasurer coordinates financial policies, develops and evaluates operating and capital budgets, and advises on long-range planning, generally performing responsibilities of a chief financial officer or finance director. In the comptroller/treasurer's job description, the same responsibilities are described in further detail and the position, referred to as the chief financial officer, is responsible for managing the city's financial operations and maintaining fiscal stability. For these administrative responsibilities, the position is compensated more than the other finance department heads. However, he does not have direct supervision of the other financial offices.

Annually, Marlborough's budget process commences just after the first of the calendar year. In consultation with the mayor, the comptroller/treasurer prepares preliminary revenue estimates and establishes budget guidelines for departments as they prepare the ensuing year's operating requests.

Departmental requests are entered into the city's budgeting application and reviewed. Then, the mayor, comptroller/treasurer, and auditor meet with departments to discuss budget requests and revenues, making adjustments until the budget is balanced. As a part of the process, the comptroller/treasurer prepares a five-year budget analysis of the city's revenues and expenditures and projects revenues for the ensuing year. Prior to submitting the budget proposal and supplemental data and analyses to city council in May, the mayor, comptroller/treasurer, auditor, council president, and council finance committee chairperson meet to discuss the proposal. The council conducts hearings during May, deliberates, and then adopts the budget in June.

In reviewing Marlborough's budgeting practices, we found that the line-item appropriations approved by council are very detailed. This format places limits on department heads in managing their budgets and increases the need to submit transfer requests to the city council, which can take up to 10 weeks for final approval.

The city provides water and sewer service to most residents and businesses. Annually during the budget process, the city establishes user rates that are designed to recover the all costs related to providing these services. While city officials refer to these operations as enterprise funds, they are not because the city has not adopted M.G.L. c. 44, §53F^{1/2}. As such, any surplus or shortfall resulting from these operations are closing to the city's general fund and included in the free cash calculation.

Because of the amount of federal funding the city receives, Marlborough is required to have an annual audit performed in accordance with the federal Single Audit Act. An audit is an examination of a community's financial systems, procedures, and data by a certified public accountant. It reports on the fairness of financial statements and on local compliance with statutes and regulations. The resulting financial statements and management letter serve as valuable management tools for evaluating the fiscal performance of a community. Over the last couple years, Marlborough's audits have not been completed until June of the following year, and the FY05 audit was finalized and sent to DOR in December 2006, almost 18 months after the close of the fiscal year.

In 1999, the city engaged a consultant who created new job descriptions, recommended increasing various managerial and supervisory salaries upwards of about 30 percent, and developed a merit evaluation system. While the city adopted the job descriptions, the merit evaluation system and proposed salary ranges were not implemented.

Currently, the auditing, collection, and assessing department heads' salaries are in the mid-\$50,000 to the mid-\$60,000 range. The city auditor resigned at the end of September 2006 and Marlborough advertised for a replacement. However, because of the salary range, Marlborough was not able to attract a sufficient field of qualified and experienced candidates, so the city re-posted the job. This was similar to the city's experience almost six years ago, when the auditor's position remained vacant for over four months while the city sought a qualified replacement through numerous postings.

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.

Similar to the implementation of GASB Statement 34, Statement 45 will be phased in and be a potentially difficult task for Massachusetts' cities and towns. The implementation will require that each governmental unit, at a minimum, have an actuarial study of its OPEB liability performed and updated at least once every two years. Consequently, there will also be new financial and audit reporting requirements. Marlborough is a tier-2 community and will be required to implement Statement 45 by the end of FY2009. Marlborough has budgeted funds to begin this process to gather employee and retiree information and have an actuarial study performed. Based on the actuarial results, Marlborough will know the true costs of the OPEB earned by employees over their estimated years of actual service. While there currently is no state mandated requirement to fund the OPEB liability at this time, a couple of communities have special legislation to begin funding it and other communities have expressed similar interest.

RECOMMENDATION 1: CONSOLIDATE AND REORGANIZE THE FINANCE DEPARTMENTS

We recommend that Marlborough create a consolidated finance department under the direction of a chief financial officer (CFO) and combine the treasurer and collector's positions through special legislation. For years, the comptroller/treasurer has been serving in the role of a chief financial officer, and is generally referred to as such, but has not had the authority to directly supervise the other financial offices. As CFO/treasurer, he would be responsible for managing the city's finances and developing its long-term planning efforts. In order to do this effectively and efficiently, the CFO should have direct management control over the financial operations (e.g., auditing, treasury, collections, assessing, and budgeting), ensuring resources are used efficiently, activities are conducted timely, and department heads are accountable.

Because there are so many parallels in responsibilities (e.g., collecting, counting, posting, depositing, and reconciling receipts), it also would be more efficient to combine the collector's and treasurer's operations. With combined personnel and adequate cross-training, staff would be able to handle heavy collection demands as well as ensure other office activities are performed timely.

We recommend that the city create an assistant treasurer/collector's position. This position should be filled with an experienced and qualified individual who would assist in the efficient operation of the office and serve in the department head's absence.

We recommend that the water registrar's responsibilities be returned to the public works department. As a matter of checks and balances, it is best that the office committing charges be independent from the one collecting them. Since the public works department is responsible for

collecting the water readings, they should be responsible for reviewing the data and turning over the commitment to the treasurer/collector's office.

RECOMMENDATION 2: IMPLEMENT BUDGET AND OTHER FINANCIAL PRACTICES

We recommend that the city adopt a policy to have the independent audit completed within six months of the fiscal year's end. Based on the audit results and recommendations in the management letter, the mayor and finance officers should develop a proposal to correct problems and plan for the future. A corrective action plan should indicate what actions will be taken, who will be responsible, and when the action will be completed. The CFO should monitor the implementation of the corrective action plan and periodically inform the mayor and city council of progress. Effective use of the recommendations of the audit report and DLS' financial management review can assist the city in improving its financial controls and practices, which may lead to increased public confidence in the government and potential upgrades to the bond rating.

We recommend that the city council adopt an abbreviated budget authorization format for all departments. As a best business practice, summary salary, expenditure, and capital categories are recommended that grant some management flexibility to department heads by allowing them to transfer within a summary category, but not between them without council action.

We recommend that the city adopt enterprise funds for its water and sewer operations by accepting MGL Ch. 44 §53F½. Enterprise fund accounting enables the city to account for all revenues and expenditures of a service in a consolidated fund. It enables the city to fully identify all direct, indirect, and capital costs of providing the service. As such, enterprise fund accounting will enable the city to fully demonstrate the true cost of these operations and provide information necessary to establish user fees. More importantly, the community would retain any surplus (certified by the Director of Accounts) in the fund that would be used to fund operating, capital or debt service costs associated with the specific fund's service.

We recommend that the CFO develop a multi-year revenue and expenditure forecast. With assistance from the city's financial officers, the chief financial officer 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, which Marlborough should consider using to help in this matter. Forecasting used in conjunction with the city's capital plan will enable city officials to evaluate budget requests with multi-year impacts, identify programs that may not be funded or capital requests that will have to be deferred, and develop long-range financial plans.

RECOMMENDATION 3: ADOPT CHANGES TO THE PERSONNEL SYSTEM

We recommend that Marlborough review the salary ranges of financial department heads. It is essential that the mayor have the ability to hire and retain employees who have the strongest credentials and the most relevant professional experience. To accomplish this, the city should conduct salary surveys and set salary ranges that will attract and retain qualified candidates.

We also 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 criteria by which each employee's job performance may be evaluated. 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. Performance evaluations may be instituted for non-union positions immediately, but will be subject to labor negotiations for other employees.

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, a community would be able to continue to provide the same level of health care services, but shift a considerable portion of the cost to the federal Medicare program, thereby saving the city money.

We recommend that the city review all positions that receive health-care benefits. According to M.G.L. c. 32B, §2(d), an "employee" eligible for health-care benefits is one that receives either a salary or stipend and works at least 20 hours per week. Paid elected officials, however, have no minimum hourly requirement to qualify. Once "vested" in the retirement system, that employee is eligible for retirement benefits, including health care, at a potentially significant cost to the municipality. Therefore, the city should consider the current, potential liability, and the long-term impact of providing health insurance to appointed and elected officials. Currently, four part-time officials are enrolled in the city's health insurance plan, generating a FY2007 estimated expense of about \$46,600.

RECOMMENDATION 4: ADOPT FOUR-YEAR TERMS FOR MAYOR AND CITY COUNCIL

We recommend that the city consider increasing the current term of office for the mayor from two to four years. 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/her time and attention is invariably directed to concerns outside of city hall. Consequently, a two-year term for the chief executive officer of a city can disrupt the continuity necessary to implement long-range policies and practices.

M.G.L. c. 43, §17C describes the petition process for Plan B 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 M.G.L. c. 43B.

We also recommend four-year, staggered terms for city councilor members (i.e., ward councilors at one municipal election and at-large seats at the next). By extending and staggering terms, the city can avoid the potential disruption caused by a substantial turn over 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.

RECOMMENDATION 5: REVIEW THE CITY'S CHARTER AND ORDINANCES

We recommend that Marlborough perform a comprehensive review of its charter and ordinances to make sure that they are accurate, clear, and current. While the multiple divisions of the charter are not unique, it can be confusing to the average reader. The city should consider updating its charter, combining all the current applicable division sections and special acts into one concise document. In addition, Marlborough should update the applicable section(s) of its ordinances to reflect enabling legislation and other restructuring approved by the council.

INFORMATION TECHNOLOGY (IT)

Marlborough's information technology (IT) department services both town and school (as of 7/1/06) departments. IT manages and services all computer systems, including servers, operating systems, and software applications. IT is responsible for user support, training, security and virus protection, programming, backups, hardware, and maintenance. IT also manages the city's Internet access and electronic mail system, and hosts the website. The IT staff consists of a director, network engineer, senior systems analyst, two technicians and a part-time technician.

The IT director, network engineer, and senior systems analyst have been employed by the city for a little over a year. When they were hired, the city did not have a network, there was no security, and the operating systems and equipment were old. Under the management of the new director, these deficiencies have been addressed on the city side. With the recent transfer of the schools' technology services into the city's IT department, the director found that many of the same network, system, and security problems exist and he and his staff are in the process of addressing them.

With roughly 1,500 users citywide, the director purchased a software application to record and manage user support calls. This ticketing system primarily is used to identify issues, prioritize them, and assign staff workloads. This system also could be used to analyze the calls for training purposes (e.g., system and application issues as well as individual needs). The IT director also has established an IT committee made up of staff volunteers. Meeting periodically, this group discusses technology issues, shares knowledge, and will be exploring/planning new initiatives.

Since FY2003, Marlborough has used Munis, a fully integrated financial system, and Vision, a computer assisted mass appraisal (CAMA) system. When these systems were purchased, initial training was provided. Periodically, the financial staff encounter problems with these applications and must contact the vendors directly because the IT staff is not familiar with these programs or how to perform certain tasks, such as transferring the assessment data to the Munis system's billing program.

One of the advantages of the Munis system is the remote access and data entry features. Currently, the school department has been granted access to post biweekly payroll (which is reviewed against backup documentation prior to printing the checks) and enter requisitions. The city's payroll timesheets are submitted to the treasurer's office for data entry on an exception basis and most non-school departments have been granted remote access to request purchase orders. Most departments also enter their departmental receipts into Munis for turn over to the treasurer's office. Annual budget requests are submitted to the treasurer's office for data entry. All vendor bills are submitted to the city auditor's office for review and data posting to the Munis system. These bills are also scanned into the computer, using an application called Key File, for storage and easy retrieval.

During the course of our review, we found that despite the availability of the computerized applications and systems, as well as in-house staff support, many individuals are performing manual or repetitive tasks. For example, the inspection department manages the permitting process using an application GeoTMS, which can export data electronically. The assessing office has access to the database, but manually enters the same permit information into the Vision system.

Marlborough contracts with an outside vendor, Virtual Town Hall, to manage the city's website. Virtual Town Hall is a firm that specializes in affordable web service for governments that may be customized and easily updated by city staff. Currently, Marlborough's Internet website provides on-line services listings, departmental listings and telephone numbers, some financial and billing information, council meeting schedules, community links, and occasional announcements. However, none of the council minutes are posted, forms are not always available electronically, and some of this information is out-of-date. In the absence of useful or complete information, users are directed to call or e-mail the city hall offices for assistance, which causes work interruptions for personnel.

RECOMMENDATION 6: ATTEND TRAINING ON FINANCIAL APPLICATIONS

We recommend that IT attend the Munis and Vision training programs provided by the vendors. These training programs would enable the IT staff to understand the operating systems so they could assist in routine matters (e.g., transfer of data) and address user issues as they occur.

RECOMMENDATION 7: SURVEY CURRENT OPERATIONS AND PROVIDE TRAINING

While the IT committee is resourceful, we recommend that IT survey office staff to identify data that is repetitively entered or shared with other offices, and survey staff on their knowledge and use of available computer applications. By reviewing each office's procedures, IT may identify repetitive tasks that may be automated or streamlined. IT also may identify shared data or duplicate information that may be transferred electronically or developed into a shared database available to more than one office. The survey results may help the IT staff to develop appropriate level training and refresher courses that will enable staff to better understand how the computerized systems can be useful to them. Given the limited staff and resources, exploring ways to operate more efficiently can free up valuable staff time.

RECOMMENDATION 8: EXPAND THE REMOTE ACCESS TO THE FINANCIAL SYSTEM

We recommend that remote entry be given to all departments to enter payroll, vendor bills, and annual budget requests to the Munis system. With proper training, departments would be responsible for data entering all payroll and vendor payment requests. The auditor's office would review submissions against the backup documentation, and if acceptable, add them to the warrant and post them to the general ledger. Once established, the electronic transmission of financial data will greatly reduce the amount of manual entries the auditor's office is performing, thereby freeing up staff to perform other management and analysis activities.

RECOMMENDATION 9: UPDATE AND EXPAND THE WEBSITE

We recommend that Marlborough update and maintain its Internet website. A comprehensive 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 time that city employees spend fielding questions in person or on the phone.

COMPTROLLER/TREASURER'S OFFICE

A comptroller/treasurer and three support positions staff the office. The comptroller/treasurer's office is responsible for receiving and depositing all city funds, issuing debt, managing the payroll system, and determining the water and sewer billable amounts to be committed to the collector. The comptroller/treasurer has served in his position for over 12 years. In addition to managing the office, the comptroller/treasurer is a member of the Marlborough Retirement Board and serves as the city's chief financial officer.

While the support staff is cross-trained, each position has primary responsibilities within the office. One finance assistant prepares, produces and distributes the weekly city and biweekly school payroll while the principal clerk processes the vendor warrants, runs the water/sewer billing system, and oversees the mail operations. The third staff member is the assistant to the treasurer. She deposits and reports all funds received by the city and maintains the treasurer's cash book, which she reconciles to bank statements and to the auditor's general ledger.

The treasurer's office maintains the cash book in a series of electronic spreadsheets. As one source of original entry for recording receipts and deposits and disbursements summarized by warrant, it tracks the total cash position of the city. The cash book also provides control that enables the treasurer to reconcile with bank statements, cash on hand, and the general ledger balance on a monthly basis.

At least weekly, departmental receipts are reported to the treasurer's office. Most departments enter their receipts collected into the Munis system, deposit the funds in the bank, and turn over the Munis receipt report and bank deposit slip to the treasurer's office. Some prepare a manual turn over report with the deposit slip. Not all departments provide a copy of the departmental receipts report to the auditor's office. Monthly, the treasurer's office prepares and submits a statement of receipts for the auditor's office as required. However, based on city records and discussions with officials, we found that this reporting is not done consistently after the close of each month. For example, the March 2006 report of the treasurer's receipts (and returned checks) was not turned over to the auditor until September 2006, over five months later and after the close of the fiscal year. Consequently, the general ledger has not been up-to-date and the closing of the auditor's books was delayed.

According to the comptroller/treasurer, the city reconciles cash monthly. This process begins with the internal reconciliation of the cash book to all bank statements. Once reconciled internally, the assistant to the treasurer compares the total cash to the general ledger fund balances. If she identifies variances due to missing or erroneous postings, she informs the auditor's office. Any remaining differences are worked on with the assistance of the auditor's office. It should be noted that while the city conducts monthly reconciliations of cash, they are not always conducted promptly after the close of the month because of delays in reporting the treasurer's statement of receipts.

In reviewing the city's cash book and other financial statements, we found the city is in possession of over \$42,000 in returned or unclaimed checks, commonly referred to as tailings. While

it is not clear what this figure specifically consists of, it may include checks issued to compensate employees, pay municipal obligations, or to refund municipal taxes or charges.

RECOMMENDATION 10: IMPROVE REVENUE REPORTING

We recommend that all departments copy the auditor's office on all receipt payments to the treasurer. The treasurer should instruct all departments to provide a copy of each turn over to the auditor, which is used to verify the schedule of treasurer's receipts to the auditor.

We recommend that the treasurer's office complete and transmit its statement of receipts to the auditor weekly. Given the amount of revenues handled by this office, it would be best that this activity be performed weekly. Delays in reporting cash receipts impact the activities of the treasurer's and accountant's offices and the eventual reconciliation of cash.

RECOMMENDATION 11: RECONCILE CASH TIMELY

We recommend that the treasurer and the auditor conduct prompt, monthly cash reconciliations. 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 his assistant completes this activity timely. Once reconciled internally, the treasurer's office should report the cash balances by fund to the auditor, who in turn would reconcile to the general ledger. Any variances may be the result of reporting errors or of timing differences for the recording of receipts or disbursements. These variances should be identified on a monthly basis, with adjusting entries made as necessary. Conducting the reconciliation shortly after the end of each month makes it easier to locate and correct posting errors as they occur.

RECOMMENDATION 12: RESOLVE TAILINGS

We recommend that the office research the returned or unclaimed checks, commonly referred to as tailings. The tailings may include checks issued to pay employees and vendors, refund municipal taxes or charges, or pay other municipal obligations. Any check that is not cashed within three years of issuance is 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 municipal treasurer may advertise the unclaimed checks herself 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.

CITY COLLECTOR'S OFFICE

A city collector and two clerks staff the office. The city collector has worked in the office since 1990 and been in her current position since 2003. The office is responsible for collecting approximately 12,900 property tax bills quarterly, 46,200 motor vehicle excise bills annually, 9,900 residential water/sewer bills quarterly, and 780 commercial/industrial water/sewer bills monthly. This office also handles the police and fire detail collections and parking ticket payments. In recent years, this office has prepared upwards of about 3,000 municipal lien certificates annually.

The city's deputy collector prints and mails the property and excise bills as well as the parking tickets. The treasurer's office prints and mails the water/sewer bills. The city receives payments by escrow service, lockbox, Internet, mail, and at the counter. According to the collector, about 60 percent of the real estate bills and nearly a third of the excise bills are received through escrow, lockbox and Internet services. The city has just begun accepting water/sewer bills at the lockbox and hopes it will reduce the volume of bills being processed in-house. All other payments are processed manually because the city does not have scanners.

When payments are received in the office, they are separated into batches by bill type for processing. Each batch is entered into the Munis collection system, a calculator tape is run for each batch of checks and as well as the bills, and then the funds are deposited to the bank. This office generally makes bank deposits weekly and more frequently during heavy collection periods.

In an effort to collect payments and reduce receivable balances, the collector uses statutory remedies and outside services when necessary. For past due water/sewer charges, the city liens the outstanding amounts on the subsequent year's tax bills. For real estate, the collector issues demand notices immediately after the bill becomes past due. If the demand notice does not result in payment, the collector writes letters to elicit payment. If these activities do not result in a payment, the collector initiates tax taking procedures. Once the taking is recorded, the collector retains custody of it despite statute that requires the collector turn it over to the treasurer (M.G.L. c. 60, §50).

Once in tax title, properties have lingered because Marlborough has not pursued foreclosure options. With over \$1.67 million in tax title, the city recently contacted an attorney to pursue these accounts. During our review of Marlborough's tax title accounts, we found that 74 properties have FY06 assessed values of less than \$17,130, the maximum valuation of parcels qualifying for the land of low value foreclosure procedure (www.mass.gov/dls/PUBL/IGR/2006/igr06_208.pdf).

The city uses the services of a deputy collector for past due personal property tax and motor vehicle excise bills. The deputy collector obtains money owed the city and completes online license and registration markings for non-renewal status with the Registry of Motor Vehicles (for motor vehicle excise), or provides evidence that the accounts are uncollectable. The deputy collector deposits funds to a dual signature bank account in the city's name, but the statements are not mailed to the collector because it is not a city account. Weekly, the deputy collector prepares a turnover report of the collections made. Upon receiving this report, the collector signed a check for the deputy's service fees and accepted a second check for the net revenues due to the city. However, by ordinance, the

collector must turn over all fees to the treasurer. At DOR's suggestion, Marlborough now is taking gross collections in and processing the deputy collector's service fees through the warrant.

RECOMMENDATION 13: STREAMLINE COLLECTION PROCEDURES

We recommend that the city purchase and install scanners in the collector's office. With scanners, the office will be able to process payments quicker because the taxpayer's account and bill will come up automatically on the computer. The staff also could scan payments that are received timely and for the exact amount due separately from the rest of the bills and print off an itemized batch report for turnover/depositing purposes. This, in turn, would eliminate the need to run an adding machine tape.

We recommend that the collector deposit receipts in the bank daily. Given the volume of bills being processed in-house, receipts should be deposited as promptly as possible. The city then can maximize its earnings on investments and the treasurer can make informed decisions regarding the Marlborough's cash flow.

RECOMMENDATION 14: PURSUE RECEIVABLES, TAX TITLES, AND FORECLOSURES

We recommend that the collector transmit tax takings to the treasurer. According to M.G.L. c. 60, §50, the treasurer is the custodian of the instruments of taking. The collector should turn over all tax title accounts to the treasurer upon recording them at the Registry of Deeds.

We recommend that the city pursue land of low value foreclosure through DOR. For any properties with a current value of \$17,130 or less, the city should apply for land of low value foreclosure, which is a quicker and less costly alternative to seeking a decree from Land Court. Once the city receives the land of low value affidavits from the Commissioner of Revenue, the foreclosed parcels can then be auctioned to recover taxes and interest owed, or preserved as city-owned land.

RECOMMENDATION 15: ESTABLISH DEPUTY COLLECTOR ACCOUNT

We recommend that the collector establish her own account for the deposit of all amounts collected by the deputy collector. A deputy collector may not receive checks for tax or excise payments, which are made out to him as payee, nor may he endorse any instrument, which he receives as a payment for taxes. In addition, a deputy may not deposit municipal funds in a personal bank account nor may he maintain a personal bank account in the name of a community (M.G.L. c. 60, §92). A deputy collector must turn over to the collector at least weekly, all amounts he collects or deposits into the community's deputy collector bank account.

ASSESSING OFFICE

The mayor appoints the three-member board of assessors. Two board members, the principal and senior assessors, work full-time in the office along with two clerks. The assessing office is responsible for maintaining assessment data on approximately 12,170 real property parcels and 750 personal property accounts. This data is managed on a computer assisted mass appraisal (CAMA) system that is used to compile analytical reports and property tax commitments. The office also oversees the assessment of about 46,200 motor vehicle excise accounts, and processes approximately 1,000 property sales, 700 building permits, 320 exemptions, and 200 abatements (230 in recertification years) annually.

The principal assessor is the chairman of the board, the department head, and responsible for managing the staff. He has worked in the city since 2000. Prior to being employed by Marlborough, he worked as a professional appraiser for over 20 years. He has also been an instructor for the Massachusetts Board of Real Estate Appraisers and The Appraisal Institute for many years.

With the assistance of the senior assessor, the principal assessor measures and lists new and improved properties, inspects some property sales, data enters property information and building sketches on the CAMA system, and establishes full and fair cash valuations and classifications of all property. The principal assessor oversees the triennial revaluation of property, manages the city's appraisal consultants, and represents the city in all judicial and administrative matters. The principal assessor prepares timely reports for DOR, including new growth and taxable parcel count reports, and he works with the comptroller/treasurer to prepare and submit the tax recapitulation sheet with adequate backup documentation.

Annually, the assessors process abatement and exemption requests. For each request, the principal, senior, or part-time assessor reviews the application and prepares a recommendation for the whole board to act on. Among these is the residential exemption, a local option to apply a discount to the assessed value of every residential property that is the principal residence of a taxpayer. To apply, the owner-occupant makes an application, but the assessors historically have not been able to verify the residency.

The assessors also request income and expense information annually from commercial and industrial property owners to help them determine equitable values for assessment purposes. In the request, the assessors inform each owner that failure to comply would result in the loss of any statutory appeal and that the city has the ability to impose a \$50 penalty on the ensuing fiscal year's property tax bill (M.G.L. c. 59, §38D). Despite the consequences, Marlborough receives less than a 15 percent return.

The clerks maintain all records, process deed transfers, handle exemption and abatement applications, handle the motor vehicle excise accounts, respond to public inquiries, and perform other support as necessary. The clerks have access to the city's computerized financial system, which is used for transferring abatement and exemption information. The clerks also data-enter legal information and parcel splits on the CAMA system, but they do not enter property data or sketches.

Triennially, appraisal consultants are hired to update all real property values at a cost of about \$150,000 and to pick up/value new personal property accounts at cost of about \$23,000. In the intervening years, the principal assessor analyzes sales, reviews commercial/industrial income and expense data, and researches regional rental income in order to make interim year adjustments to values (complying with requirements of M.G.L. c. 59, §38 to maintain full and fair cash values). The assessing office uses the services of the appraisal consultant to verify his results and to update operating tables that drive the CAMA system at a cost of about \$9,000 per year.

The city acquired its CAMA system in FY2003. As a result of the data conversion from another system and the FY03 revaluation, the city's data quality was found to be poor. In fact, it was revealed that the last full recollection of property descriptive data was completed in 1981. Bureau of Local Assessment guidelines require that a community complete an interior and exterior inspection of all property over a specific time period, not exceeding nine years. Consequently, BLA recommended that the city conduct a full measure and list of all its property. In FY05, the city hired an appraisal consultant to reinspect the city's entire property database over three years, at a cost of about \$167,000. Once completed, the principal assessor plans to implement a 6-year cyclical reinspection program using the services of the appraisal consultant.

Recently, as a result of illegal multi-unit residences, the senior assessor has been riding along on the code enforcement officer's inspections. This has enabled him to gain access to these properties to perform an interior inspection and update the city's assessing database. In many communities, the assessing staff also rides along with the fire department (smoke and carbon dioxide detector inspections) or water department (final reading for billing purposes) prior to the closing of a pending property sale. This is often done to reduce the number of visits made to properties in a community, which can be annoying to residents when conducted separately.

RECOMMENDATION 16: CONDUCT ADDITIONAL INSPECTIONS

We recommend that the assessors inspect the interior and exterior of all sale properties. Often, a sale property may have been upgraded without a permit or allowed to deteriorate to an extent that the assessors' files are not accurate regarding the characteristics or condition of the property. Not being aware of the exact condition of sale properties negatively affects the assessors' ability to value other properties accurately. Teaming up with other departments scheduled to visit these properties will ensure timely, interior inspections for the assessing database and assist in the city's cyclical reinspection program. It also will reduce the number of scheduled visits to the same properties.

In order to accommodate additional field inspections, we recommend that the city hire a part-time data collector. Permit, sale, and cyclical inspections are a necessary and ongoing activity of the office and a data collector can assist the assessors in addressing this workload. With proper guidance and training on the office's data collection standards and expectations, this position would assist the senior assessor in inspecting sale and improved properties. Once the appraisal consultant completes

the current full recollection of data, the data collector would assist the senior assessor in future cyclical inspections. Over the course of seven to nine years, the office would benefit by spreading out the workload and reducing costly recollection contracts. It is estimated the city should budget about \$10,000-\$15,000 annually for this position, which may be paid on a part-time salary or contractual parcel basis.

It also is recommended that the clerks be responsible for property data entry and building sketches. Currently, the clerks are familiar with the CAMA system, but only enter legal information. With proper training, they could enter property information collected, enabling the senior assessor to focus on the inspections and less on clerical tasks. Once the data is entered and sketches made, the senior assessor would review the new property record information against his notes for quality control.

RECOMMENDATION 17: FOLLOW-UP ON INCOME AND EXPENSE REQUESTS

We recommend that the assessors make every effort to contact and inform the commercial and industrial property owners of the need to complete timely income and expense requests. Some suggestions are sending a second notice in April after the business' tax return has been prepared and making presentations at area business or Chamber of Commerce meetings.

RECOMMENDATION 18: VERIFY RESIDENCY EXEMPTION REQUESTS

We recommend that the assessors enter into a data exchange agreement with DOR in order to verify residency. The City of Boston also offers the residential property exemption, but has entered into a data exchange agreement program with DOR that provides non-financial tax return information for the purposes of enforcing the provisions of M.G.L. c. 59. After having met certain confidentiality, data formatting, and security measures, DOR will provide the assessing office with reports of individuals' residency with regards to those applying for a residential exemption. While the City of Boston's first year under the data exchange was time consuming because of setting up the program and educating applicants, the results were successful, ensuring information accuracy and eliminating fraud.

RECOMMENDATION 19: CONDUCT IN-HOUSE INTERIM YEAR ADJUSTMENTS

After recollecting all the city's assessment data and given the professional skills of the principal assessor, we recommend that the assessing office conduct the interim year adjustments to values in-house. The principal and senior assessors should attend the CAMA vendor's training to learn more about the operating system, including making changes to the cost and land tables. With additional training, the assessors would improve the internal management of the assessment database and eliminate a recurring cost.

RECOMMENDATION 20: CONSIDER IN-HOUSE RESIDENTIAL REVALUATION PROGRAMS

DOR recommends that the city consider preparing its triennial revaluation of residential properties in-house after FY09. The current professional staff possesses considerable skills and experience. With the additional assistance of at least a part-time data collector, the senior assessor would be responsible for the permit, sale and cyclical inspections, enabling the principal assessor to focus on analysis and valuation matters. Assuming the city continues to contract the commercial, industrial and personal property data collection and valuation work, Marlborough could reduce its triennial revaluation costs an estimated \$60,000-\$75,000.

CITY AUDITOR'S OFFICE

An auditor, finance assistant, head clerk, and part-time senior clerk are budgeted to staff the office. The primary responsibility of the auditor's office is to maintain the city's general ledger and to perform the accounting functions. Typical accounting functions include reviewing invoices, approving requisitions, preparing warrants, producing trial balances, revenue and expenditure reports, maintaining information on debt; and reconciling cash and receivables with the comptroller/treasurer and collector. In addition, the city auditor serves as a member of Marlborough's retirement board.

Because the auditor left the city's service at the end of September, the finance assistant has been appointed acting-auditor. As finance assistant, she was responsible for supervising the staff, making general ledger and journal entries, processing requisitions, completing and printing the warrant, preparing statistical and analytical reports; and assisting cash and receivable reconciliations. While her title was not assistant auditor, she held equivalent responsibilities and was fully trained to assume the responsibilities, including signing the warrant, of the auditor for a brief or extended period.

Annually, the auditor's office prepares internal and external reports. It produces monthly expenditure and revenue reports to verify and monitor the city's financial activity. The office also prepares receivable (by year and type of bill) balance reports that are reconciled with the collector's receivable detail. For the reconciliation of cash, the auditor's office responds to inquiries from the assistant to the treasurer when she has unexplained variances between the treasurer's cash and the auditor's general ledger.

Among the external reports, the city auditor prepares the Schedule A, a year-end fiscal statement of revenues and expenditures, and produces the balance sheet (and supporting documentation) internally that is used to certify free cash for DOR. Within the annual balance sheet submissions, Marlborough provides detailed capital project account fund balances. Most accounts reflect activity from year to year, while others are unchanged, and worse, some reflect deficit balances. Some capital project deficits are the result of not issuing bonds or temporary notes timely, which are a negative impact on the city's certification of free cash. Other deficits are unchanged and appear to be unresolved since at least FY03. It is our concern that these are expenditures in excess of borrowing authorization and that they will need to be provided for by council action.

RECOMMENDATION 21: UPGRADE THE FINANCE ASSISTANT TO AN ASSISTANT AUDITOR

We recommend that the city upgrade the finance assistant's position to an assistant auditor.

Most city auditor's offices have a professional assistant that is trained and knowledgeable to act in the absence of the department head. The city should upgrade the title and salary of the finance assistant to an assistant auditor to reflect the existing responsibilities and expectations of the position.

RECOMMENDATION 22: RECONCILE CASH TIMELY

We recommend that the auditor's office participate in the reconciliation of cash process.

Reconciliation of cash is essential to the system of checks and balances in local government. It enables the auditor's and treasurer's offices to verify that all receipts and expenditures are recorded accurately in the accounting records and cash has been deposited in the bank. It is the responsibility of the treasurer's office to reconcile the cash balances to the bank statements and report the treasurer's cash (by fund) to the auditor. It is then the responsibility of the auditor to compare the cash to the general ledger, reconciling differences due to posting errors and/or timing issues. In the event there are unresolved differences, the auditor and treasurer should meet to review the process.

RECOMMENDATION 23: ADDRESS CAPITAL PROJECT DEFICITS

We recommend that the auditor review these capital project deficits and determine if any will require council action. Any capital project that has exceeded the authorized borrowing limit will require council action to increase the borrowing limit, or, if the project is complete, to fund the deficit.

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