

FINANCIAL MANAGEMENT REVIEW

CITY OF METHUEN

MAY 2019



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

PREPARED BY:

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DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Christopher C. Harding
Commissioner of Revenue

Sean R. Cronin
Senior Deputy Commissioner

May 15, 2019

Honorable James P. Jajuga
41 Pleasant Street
Methuen, MA 01844

Dear Mayor Jajuga,

I am pleased to present the enclosed Financial Management Review for the City of Methuen. It is my hope that the recommendations presented here provides a clear path forward for the city to operate more efficiently and effectively. I truly believe that if the community follows the guidance presented here, it will be better positioned for the future.

If you have any questions regarding the report, please contact Zack Blake, Chief of the Division's Technical Assistance Bureau, at 617-626-2358 or at blakez@dor.state.ma.us.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean R. Cronin".

Sean R. Cronin
Senior Deputy Commissioner

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INTRODUCTION

At the request of the Mayor, the Division of Local Services (DLS) completed a Financial Management Review for the City of Methuen.

The request was prompted by the City's need to resolve a nearly \$3.8 million school budget deficit. Under Chapter 278 of the Acts of 2018, An Act Providing for the Financial Stability of the City of Methuen, the City is authorized to borrow up to \$4 million to balance its FY2019 and FY2020 budgets and must establish a new city department of administration and finance under the direction of a chief administrative and finance officer (CAFO). Additionally, the Secretary of Administration and Finance for the Commonwealth of Massachusetts has appointed a Fiscal Stability Officer to advise the Mayor and City Council on managing its fiscal challenges.

We have based our findings and recommendations on site visits and consultations by a team consisting of staff from the Division's Technical Assistance Bureau, Bureau of Accounts, Bureau of Local Assessment, and Information Technology Unit. During these visits and by telephone, the team interviewed and received information from the mayor, members of the city council and the finance committee, the city auditor, treasurer/collector, assessor, school department, as well as other staff members, as available, in each office.

DLS staff examined such documents as the tax recapitulation sheet, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness, the city charter and ordinances as well as other assorted financial records, including the city's independent audits completed by Melanson, Heath & Company.

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

We encourage the mayor, CAFO, city council and others, when formulating overall strategies for improving Methuen'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 city boards, committees and officials.

OVERVIEW

The City of Methuen is located in the Merrimack Valley, 27 miles north of Boston along the New Hampshire border. Home to about 50,000 residents, Methuen is a dynamic community with a diverse socioeconomic base that blends much of its original town character with a growing urban feel. The Pleasant Valley neighborhood, for example, has elements of a suburban bedroom-like community with several working farms, but also a large retail complex referred to as “The Loop.” The city’s west side has an almost rural sense about it, with Forest Lake and large tracks of open space, but has experienced a lot of development over the last 10 years. The historic downtown is much more densely populated and retains a more traditional city setting.

Methuen’s diverse and mixed identity is also reflected in its evolving forms of government. Originally settled in 1642 and incorporated in 1726, Methuen had a traditional town meeting-select board form of government for much of its nearly 300 year history. Not until 1973 did the community adopted its first Home Rule Charter that established a town manager and 21-member town council. Relatively soon after the charter was amended in 1978 when the authority vested in town council was increased and the number of members was reduced to nine. Then later, in 1993, Methuen converted to its present form of government, retaining the same council configuration but electing its first mayor.

Methuen’s government structure is once again evolving. The passage of Chapter 278 of the Acts of 2018 amends the existing charter by consolidating city and school functions under a new chief administrative and finance officer (CAFO). This role brings together Methuen’s siloed financial management functions of accounting, payroll and procurement as well as human resources, benefits administration and information technology under one centralized organizational framework. At the same time, a seven-member appointed charter review committee is actively deliberating on areas to update the city’s charter, including codifying the CAFO position and modifying the role of the city auditor, among other options.

Today, Legislative authority is vested with the city council and the mayor serves as the city’s chief executive. The mayor, subject to the approval of city council, appoints all city employees, except those of the school department or the city auditor, solicitor, and council clerk who are elected by city council. In addition to his role as Mayor, he serves as chair of the school committee. The newly appointed CAFO, who is scheduled to start full-time effective July 1st, will oversee all city finances and operations as described earlier.

Chief among the CAFO’s responsibilities will be managing Methuen’s budget. Altogether, the city has a total FY2019 operating budget (as amended and including enterprise funds) of \$173 million. Of this amount, approximately 52% is funded through the tax levy, 30% through state aid, 14% from

local receipts and enterprise, and 4% from other sources. Educational-related expenses represent the largest cost center at 47% of the operating budget. Remaining portions of the budget fund benefits and risk management (16%), public safety (13%) enterprise (7%), public works (6%), general government (4%), debt (2%), culture and recreation (1%), and other amounts (4%).

As far as the individual finance offices are concerned, proper procedures and practices are largely in place. In the treasurer/collector's office, payments are being processed, abatements and refunds are completed, and municipal lien certificates are issued. We also found that monthly reconciliations are taking place, along with other responsibilities associated with being the community's cash manager. Operating through an appointed three-member board of assessors, the city assessor is responsible for the uniform, fair market valuation of all real and personal property in Methuen for the purposes of levying taxes. In doing so, the office lists and measures new growth, performs cyclical inspections, reviews sales, and processes abatements and exemptions. Lastly, the city auditor's offices, which will transition to the CAFO, oversaw traditional accounting functions of accounts payable, payroll, and procurement. The office also prepares the annual budget for submission to the Mayor and in turn to the Methuen City Council. Information technology for the city is handled through an outside vendor, while the school manages it internally.

For Methuen, the new CAFO, who brings a strong school finance and auditing background, represents a fresh start under a new administrative framework. Together with the city accountant, treasurer/collector, city assessor, school business manager, and others, this team will ensure that money is collected, deposited, posted, and accounted for accurately; that cash management and handling practices are in place; that property taxes are accurately and fairly assessed; that the financial interests of the city are protected; that internal controls are in place and adhered to; and that financial sound and transparent budgets are prepared and adopted. We feel that with support and leadership from the mayor and city council that Methuen is well-positioned to succeed going forward.

RECOMMENDATIONS

1. Consolidate City and School Financial Management, Human Resources, and Technology Functions

We recommend that Methuen begin the process of merging its school and city financial management, human resources, and information technology operations per Section 3(g) of Chapter 278 of the Acts of 2018. Government finance is more complex and challenging than ever and municipalities like Methuen that have significant revenue constraints cannot afford to have separate operations. We strongly believe that Methuen would be better served by consolidating its operations because of the potential to streamline activities, eliminate duplicative efforts and, to some extent, reduce expenses. Beyond these goals, greater centralized oversight of financial management functions will also help strengthen internal controls, the lack of which resulted in the \$3.8 million dollar deficit and other financial management issues

Oversight of Methuen's financial management operations currently falls under one of three supervisors—the mayor, school superintendent and city council. The mayor appoints the deputy director of budget and finance, assessor, treasurer/collector, and city human resources director/asst. city solicitor. Separately, the school superintendent appoints the assistant superintendent, school director of human resources/transportation, school business administrator, and director of instructional technology (school IT director). The city council appoints the city auditor. While this structure is not entirely unusual in Massachusetts, it represents a model of governance that is somewhat archaic and not necessarily conducive to today's best management practices. Moreover, this bifurcated structure has, over time, led to siloed operations that are both inefficient and duplicative in nature, including parallel business functions, lack of software integration, and limited communication.

Illustrated in the Appendix, we envision a structure in which all financial management, human resources, and information technology-related operations are merged and overseen by the newly appointed CAFO. The CAFO, as described in the special legislation, would be responsible for coordinating and administering all city and school financial services and activities. This would include advising and assisting in all municipal finance matters, maintaining uniform city and school financial systems, preparing the annual financial forecast, capital plan and budget, monitoring all department spending, leading collective bargaining sessions, supervising all procurement, and overseeing all annual financial reporting.

To support the CAFO, the city should formally establish the city comptroller position. In elevating the current deputy director of budget and finance to comptroller, this individual would manage the city's accounting function. Her responsibilities, which in some ways she largely does already, would

oversee all payroll, procurement and accounts payable staff, but for both the city and school. In order to move the functions of the current City Auditor position (called City Accountant in the City Charter) to the Department of Administration and Finance, a Home Rule petition will be required that modifies both the deficit financing and state oversight as part of Chapter 278 of the Acts of 2018 and the City Charter.

Assessing and treasurer/collector offices would remain much as they are today. Human resources between the city and school would be merged to direct all hiring, administration, and training of personnel. Separate information technology-related activities would also be consolidated, such as support for software applications, managing network operations, information security, school instructional support, and helpdesk services.

The school business administrator and related functions would also fall under the CAFO, including managing school accounting, coordinating the development of the annual school budget and capital plan, overseeing transportation, facilities and food services, and monitoring school grants, special funds, and other spending. On an everyday basis, however, the school business administrator would function as school liaison, and for a success of the merger, school officials must feel confident that on budgetary matters they can maintain a trusting and confidential relationship with this person.

Lastly, we recommend that city council hire a part-time fiscal analyst, to assist the city council's review of the annual budget, other fiscal matters, and issues raised by the council. The council would be best served if the consultant is a seasoned municipal finance professional such as the city's acting auditor. The fiscal analyst would not be involved with the day-to-day operations of the city. In an advisory role, the consultant would review financial, debt, capital, and budgetary information and other proposals, and provide recommendations to the city council. While the consultant would be at council meetings during budget hearings and participate in city hall meeting as needed, the individual would probably work remotely and provide periodic report to council. Similar professional positions are found in the cities of Beverly and West Springfield.

To formalize this structure, the CAFO should be codified in the city charter consistent with Chapter 278 Acts of 2018. It should include all significant duties and responsibilities, including coordinating, administering and supervising all financial services and activities in all departments, including the school department, boards, commissions, agencies, offices and other units of city government. Additionally, the charter should identify all financial offices (e.g., board of assessors, treasurer-collector, budget director, director of information technology, purchasing agent, human resources director, labor relations director, school business manager and employees performing similar duties appointed and supervised by the CAFO).

The city should further undertake a comprehensive review of the charter and ordinances to identify and resolve potential conflicting citations. With the establishment of the CAFO, many of the

management and budget oversight formerly performed by the city auditor (or city accountant) position has transferred. During the current charter review process, it is imperative that the council address this by properly delineating responsibilities of the CAFO, eliminate old citations for the city auditor or city accountant, and redefine the duty and role of the accounting office going forward.

2. Refer Financial Matters to the Council Finance Committee

We recommend that the city council refer financial matters to its finance committee for review which would report to the full council for final action. The city council has established standing advisory committees, including finance. The finance committee, upon council vote, should be responsible for reviewing any measures that involve the expenditure of city funds (i.e., annual budget, supplemental appropriations, salaries/wages, capital improvements, bonds, and departmental transfers). With input from the CAFO and other financial officers, the committee would conduct public meeting(s) on all measures put before it and make written recommendation to the full city council before it holds a public hearing and votes on the matter. For example, as the city moves forward on developing financial policies, this committee should review and make recommendations to the city council as a whole

We also recommend that the council vote departmental transfers and supplemental appropriations requests as effective upon passage. When transfers and supplemental appropriations are brought before the council, a clear explanation should be provided by the CAFO. It may include, but not limited to, a grant match, a departmental budget shortfall in particular spending area(s), affordance of deficit spending, or extraordinary and unforeseen reason. The matter would be referred to the finance committee for review. If satisfied that the need is warranted, the finance committee would report its recommendation to the full council to adopt the measure effective upon passage. Delaying the matter 30 days as is done currently serves no purpose and delays the ability of the accounting office to resolve the matter.

3. Develop Financial Policies and Implement a Formal Annual Budget Process

We recommend that the mayor, city council and newly appointed CAFO initiate a strategic financial management planning process to identify a list of clearly defined goals. Establishing these will help give the city direction by guiding officials on matters to stabilize its finances, implement efficiencies, and invest in the community. This will not only become the basis for allocating resources when formulating the annual budget, but foster an environment of expectations.

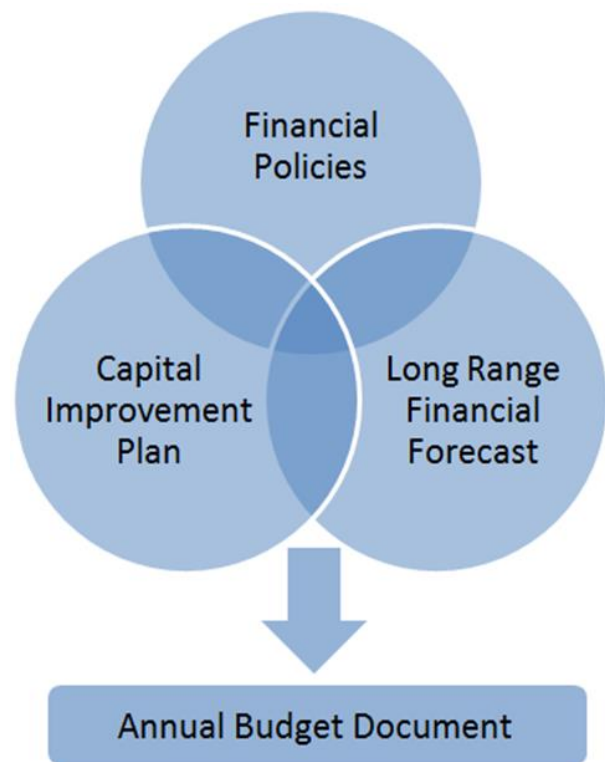
The CAFO should work with the mayor and representatives from both the city council and school committee to develop a comprehensive list of written financial policies for adoption before the onset of next year's budget process. Financial policies provide a framework to help the city achieve

its financial goals by establishing the revenue and expenditure management principles by which officials formulate short- and long-term plans.

Central to any set of financial policies is the notion that Methuen is committed to safeguarding public funds, investing local assets, and the compliance with financial standards and regulations. To this end, the CAFO would draft a manual of financial policies for acceptance by the mayor, city council and school committee that provides guidance for local planning and decision making. These financial policies should be periodically reviewed and updated as necessary. Appropriate policy subjects include, but not limited to, multiyear forecasting, capital planning, free cash management, reserves, and debt.

With a set of documented financial policies in hand, the CAFO, mayor, city council and school committee should adopt a formal budget calendar and adhere to the roles established therein. We advocate a linear approach which sets clear deadlines, responsibilities, and hearings to build consensus on a final budget to present to city council. Codified in city ordinance, the process would be driven by the CAFO and begins with their presentation of a five-year financial forecast to a joint meeting of the mayor, city council and school committee sometime in December.

The intent of the projection is to demonstrate that simply maintaining existing service levels will likely outstrip available revenues in the near future. Inflation of fixed costs, contractual obligations, and other anticipated long-term spending will quickly result in a budget deficit if additional revenues are not identified and/or operational efficiencies are not identified in the short-term. By framing these financial challenges that lay ahead, the mayor and council can begin to make decisions on what the appropriate mix is for spending on schools, general government, capital, collective bargaining agreements, and other key matters facing the city.



Based on the city's forecast assumptions and policies, the mayor and CAFO would next formulate budget guidelines that would include a discussion of the relative economic conditions in Methuen and a description of city-wide goals for the ensuing year, including a five-year capital improvement plan. A multi-year capital plan allows for proper staggering of capital projects to even out spikes and make funding needs more predictable. Capital investment requirements can be uneven, sometimes

involving large projects or other needs that are more recurring. Continually refined, the five-year capital planning process would identify an appropriate annual level of capital investment.

The challenge is to then align these city-wide priorities and financial management objectives with individual department goals and the budget's short-term realities. The CAFO should then work with department heads on their requests for appropriation and goals, which would be compiled into an omnibus budget that would be balanced, agreed to by the mayor, and forwarded to the city council sometime by May 1. The council would be expected to hold a series of public hearings with department heads to discuss goals and budget requests before voting on a final appropriation prior to June 30.

In the end, this process would serve to tie the city's financial forecast, policies, and capital plan to the annual operating budget to provide a complete picture of available revenues and obligations for the ensuing year. Conceptually, these components would support Methuen's financial management strategic goals, including those identified by this financial management review, and other priorities. This process, consistently executed from year-to-year will, over time, establish clear guidance and restore credibility.

In the Appendix, we provide a simple budget calendar that identifies the various milestones and recommended timeframes.

4. Acquire New Enterprise Resource Planning Software Application

We recommend that the city purchase a new fully integrated Enterprise Resource Planning (ERP) application to reduce time and waste. Methuen financial offices, including the auditor, treasurer/collector, assessor and schools, use no less than six standalone software applications that are not compatible with each other. As a result, departments must regularly duplicate data entry from one system to another, maintain manual paper records, or exports to Excel for bookkeeping purposes, which is both time consuming and more prone to errors. Today's integrated ERP systems, offer financial, revenue, procurement, human capital, billing and utility applications that would streamline existing collection, accounts payable, payroll, general ledger and personnel management processes. We encourage the CAFO, when exploring and evaluating possible solutions, to consult with IT and staff in city and school finance offices, as well as its neighboring community of Lawrence.

To take full advantage of a new ERP system, the city should undertake several key measures. These include, reorganizing its chart of accounts, decentralizing data entry to departments, integrating payroll and human capital functions, adopting a purchase order system, and maintaining an electronic database of all grants and contracts.

Update chart of accounts: The Uniform Massachusetts Accounting System (UMAS) is the method of municipal accounting in the Commonwealth. Last revised in 2000, Methuen is currently using a chart of accounts that originated with the existing financial application rather than something that conforms to UMAS. With any new system, part of the preplanning is to review the chart of accounts that comports with UMAS standards around organizational codes for general government, public safety and education, for example. This would streamline internal reporting and enable the city to more readily report to external agencies. A broader description of UMAS accounting is offered in the UMAS Manual published by the Division of Local Services. Chapter 7, in particular, describes the various expenditure accounts that comprise a UMAS chart.

Train all departments on remote entry: With time, each office should be able to inquire about the status of its budget and enter its own financial information, including departmental receipts, vendor payments, payroll, and procurement requests. This would enable the treasurer and accounting offices to review the electronic submission against backup documentation before accepting and posting the entries to the treasurer's receipt and accounts payable systems and payroll. Once established, even though hardcopy information is exchanged, the electronic transmission of financial data will greatly reduce the amount of manual entries the offices currently perform, thereby freeing up staff to perform other management and analysis activities.

Integrate personnel and payroll: The adoption of a new ERP system will allow the city to streamline the management of its personnel and payroll processes. Integrating recruitment, compensation, training, risk management and employee development will improve workflow by reducing paper driven processes and excel based recordkeeping. As an example, most modern applications have an online self-service feature to track time and attendance and to provide W-2, tax, and benefit information to employees rather than relying on a paper stub.

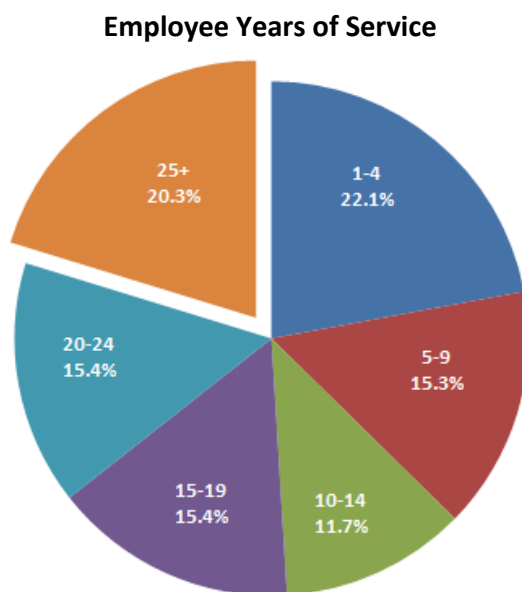
Maintain electronic database of all grants and contracts: All departments should submit copies of all grants and contracts to the comptroller's office in compliance with MGL Chapter 41 §57 and authorized appropriately. In Methuen, not all contracts are on file, approved by auditor and/or reviewed by city solicitor. The comptroller must be able to substantiate all revenue sources against which vendor payments are charged, and verify that the terms of the contract are met when reviewing payment requests. If a bill is submitted for payment and the contract that contains information to payment terms is not on file, the comptroller should not process the payment until the contract is presented.

Use ERP purchase order (PO) system: Methuen schools currently issue a PO for all requisitions, while the city only uses PO's for contracts and as required by Mass General Law. In either case, both the city and schools should use the same PO system offered through the adopted ERP application. This would control purchasing by tracking requisitions, requiring certain approvals, and encumbering funds to better monitor available spending. In instances where departments regularly

purchase items from a particular vendor, the city can choose to issue a standing or open PO, which allows departments to purchase recurring goods or services by accommodating multiple invoices over an extended time period.

5. Review Staffing and Begin Succession Planning for Finance Offices

We recommend that the CAFO meet with department heads to develop a strategy on how to fill anticipated vacancies due to the high number of employees potentially nearing retirement eligibility. A plan for filling vacancies can provide for a smooth and thoughtful transition and represents an opportunity to rethink individual roles and office functions with an eye toward creating greater efficiencies. As city officials become aware of an impending vacancy, they should establish a target date to fill the position and gather any necessary information about the role's core functions and legal responsibilities. This would include the position's job description, classification and grade, hours assigned, and any documented procedures. With adequate notice, the city can also budget for compensated absences. The pie chart below depicts the percentage of staff within a given years of service bracket.



6. Hold Regular Financial Team Meetings

We recommend that the CAFO establish regular monthly financial team meetings. The purpose of the financial team is to coordinate the city's financial affairs and maintain open lines of communication among the assessor, treasurer/collector, school business manager, comptroller, and others deemed appropriate. These meetings would be a forum where the budget calendar and other finance-related deadlines can be reviewed. The team would analyze the financial impact of potential policy decisions and identify critical junctures and offer early strategies to deal with anticipated areas of concern. For example, the team could assist the CAFO in analyzing the potential

cost impacts of collective bargaining agreements, capital acquisitions, new debt, or proposed economic development projects, as well as policy decisions on debt limits, reserve fund levels, and annual budget guidelines.

7. Review all Job Descriptions and Develop Formal Wage and Classification Plan

We recommend that the human resources director work with the CAFO to review all job descriptions to ensure they accurately reflect what people do. The consolidation of municipal finance, information technology, and human resources functions between the city and school that we recommended earlier will likely shift people into new roles or adjust their responsibilities. We encourage a full review to be a bottom-up exercise in which the human resources director would provide a template for staff and department heads to update or recreate their own job descriptions by listing what they actually do. Staff would then sit with their department head to review, who would then review with the human resources director. Once complete, all employees should have a clearer understanding of their responsibilities and expectations. Any substantive changes would have to be incorporated into collective bargaining negotiations with the various unions. Going forward, job descriptions would be periodically reviewed and updated, if needed, and dated to document action.

We also recommend that the human resources director review and update the city's classification and compensation plans. The purpose of the classification and compensation plans is to determine the appropriate classification and minimum qualifications required for staff and management positions and to assign positions an appropriate pay range. Once job descriptions are updated, the human resources director should analyze duties and responsibilities in each position description. Positions should be arranged and grouped by type and function and given a minimum and maximum salary or wage rate to determine the most appropriate classification and compensation.

8. Implement Performance Review System

We recommend that the human resources director and CAFO initiate a performance management program. With a set of current job descriptions in hand, the human resources director and CAFO should work to develop targeted work performance goals for department heads that, in turn, would develop them for their individual team staff. These goals, which would guide an employee's efforts toward achieving department objectives, should be measurable in a way that confirms whether performance expectations are being met. Funds should also be annually appropriated for staff to attend outside training and professional development opportunities at the discretion of management to improve their skillsets and effectiveness.

At year-end, the CAFO would meet with department heads, who would meet with individual staff members to ensure that goals are being achieved. 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 should evolve into a collaborative effort leading to improvements in job performance and the effectiveness of government operations. Most of the city's collective bargaining agreements contain a provision allowing for performance evaluations.

The diagram below illustrates the four components within the program we describe.



9. Implement Biweekly Payroll and Centrally Account for Accrued Absences

We recommend that Methuen revise its personnel ordinances (Chapter 6) to require biweekly payroll. For all union employees, a provision already exists within all city collective bargaining agreements to pay employees biweekly. However, the city's personnel ordinances do not have a similar provision for employees that are non-union, unaffiliated, and confidential to be paid biweekly. With a city ordinance, the city may proceed with implementing biweekly payroll city-wide. Implementing a uniform biweekly payroll process would enhance operational efficiencies, simplify reporting, and reduce paperwork. A universal biweekly pay schedule would ease workloads in the city's payroll office, freeing up staff time to perform other important tasks.

For a successful transition to biweekly payroll, the city will need to determine when it will go into effect and how it will impact the current payroll procedures, so all are paid on the same week.

Currently, 10-month and 12-month contract school employees are paid on opposite weeks. Ideally, the smoothest transition period would be during July or early August, so upon returning for the new school year, all employees would be paid based on the 12-month payroll schedule. On the city side, employees moving from weekly to biweekly could be offered an opportunity to set aside a predetermined amount of money (after-tax) each pay period over a number of weeks. Funds set aside by the employee could be held by the city and returned via an accounts payable check or arrangements with a local financial institution to establish a savings account (similar to a vacation account) that would be released the week prior to the biweekly implementation.

We recommend that the city centrally account for all employee accrued balances. The city is unable to use its server-based Harpers Payroll system to maintain accrued leave balances by employee, although it hopes this will be possible with a planned move to Harper's cloud-based application. In the meanwhile, payroll staff maintain accrued leave balances manually which are generally about a couple weeks behind. With the new Harpers System, the city should enter the balances by employee and departments should be instructed to enter each employee's use of accrued time. This would enable the accounting office to centrally manage payroll better and track compensated balances, which must be reported at year-end on the town's financial statements, as well as when accrued balance liabilities are required to be paid in accordance with collective bargaining agreements. If available, the city should also take advantage of Harper's employee self-service tool that allows staff to access their paystub, W-2, and accrual balance information online.

10. Form Collective Bargaining Negotiating Team

We recommend that the city form a committee composed of the CAFO, human resources director, and the relevant department head to negotiate future collective bargaining agreements. Labor counsel may also be included as needed. The purpose of this team is to not only expand the expertise necessary to review and understand the context of the agreement, but to conduct a financial analysis to cost out various scenarios before agreements are signed.

11. Adopt Employee Benefit-Related Reserve Funds

We recommend that the city establish certain statutory funds to help it budget for certain employee-related expenses. Similar to the compensated absence reserve the city recently adopted, these funds would allow Methuen to appropriate money which can then be used to pay for certain benefit-related costs. Identified below, the balances within each of these funds are also allowed to carryover from year-to-year, enabling the city to build up a reserve to cover expenses in years when they spike due to cost drivers, such as injuries, layoffs, and retirements.

- Worker's Compensation – MGL c. 40, §13A
- Unemployment – MGL c. 40, §5E

- Public Safety Injured on Duty Medical Expenses – MGL c. 41, §111F

12. Readopt Other Post Employment Benefit Trust Fund

In 2016, Methuen accepted MGL c. 32B, §20 to create a trust fund for other postemployment benefits (OPEB). The Governmental Accounting Standards Board (GASB) subsequently issued Statement 75, which required that an OPEB trust fund comply with the following criteria: the fund's contributions and earnings are irrevocably committed to OPEB use, the OPEB plan's assets are dedicated exclusively to providing benefits to plan members, and the OPEB plan's assets are legally protected against creditors. In light of Statement 75, the legislature then modified MGL c. 32B, §20 to meet the new guidelines. Consequently, we advise the city to reaccept the MGL to establish a GASB-compliant OPEB trust fund, and move any appropriated funds to the State Retiree Benefits Trust fund (<https://www.mass.gov/orgs/state-retiree-benefits-trust-fund>).

We further recommend that the city adopt an OPEB liability policy. The policy should set guidelines for a responsible plan to meet the city's obligation to provide other postemployment benefits for eligible current and future retirees. It should address accounting, financial reporting, and investment expectations and assigned responsibilities of officials. It also should consider funding strategies that includes annual appropriations from the general and enterprise fund budgets.

13. Adopt Stabilization Fund and Consider Funding Policy

We recommend that the city council accept the fourth paragraph of [M.G.L. c. 40, § 5B](#) by majority vote and then vote to dedicate the meal tax excise revenue to the stabilization fund by a 2/3 vote ([Informational Guideline Release \(IGR\) 17-20](#)). The vote must include the (1) specific revenue source being dedicated; (2) the percentage of that revenue source being dedicated, which must be at least 25 percent of the source; and (3) the fund into which the revenue source is being dedicated. A separate vote should be taken for each dedication. The vote must take place before July 1 of the fiscal year in which the dedication is to begin. Currently, the city council votes to transfer these revenues upon receipt to the stabilization fund. Once approved as outlined, the revenues would automatically be deposited to the stabilization fund without further action.

14. Implement Audit Corrective Action Plan and Consider Bidding for New Services

We recommend that the CAFO formulate a corrective action plan to address weaknesses identified within independent auditor's management letter. Weaknesses identified in the city's financial management practices should be addressed through a corrective action plan. Such a plan would indicate what steps will be taken, who will be responsible for them, and when the action will be completed. The CAFO should monitor and periodically inform the mayor and city council of the

plan's implementation progress. Addressing management letter findings can help improve the city's financial controls and practices and improve public confidence in government.

We recommend that the city seek proposals for its independent audit when the city's contract with the current audit firm expires. Not atypical among municipalities, Methuen has relied on the same audit firm for a long time. Contracting with a new firm brings a fresh perspective and reflects good practice. In general, communities are encouraged to re-advertise for auditing services every five to eight years. The Government Finance Officers Association (GFOA) recommends that communities engage the same auditor by entering into multi-year agreements, or a series of one-year contracts, for a term of at least five years. A multi-year agreement allows for greater continuity and enables a new auditor to spread initial start-up costs over multiple years, potentially reducing costs in the initial years. After this term, GFOA recommends a full competitive selection process and opines that, provided there is adequate competition among qualified auditors, that communities rotate auditors after each multi-year agreement.

15. Restore Financial Responsibilities Back to the Treasurer's Office

We recommend that the treasurer be responsible for all municipal debt. Reportedly, the former city auditor handled some the treasurer's financial functions, including the city's debt and cash flow analyses. When debt is authorized by city council, the treasurer should prepare for the sale by working with the community's financial advisor, bond counsel, CAFO and other local officials to achieve compliance with all state and federal statutory requirements for bond issuance. The treasurer should negotiate borrowings, prepare the necessary documents and notes, and report to DLS on all debt issued. The treasurer should also create and maintain long-term debt and debt service schedules separate from the accounting office. Periodically, the treasurer and accounting office should reconcile outstanding debt and annual debt service amounts due to make sure they are in agreement, the obligations will be properly provided for in the annual budget, and that they were accurately reported in the annual yearend statement of indebtedness to DLS.

We also recommend that the treasurer create and maintain a monthly cash flow projection for the CAFO. It is the responsibility of the treasurer to manage the city's cash and to ensure that account balances are sufficient to cover city obligations as they arise. Typically developed in an Excel spreadsheet, the treasurer would apply past patterns of monthly spending (warrants) and collections (revenue reports) to current year appropriations and by overlaying projected debt service obligations, a reasonable projection of the city's cash flow will emerge. Through the course of the year, the cash flow budget is adjusted for unexpected circumstances and actual monthly costs or revenues should replace estimates. Similar to the revenue and expenditure forecast, a cash flow budget is a useful tool that can help anticipate periods of low cash balances and better manage short-term investment and borrowing.

16. Review Delinquent Tax Processes

Process subsequent taxes into existing tax title before June 30: We recommend that the treasurer/collector transfer subsequent taxes into previously established tax title accounts before the close of the fiscal year. After the fourth quarter tax bill due date passes, the treasurer/collector issues demand bills on outstanding real and personal property accounts. Once the demand bill due date passes, the office should certify unpaid property taxes into existing tax title accounts immediately (MGL c. 60, §61). This will enable her to reduce the remaining outstanding receivable list and leave those that she can focus on for future takings.

Adopt city ordinance authorizing payment agreements: Methuen should review and revise Section 8-6 of the city ordinances dealing with denying, suspending or revoking licenses and permits for applicants who have outstanding local taxes, charges and fees. The city adopted MGL c. 40, §57 and implemented an ordinance as required by statute. With the passage of the Municipal Modernization (c. 218 of 2016), the city may act on an applicant's licenses and permits for nonpayment of outstanding municipal charges sooner than later. To do so, the city must revise its ordinance to eliminate the current minimum 12-month delinquency requirement and direct the treasurer/collector to disseminate a delinquency list to the community's permitting or licensing boards on a more frequent schedule.

17. Post Approved Meeting Minutes Timely

We recommend that the city post all meeting minutes on its website. The Open Meeting Law (M.G.L. c. 66, §5A) requires every government body to maintain accurate minutes of all its meetings. At a minimum, the minutes must have the date, time, place, members present or absent and all action taken. Minutes should be taken at meetings when votes or other formal decisions are made as well as when discussions or considerations of issues for which no vote is taken or final determination is made. Each vote taken at a meeting must record the actual wording as it occurred. While verbatim record of each discussion held at the meeting is not required, the minutes should reflect a sufficient amount of the discussion to permit an understanding of what transpired at the meeting. This should include a list and/or copies of documents and other exhibits used at the meeting. Minutes are meant to serve as a record of what was done at a meeting and not necessarily what was said. In reviewing the city website, there is a link to view public meetings recorded, but not all regular, special and hearing minutes in a written format are posted. This should be reviewed and missing minutes posted.

18. Provide Funding Source and Use for All Appropriation and Transfer Orders

We recommend that all appropriation and transfer orders include the funding source and use by fund and/or line item. The acting auditor has provided a new format that clearly identifies the

funding source and use by find and line items for all request appropriations and transfers. Consequently, the funding information should be included in the council motion and be reflected in the minutes.

19. Address Information Technology Issues

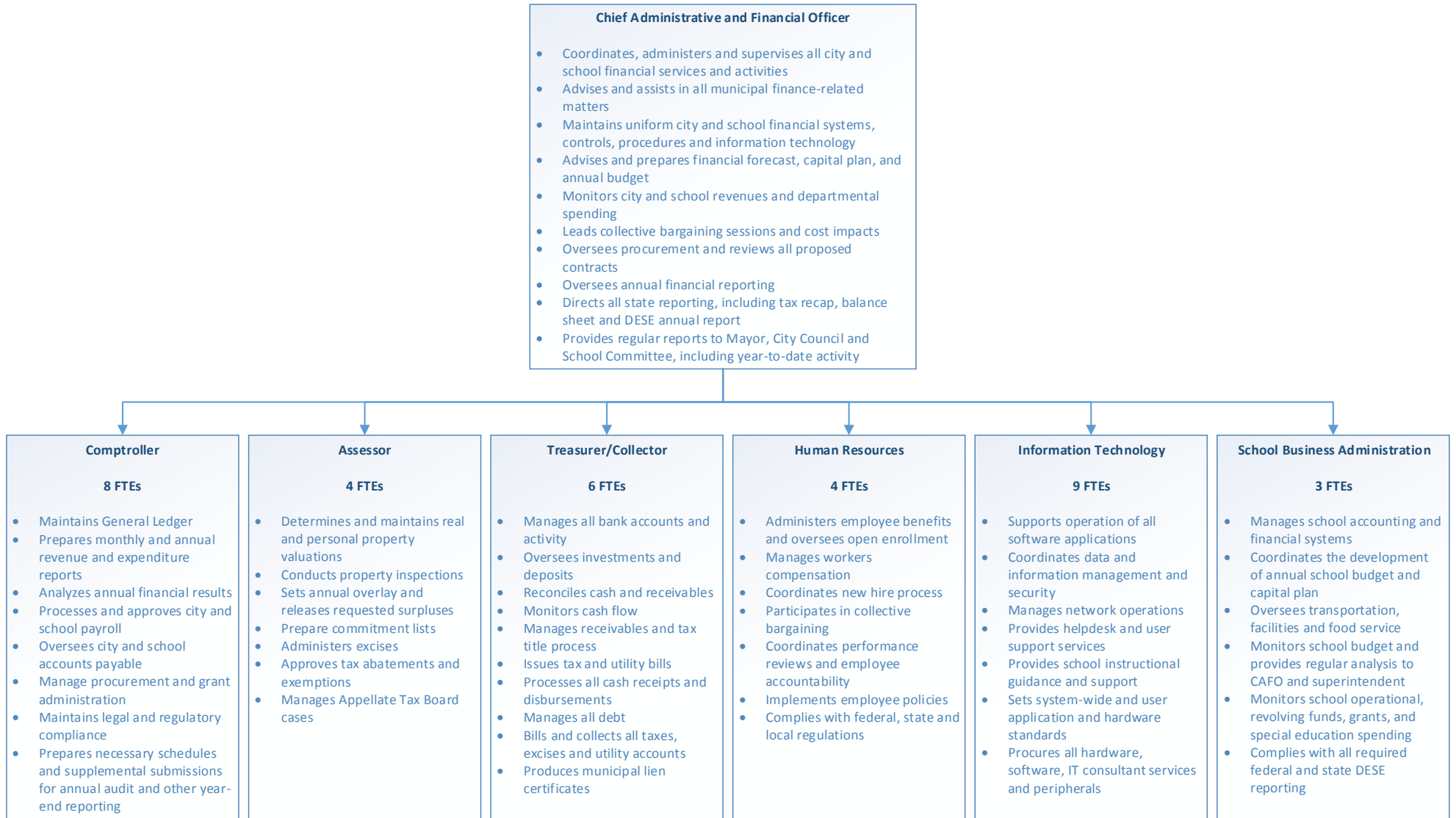
Develop three- to five-year Information Technology Strategic Plan: The effective use of technology is an essential component of contemporary municipal government, but it is an area of major deficiency in Methuen. We recommend that the city hire an outside consultant to develop a multiyear plan for utilizing technology in government. Regardless of available resources, assessing needs and developing a long-term technology plan is an essential component of today's municipal governments. Toward this end, communities have found success in developing formal, coordinated technology plans. Accordingly, we recommend that the CAFO solicit bids for an outside consultant to evaluate and report on the city's current technology status, the performance of hardware and software, the proficiency of staff, current and proposed structure, and future needs. The components of a technology review might include:

- Review of organizational structure
- An inventory of hardware and software
- An evaluation of troubleshooting capabilities
- A replacement and upgrade schedule
- A long-term financing plan
- An analysis of system capacity to handle current and future demands
- A survey of employees to assess training needs

Standardize information technology procurement: we recommend that the CAFO establish a policy requiring all departments to refer their technology-related purchase intentions to the information technology director first for their review. This will help to ensure department-wide compatibility of hardware, software, and auxiliaries. Referring purchases to the director can also help minimize expenditures because they may know about more effective options or those that are less expensive or existing purchases that can be shared or expanded. The director can also seek discounts through group purchases.

APPENDIX

Proposed CAFO Organizational Structure



Sample Budget Calendar

CAFO meets with finance team to review budget calendar	October
CAFO, Mayor, and Chief of Staff meet to approve final budget calendar and review format	November
CAFO presents financial forecast and budget calendar to Mayor, City Council, School Committee	December
CAFO sends forms and instructions to all departments	January
Departments submit budgets to CAFO	February
CAFO presents updated financial forecast	February
CAFO, Mayor, and Chief of Staff meet with departments to review submissions	March
CAFO finalizes capital budget proposal	early-May
School Committee votes on school budget	May
CAFO prepares and presents final budget for City Council	mid-May
City Council Finance Committee reviews budget	June
City Council votes on budget	June

ACKNOWLEDGEMENTS

In preparing this review, DLS representatives interviewed the following officials:

James Jajuga, Mayor
Paul Fahey, Chief of Staff
Jennifer Kannan, City Council Chairperson
George J. Kazanjian, City Council, Finance Committee Chairperson
Sheryl Wright, Interim City Auditor
Louise Moss, Deputy Director of Budget and Finance
Sharon Lough, Payroll Administrative Assistant
Joann Manzi, Payroll Administrative Assistant
Eva Pastor, Head Clerk
Lauri Antonacci, Purchasing Director
Anne Randazzo, Human Resources Director and Assistant City Solicitor
Jill Stackelin, Human Resources and Workers Compensation
Connie Sousa, Employee Benefits Manager
Jacqueline Cuomo, Tax Collector and Treasurer
Carol Langlois, Assistant Treasurer
Kimberly Fone, Assistant Collector
Andrew Wall, Head Clerk
Ann M. Lloyd-Zaralidis, Head Clerk
Alicia Bisesti, Principal Clerk
Michele Mastrangelo, City Assessor
Suzanne Doherty, Assistant Assessor
Carolyn Toto, Head Clerk
Theresa Solomon, Head Clerk
Dr. Brandi Kwong, Interim Superintendent of Schools
Dr. Lisa Golobski Twomey, Interim Assistant Superintendent Curriculum, Instruction, Assessment &
Grants
Ian Gosselin, School Business Administrator
Edward Lussier, School Director of Instructional Technology
Colleen McCarthy, School Director of Human Resources