



# *City of New Bedford*

## *Financial Management Review*

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*July 2006*

## INTRODUCTION

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At the request of the New Bedford 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), the Bureau of Local Assessment (BLA), and the Information Technology (IT) bureau. During these visits, the staff interviewed the mayor, members of the mayor's staff, city council president, city solicitor, chief financial officer/treasurer/collector, acting city auditor, assessing administrative assistant, MIS director, personnel director, purchasing agent, school business manager, 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, 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

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New Bedford is situated south of Boston on the coast of Buzzards' Bay. The city is accessible by highway (Interstate 195, and Routes 140, 18, and 6), water (commercial harbor and ferry services), and air (New Bedford Regional Airport). It is a city of an estimated 93,979 persons (2004 U S Census). With a land area of about 20 square miles and a population density of 4,671 people per square mile, New Bedford is well above the statewide average of 818 people per square mile and the 23<sup>rd</sup> densest community in Massachusetts. The city's 2004 equalized property valuation (EQV)/capita is \$49,874 or less than 40 percent of the statewide average of \$127,176. New Bedford's 2005 unemployment rate is 7.8 percent, higher than the statewide average of 4.5 percent, and the city's 1999 income/capita is \$15,602, which is about 60 percent of the statewide average of \$25,952.

New Bedford is nicknamed the "Whaling City" because of its historical dominance in the whaling and shipbuilding industries during the 1800s. Reportedly, New Bedford was home to many sailors and one of the richest per capita cities in the world at the height of the whaling era. Unfortunately, when gold was discovered in California and petroleum was discovered in Pennsylvania, many of the sailors moved west to seek other fortunes and the whaling industry began to wane. This could have been a significant blow to New Bedford and its economy had it not been for the development of the textile and other mill industries at this same time. These mills were prominent in the city's economy until the early 1900s, when the textile industries were replaced by other manufacturing (e.g., rubber & plastics, industrial machinery, and fabricated metal products) businesses. Eventually, even this manufacturing base began to decline. While a fair amount of manufacturing remains, the city's largest employers currently are in the health and social services sectors.

New Bedford's economic evolution has had a direct impact on the city's population. While whaling and mill industries attracted population growth in the 1800s, the city's residents have slowly declined over nearly the last century. According to U S Census, New Bedford's population has declined slowly from 112,597 persons (1930) to the current population of 93,979, or a decrease of about 17 percent.

To accommodate the service needs of its residents, New Bedford's operating budget has grown. Since FY1981, New Bedford's budget has grown from about \$75.6 million to over \$261.6 million in FY2006, or nearly 350 percent. During that time, the city's property taxes have more than doubled, state aid has more than quadrupled, and local estimated receipts have increased more than six-fold. The escalation in property taxes is due to the annual statutory 2.5 percent increase and new growth that is generated by new construction and building renovations; the city has never approved a tax levy debt exclusion or override. 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). New Bedford is below the state average and benefits significantly as a result. Local receipt increases are a combination of growing motor vehicle excise, increasing license and permitting fees, as well as full cost recovery of services such as the city's water and sewer operations.

The growth in the city's revenues has been fueled by the increasing costs of providing services and funding projects. Between FY1990-FY2005, New Bedford's fastest growing areas of expenditures (adjusted for a reporting change the city made beginning in FY2004) were education and fixed (non-debt) costs. During this period, educational expenditures grew from about \$53.2 million to \$106.38

million. This doubling of education spending is attributable to the Education Reform Act of 1993 and was financed largely by state aid. Similarly, New Bedford's fixed (non-debt) costs increased from about \$19.5 million to \$39.7 million. The city's fixed (non-debt) costs are comprised predominantly of health insurance and retirement costs, which are often the fastest growing expenditures in many communities. Yet, despite this growth in budget and services, New Bedford has been faced with a number of problems over the years.

For years, DOR has noted concerns about the city's financial practices. Beginning in the early 1980s, the city experienced problems in its assessing office, which resulted in late property tax bills and other financial trouble (e.g., emergency state aid advances and considerable revenue anticipation borrowing). The Bureau of Local Assessment (BLA) took over the operation of the assessing office for a brief period in 1990 and the city got special legislation to reorganize the office. At about this same time, the city was struggling to maintain accurate financial records due to turn over or inexperienced persons in key financial staff positions, which required the city to hire outside auditors to reconstruct certain records and then reconcile New Bedford's cash at a cost of almost \$400,000. In 1992, DOR conducted a financial management review and presented a number of recommendations designed to assist New Bedford in improving its overall financial management, however, not all of the recommendations were adopted and problems have persisted.

Annually, each community prepares the Tax Recapitulation Sheet (property taxes), the balance sheet (free cash certification) and the Schedule A (year end report of revenues and expenditures) for DOR. Historically, New Bedford's reports are submitted late, incomplete (requiring substantive changes and/or backup documentation), or not submitted at all. For example, the city's submission of the property tax rate generally requires explanation of one-time revenues and documentation for revenue increases when the historical collections may not justify the proposed estimates. Similarly, the city's Schedules A report generally requires more than one submission because of incomplete information or data that does not correspond with the prior year's statement. As for the city's request for free cash certification, New Bedford last submitted a balance sheet dated 6/30/01. Since then, because city officials knowingly have overdrawn accounts and capital projects that would negatively impact the free cash figure, New Bedford has foregone the certification process. Without a balance sheet submission, DOR has had to wait for the annual audit report, at least 10 months after the close of the fiscal year, to get an indication of the city's financial condition.

As a result of an impasse in labor negotiations in the fall of 2005, the Joint Labor-Management Commission (JLMC) requested that DOR analyze New Bedford's financial condition. Based on the unaudited information provided, DOR concluded that New Bedford had an FY2006 budget gap of nearly \$3 million. This gap was a combination of unsubstantiated revenues, FY2004 and FY2005 deficits to be raised, and under funded FY2006 budget accounts. Many of these concerns were addressed when New Bedford set its property tax rate in December 2006. However, the Director of Accounts informed the newly elected mayor on January 3, 2006 that sanctions have been applied to New Bedford due to their unreliable financial submissions. Specifically, a completed FY2006 audit must be submitted and reviewed prior to setting the FY2007 tax rate and certifying the free cash as of July 1, 2006.

Upon taking office, the mayor identified key issues he wants to address that would require additional funding in the city's budget. Unfortunately, the mayor was confronted with an estimated \$1.75 million FY2006 operating deficit and limited reserves (e.g., no free cash, about \$5,000 in general stabilization, and \$350,000 in overlay surplus). Compounding the situation, it was disclosed that not only has the city overdrawn almost \$14 million in its capital projects (as of 6/30/05), but that city officials have spent in excess of at least one borrowing authorization. The city reported it has spent nearly \$10 million on cleaning up a property contaminated with polychlorinated biphenyls and heavy metals when council only had authorized \$5 million. This is illegal and city officials should not have approved the payment of the bills. As of June 2006, the council has amended the borrowing authorization for this clean-up project to \$12.47 million.

Publicly, the mayor has stated that it is his goal to improve the efficiency and effectiveness of city government operations. He wants to scrutinize every city expense and reduce the burden upon taxpayers. He wants to address the city's crumbling infrastructure and school building needs. For example, the Massachusetts School Building Authority's recent *Needs Survey Report* listed 13 New Bedford school as needing substantial work. The mayor wants to reestablish a trust in city government, which makes decisions openly, legally, and that are financially secure. Clearly, improving the city's financial operations is the critical first step to achieving these goals.

It has been 15 years since DOR conducted its last management review, and many problems identified at that time continue to hinder the city's financial operations. We found that the financial offices are adequately staffed, however they struggle with daily activities because of continued manual record keeping despite a fully integrated computerized system. Because of the inadequate salaries currently offered, the city continues to have turn over in key financial positions, resulting in extended vacancies or installing staff without the necessary skills to function in supervisory/management positions. The city has not been able to hire and/or retain professional staff, who—during the course of normal business—should review all activity, reconcile all accounts, identify potential problems, and manage the city's resources efficiently. Consequently, New Bedford must rely on the services of its private auditor who provides pages of audit adjustments annually that the city posts to correct its financial records.

Currently, DOR found that many basic functions are not being done. One example is an inadequate treasury function. We found that the city has an excessive number of bank accounts, no internal record of each account's activity/balance, no reconciliations with bank statements, numerous outstanding checks that date back years, and no reconciliation of cash until after the close of the year. Similarly, DOR found that the collection operation is inefficient. New Bedford issues an excessive number of bills annually that are processed in-house and has resulted in a large backlog of work. In addition, the collector's office does not maintain a receivable control, there are significant outstanding amounts, and reconciliations are completed after the close of the year. DOR also found problems in the auditor's office. There are expenditures in excess of authorization, the office does not prepare monthly trial balances and cannot prepare an internal balance sheet, and deficits are being incurred, some of which are not disclosed until after the private audit is completed more than 10 months after the close of the fiscal year.

Because these activities are not performed during the course of the fiscal year, New Bedford's largest assets, cash and receivables, are at risk. It places a workload burden on an already overwhelmed staff at year's end, and the accuracy of the city's general ledger is a serious concern. DOR received only the city's FY2005 audited financial statements on June 22, 2006, which reports the city has not reconciled its cash and there is a \$2 million variance with the banks. When the FY2005 management letter is issued, DOR has been informed that the private auditors will be citing the non-reconciliation of cash as a material weakness, a significant deficiency in a community's internal financial control. A material weakness is a reportable condition of such magnitude that it could potentially result in material misstatements of financial condition, which could impact New Bedford's credit rating and future borrowing costs.

As recommended in the 1992 management review, New Bedford created a chief financial officer (CFO) position, however, the incumbent serves in a dual capacity as the treasurer/collector. For some communities, having one individual serve in both roles works fine. However, not in New Bedford because of the dysfunctional operating environment and antiquated procedures. DOR envisioned that the position would develop long-term plans for New Bedford and manage all the financial offices, coordinating the operations, ensuring routine activities are completed timely and efficiently, and holding department heads accountable. Based on continuing problems and financial concerns, it is clear that the city needs a separate CFO position as originally recommended.

In the report that follows, we focus primarily on the shortcomings of the city's financial administration and the need to review current policies and practices. As chief executive officer, it is the mayor's responsibility to make sure that: the city operates within the budgetary parameters set; financial officers are performing their duties properly and timely; and periodic reports are prepared to reveal the community's compliance and progress. These include monthly revenue and expenditure reports, purchasing practices, reconciliations, annual audits, and reports filed with DOR. We also recommend that the city review its organizational structure and city ordinances. Given its persistent problems and lack of coordination among the financial offices, we recommend that the city create a consolidated finance department under the management of the CFO. We also recommend that the city review and revise its ordinances because they currently are outdated and incomplete. And, in order to address the long-standing problems in the city's financial operations and to establish long-range planning, we recommend that the city consider establishing a longer term for the mayor and longer, staggered terms for the council.

Most importantly, we believe New Bedford needs to invest in its financial offices. By providing better salaries for department heads and their assistants, the city will be able to attract/retain experienced professionals. With an investment of \$200,000-\$250,000, the city could fund a separate CFO position, provide better salaries for department heads and their assistants, and make available training opportunities, both professional development and computer classes, to improve work efficiency. The city's professional financial positions should be responsible for streamlining operations and eliminating manual record keeping, conducting in-house activities and relying less on auditing services, and improving current collections and reducing the city's receivable balances. After the initial investment, the city eventually would see savings through reduced contractual expenditures and personnel costs (due to staff reductions through attrition).

The above recommendations are intended to help New Bedford get its financial house in order. Addressing the city's more global financial and budgetary issues is beyond the scope of our report. Nevertheless, the improvements to the critical financial operations recommended in this report should render complete, accurate, and timely information on the city's fiscal condition that officials need to succeed. Better information will enable the city to manage its limited resources and begin to explore critical issues and long-term cost saving measures (e.g., addressing capital needs or controlling health insurance costs by enrolling in the Group Insurance Commission). Ultimately, with well-trained staff and good policies and procedures in place, New Bedford will be able to improve accountability and control, plan for the future, and win back the public's trust.

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## SUMMARY OF REPORT FINDINGS AND RECOMMENDATIONS

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1. Overall Financial Management & Budgeting: Avoid Deficit Spending
2. Overall Financial Management & Budgeting: Conduct and Submit Independent Audit Promptly
3. Overall Financial Management & Budgeting: Modify the Budget Format
4. Overall Financial Management & Budgeting: Create a Consolidated Finance Department
5. Overall Financial Management & Budgeting: Consider Changes to the Personnel/Payroll Systems
6. Overall Financial Management & Budgeting: Establish Fiscal Planning Practices and Tools
7. Overall Financial Management & Budgeting: Establish Minimum Purchase Order Amount
8. Overall Financial Management & Budgeting: Adopt Four-Year Terms for Mayor and City Council
9. Overall Financial Management & Budgeting: Review the City's Charter and Ordinances
10. Management Information Systems: Expand the Remote Access to the Financial System
11. Management Information Systems: Survey Current Operations and Provide Training
12. Management Information Systems: Review Existing Management Reports
13. CFO/Treasurer/Collector's Office: Attend Professional Classes
14. CFO/Treasurer/Collector's Office: Maintain Comprehensive Cash Book and Reconcile Promptly
15. CFO/Treasurer/Collector's Office: Streamline Collection Procedures
16. CFO/Treasurer/Collector's Office: Manage Outstanding Amounts & Reconcile Receivables Timely
17. City Auditor's Office: Make Permanent Appointment & Attend Professional Classes
18. City Auditor's Office: Conduct Reconciliation Promptly
19. City Auditor's Office: Prepare Internal Reports Timely
20. City Auditor's Office: File Accurate External Reports
21. City Auditor's Office: Plan for GASB Statement 45
22. Assessing Office: Review Neighborhood Delineations
23. Assessing Office: Administer STA & TIF Exemptions Properly
24. Assessing Office: Accompany Other Inspection Departments
25. Assessing Office: Automate the Personal Property Abatement Process

## OVERALL FINANCIAL MANAGEMENT & BUDGETING

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In accordance with M.G.L. c. 43, New Bedford has a Plan B city charter. There is a mayor, who is the chief executive officer, and an 11-member (six ward representatives and five 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. 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 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. With the city councilors, there is the risk of a large turn over because all 11 seats are up for re-election every two years.

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). While many of the roles and responsibilities of departments are codified in the city's ordinances, some are not current or do not exist. For example, the assessing office was reorganized as a result of Chapter 5 of the Acts of 1990. However, Chapter 10, Article III of the city's ordinances still has not been revised to reflect this change. Similarly, the city created a CFO position during FY1993 (which was later combined with the treasurer/collector's position in 1998) and made it responsible for developing the budget and overseeing the city auditor's and treasurer/collector's offices. Unfortunately, the city has not benefited from the CFO position because it is in title only. New Bedford did not organize a finance department, there is no reference to the CFO position in any ordinance, and there is no long-term financial planning. More over, the additional responsibilities have spread the treasurer/collector so thin that he has not had the time to manage his department, which has resulted in non-reconciliations of cash and receivables, a growing backlog of work, and delays in completing annual audits. At DOR's suggestion, the mayor proposed a separate CFO position in the FY2007 budget, however, the council cut the position, citing "no demonstrated need."

Given the limited resources of the city and the growing budget, the CFO should play an active role in establishing financial planning practices and tools. These include establishing a financial team, financial reserve policies, a comprehensive capital plan, a multi-year revenue and expenditure forecast, and a corrective action plan to address audit findings. Over the last few years, the city's financial team had been defunct, however, under the new administration, it has been reactivated. The financial officers are meeting periodically to review year-to-date information and providing input into the city's FY2007 budget.

Annually, New Bedford's budget process commences just after the first of the calendar year. The CFO develops initial revenue estimates and prepares budget guidelines for departments to prepare the ensuing year's operating requests. The requests are reviewed, consolidated into one report, and the revenue figures are updated. Then, the mayor meets with departments to discuss budget requests and revenue estimates, making adjustments until the budget is balanced. The budget



proposal is submitted to city council by May. The council conducts hearings during May, deliberates, and then adopts the budget in June.

The council budget order generally has summary line-items for salary & wages, charges & services, supplies & materials, capital outlays, and other charges for each department. In addition, there is over \$53 million (FY2006) in unclassified line-items that are detailed in the appropriation order, which include the audit, police & fire indemnity, Medicare/FICA, municipal insurance, pensions, health & life insurance, retirement, snow removal, workers compensation, and solid waste costs. According to M.G.L. c. 44, §31, every line-item voted by council is a separate appropriation, however, the city insists the unclassified line-items are one gross appropriation and the detail provided is for informational purposes. Consequently, New Bedford does not monitor the spending of each purpose against a maximum authorization, but rather manages the group collectively, assigning any expenditure in excess of the total authorization to the snow removal budget as a legal deficit.

M.G.L. c. 44, §31 also states that no department may spend in excess of its appropriation. Reportedly, bills are paid timely even if a payment results in a deficit appropriation. Similarly, the city has expended funds on capital projects in excess of borrowing authorizations. Some deficits are brought to the council for action before year's end while others are raised in the subsequent year either by council action or on the tax recapitulation sheet. It is the role of the city auditor to review appropriations before approving payments. If an appropriation is not sufficient, the auditor should deny payment, notify the treasurer not to issue the check, and wait until council appropriates/transfers funds necessary to process the payment.

By ordinance, all expenditures require a purchase order. However, city officials acknowledge that frequently departments purchase smaller items in advance of getting a purchase order, only to initiate one prior to submitting the bill for payment. Issuing a purchase order after the fact is meaningless because the purpose of it is to control spending. Increasingly, communities are adopting minimum purchase order amounts to avoid the needless paperwork. Like New Bedford, some communities also are attending trainings on purchasing guidelines and requirements that are presented by the Inspector General's Office.

The city has limited reserves because it has drawn down its general stabilization fund to \$5,016 (as of 6/30/05) and has no free cash. Reserve funds provide a community with the flexibility to fund extraordinary or unforeseen expenses after its tax rate is set. In addition, bond-rating agencies recognize the vulnerability of communities with few reserves and consider this lack of flexibility a negative factor. Biannually, the CFO requests that departments provide a listing of capital needs for the ensuing two years. No formal, comprehensive, multi-year plan is published and project requests are funded only as resources become available. Similarly, no effort is made to analyze and forecast New Bedford's revenues and expenditures over multiple years.

Because of the federal Single Audit Act, New Bedford is required to have an annual audit performed. Since FY2001, New Bedford's audits have been completed and filed with DOR between 10-20 months after the close of the fiscal year. In a manner similar to this management review, the private auditor reviews the operating procedures of the community. Generally, a written management letter accompanies the audit, providing comments on any improper or inadequate procedures in the

municipality's financial management. However, at the city's request, these reports have been given verbally for a number of years. According to the private auditor, many of the concerns raised have existed for years and the city has never formulated a plan to correct them.

All city employees first employed after September 7, 1977, must be residents of New Bedford prior to appointment and throughout their service (Chapter 19, Article II of the city's ordinances). This requires that the city maintain a list of all persons subject to this article and that these employees must file an annual certificate of residency subject to the pains and penalties of perjury. Currently, most city positions are exempt from the residency requirement (by statute) or may live within a specific distance from the city limits (by collective bargaining agreements), leaving only the Unit C positions subject to this provision. However, this residency requirement can be waived. According to city officials, the residency requirement has been waived (by the mayor and 2/3 vote of the city council) when the best candidate for a position does not live or continue to live within the city's limits.

New Bedford has written job descriptions for staff positions and requires annual performance reviews. In reviewing the financial offices, we found each had an assistant department head that is expected to perform the manager's duties in his/her absence. According to the personnel department, the city revised its Unit C salary plan (for non-union, department and assistant's positions) in 1994. The personnel department also stated that an assistant's salary generally is two grades below a department head's. Upon inspection, we did not find this to be entirely true. We found the assistant auditor's, assistant treasurer's, and assistant collector's positions were all classified at Grade 7 and the department heads were Grades 14 (auditor) and 15 (CFO). As such, the assistants are paid about two-thirds of what the department head makes. Given the job expectations and compensation levels of the assistants' positions, it explains the turn over and extended vacancies in the assistant treasurer's and assistant auditor's positions, which city officials report has happened in recent years.

Currently, all city employees are paid weekly and most receive paper paychecks and the rest have authorized direct deposit to a bank account. MIS produces and distributes time sheets for approximately 3,520 city and school employees to departments, which reflect each employee's regular hours and rate of pay. If an employee works other than normal hours or uses other accrued time (e.g., sick, vacation, and personal), an exception is noted on the timesheet and approved by the department head. These exceptions are entered into the city's computerized financial system at the department level and the timesheets are forwarded to the city auditor's office as confirmation. The auditor's office runs payroll trial balances, makes adjustments as necessary, and prepares two payroll warrants, one for the city and one for the schools. Once finalized, MIS prints the warrant. MIS also prints the paychecks, stuffs the checks into envelopes, and forwards them to the treasurer's office to be secured until distribution. Generally, most paper checks are cashed immediately and some are lost, requiring the treasurer's office to void the old one and issue a new one.

#### RECOMMENDATION 1: AVOID DEFICIT SPENDING

We recommend that the city monitor its spending and avoid deficit spending. Unless there is a provision in the general laws that allows for a deficit, a community may not incur liabilities in excess of appropriation. If expenditure would result in an illegal deficit, the city auditor should not approve payment. Not managing this problem and continuing to incur deficits could also result in a reduced

bond rating for the city. Furthermore, a city official may be criminally liable up to a fine of \$1,000 or by imprisonment for not more than one year, or both, to the extent that such officer "knowingly violates, or authorizes or directs any official or employee to violate" any general law as it relates to the incurring of a liability or the expenditure of public funds (M.G.L. c. 44, §62).

#### RECOMMENDATION 2: CONDUCT AND SUBMIT INDEPENDENT AUDIT PROMPTLY

We recommend that the city adopt a policy to have the independent audit completed within five months of the fiscal year's end. Per the Director of Accounts' letter to the mayor dated January 3, 2006, New Bedford must complete and file the independent audit with DOR prior to the approval of the tax recapitulation sheet and certification of free cash beginning in FY2007. Given that the FY2005 audit was just completed, the city may be hard pressed to complete the FY2006 audit (which must also include the city's infrastructure assets in compliance with GASB 34) by December and should plan for any contingent costs New Bedford may incur (e.g., revenue anticipation borrowing).

We recommend that New Bedford formulate a corrective action plan to address any weaknesses identified by its private auditor and this management review. When weaknesses in a management structure are identified, a corrective action plan should be developed, indicating what 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 the progress. Effective use of the recommendations of the audit report and financial management review can assist the city in improving its financial controls and practices, which may lead to increased public confidence in the government and potential upgrades in a community's bond rating.

#### RECOMMENDATION 3: MODIFY THE BUDGET FORMAT

When adopting the city budget, we recommend that the council assign a maximum spending authorization for each unclassified line-item appropriation. Currently, council has granted some management flexibility to department heads by allowing them to transfer within a line-item appropriation but not between them without council action. This same practice should be applied to the over \$53 million unclassified budgets, most of which are rapidly growing fixed costs like insurance and retirement. Council should vote on the individual unclassified appropriations, instituting a maximum spending authority that will be monitored and managed efficiently.

#### RECOMMENDATION 4: CREATE A CONSOLIDATED FINANCE DEPARTMENT

We recommend that New Bedford create a consolidated finance department through special legislation or through the optional forms of municipal administration act (M.G.L. c. 43C). Given the growing complexities of municipal finance and the on-going fiscal concerns of this over \$261 million corporation, it is essential that the city coordinate its financial operations (e.g., auditing, treasury, collections, assessing, budgeting, purchasing and MIS). Appointed by the mayor, the CFO should oversee these functions to ensure all services are provided in a coordinated manner and are as cost effective as possible.

We further recommend that the CFO position be separate from the treasurer/collector's. In a city this size, the dual responsibilities have hindered the financial management operations. The CFO should

work full-time managing/monitoring the city's financial status, holding financial department heads accountable, and developing long-term financial planning practices. The CFO should conduct financial officers' meetings at least monthly, making periodic briefing to the mayor and council on topics such as the prior year's performance, year-to-date activities, and issues as they come up. In order to attract an experienced candidate, it is estimated that the CFO position should be budgeted between \$95,000-105,000.

#### RECOMMENDATION 5: CONSIDER CHANGES TO THE PERSONNEL/PAYROLL SYSTEMS

We recommend that New Bedford review its Unit C salary classification schedule. If it is the city's expectation that an assistant department head possess certain skills and experience to operate in the manager's absence, the city must set a salary range that will attract and retain qualified candidates. Based on the FY2006 budget and salary information, it is estimated that the city would have to increase each assistant department heads' salary between \$10,000-\$16,000.

We recommend that the city rescind its employment residency requirement. Given the financial and operational challenges of the city, it is essential that the mayor have the ability to hire and retain employees that have strongest credentials and the most relevant professional experience. The city's interests are best served by expanding, to the extent possible, the pool from which a prospective candidate is likely to emerge. A residency requirement generally limits the field of candidate that may have the necessary skills required to perform in a job successfully.

We recommend that the city adopt a biweekly payroll. With the adoption of a biweekly payroll system, workloads in the MIS' and auditor's offices would be reduced, freeing time for the completion of other important tasks. Any adjustment to pay periods will require revisions to the city's ordinances and collective bargaining agreements, and therefore the support of city council and union leaders.

We also recommend that the city require direct deposit of payroll for all employees. For the city, this would reduce the cost of issuing checks, prevent the need to reissue checks when lost, and simplify the reconciliation of the payroll bank accounts because there would be no outstanding checks. For the employee, the benefit is the money generally is deposited in the bank account overnight, is available immediately, and saves the time necessary to go to the bank and wait in line. This proposed change will require revisions to the city's collective bargaining agreements.

#### RECOMMENDATION 6: ESTABLISH FISCAL PLANNING PRACTICES AND TOOLS

We recommend that the city submit its balance sheet annually for the certification of free cash and establish a financial reserve policy. In accordance with M.G.L. c. 44, §43, annually, every community must submit various accounting reports, including a year end statement (Schedule A), debt schedules, and a statement of a community's assets and liabilities (balance sheet), to the Director of Accounts. A formal reserve policy will allow the city to establish a practice of appropriating money to legal reserves for future needs. Appropriations to the reserves should be made annually as a part of the budget process. These reserves should be used to fund unanticipated costs and to make up any shortfalls in the city's projected revenue estimates. Reserves should not be used to regularly fund operating expenses unless provisions are made to replenish the reserves. Reserves are intended to allow a community the flexibility to review and correct its problems over the long run.

We recommend that the CFO develop a multi-year revenue and expenditure forecast and a comprehensive capital plan. With assistance from the city's financial team, the CFO 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 available to municipalities, which New Bedford should consider using to help in this matter. The CFO also should develop a multi-year capital plan for all city departments and present an annual capital budget to city council. These documents should: (1) prioritize the various proposed capital projects; (2) estimate project costs; and (3) list the proposed method of payment (e.g., current revenue, debt, or debt excluded from the limits of Proposition 2½) for each project. Used together, city officials will be able to evaluate budget requests with multi-year impacts, identify programs that may not be funded or capital request that will have to be deferred, and develop long-range financial plans.

#### RECOMMENDATION 7: ESTABLISH MINIMUM PURCHASE ORDER AMOUNT

We recommend that New Bedford adopt a minimum purchase order amount. Communities of similar budget and population size have minimum purchase order amounts of between \$200-\$500. To change the current practice, the city would have to revise its ordinance.

#### RECOMMENDATION 8: ADOPT FOUR-YEAR TERMS FOR MAYOR AND CITY COUNCIL

We recommend that the city consider increasing the current term of office for mayor from two to four years. 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 9: REVIEW THE CITY'S CHARTER AND ORDINANCES

We recommend that New Bedford perform a comprehensive review of its charter and ordinances to make sure that they are accurate, current, and complete. The charter provides a stable structure under which the city government operates and the ordinances generally fill in the details. As the city adopts enabling legislation, gets special legislative acts, or restructures departments, New Bedford should update the applicable section(s) of its charter and ordinances.

## MANAGEMENT INFORMATION SYSTEMS (MIS)

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New Bedford's municipal offices (in 20 buildings) are connected through a citywide computer network providing electronic mail, Internet access, Microsoft office, the city's financial system, and specialized software applications. The management information systems (MIS) department is responsible for managing, servicing, programming, and providing technological support to all municipal offices. The office also is responsible for printing and stuffing payroll, vendor checks, bills (e.g., taxes, excise, and utility) for the collector's office, and printing all warrants. The MIS staff consists of a director, assistant director, three systems analysis/programmers, and two computer operator support specialists/clerk positions.

For its computerized financial system, New Bedford uses Creative Computer Solutions (CCS) that is owned by Harris Computer Systems. CCS is a suite of applications (e.g., general ledger, accounts payable and receivable, billing and collections), which Harris Computer Systems provides annual maintenance and updates for a yearly fee of \$22,000. New Bedford generally does not use CCS' support services because the city has been granted access to the source codes, enabling it to make system modifications and create customized reports for departments upon request. Currently, all non-school departments have been granted remote access to enter purchase orders and to post weekly payroll, which is reviewed against backup documentation prior to printing the checks. All vendor bills are submitted to the city auditor's office for review and data posting to the financial system. Because the school department operates a separate financial system, the payroll and vendor warrants must be manually reentered into the city's financial system. However, as a cost-saving measure, the school department is considering processing the payroll through the city's computerized financial system.

During the course of our review, we found that despite the availability of the computerized applications and systems as well as in-house staff available to assist departments that many individuals are performing manual or repetitive tasks that could be automated, freeing up staff time and resources. For example, the collector's staff uses an automated collection system. When bills are paid at the counter, the cashiers post the payments to the individual accounts. If payments are received by mail, the staff separates, batches, and tabulates the bills and payments for two people to scan the payments into the computer system. At the close of business, each staff member that posted payments creates a manual summary of the day's collections and total cash and checks received, submitting it to the supervisor, who manually tabulates these collections and posts them to binders of accounting sheets. Reportedly, these paper ledgers enable the office to track daily collections by type of receipt and year as well as monitor the cash deposits. However, this process often results in posting errors, non-reconciling issues, and backlogs of work. According to the MIS director, there are automated reports available to track and tally this information that are not being used.

It is estimated that the city generates over 468,000 bills annually and in-house staff processes all but about 32,000 escrow real estate payments, which are reviewed and posted electronically to the city's computerized financial system without incident. Because of this volume of work, the collector's office splits the city's first motor vehicle excise commitment, issuing half timely and delaying the issuance of the second half until a month later. The city used a lockbox service many years ago, but discontinued it because of problems encountered with the technology used at that time. Over the last decade, the

lockbox industry has made significant improvements that could eliminate the need to delay issuing bills and translate into cash flow improvements and potential cost savings. At DOR's suggestion, the city has installed more scanners for staff to post payments, New Bedford is pursuing a lockbox service, and the city is considering reducing the volume of bills issued annually by altering the utility billing cycles.

In another example, historically DOR has found that the city's financial reports were both difficult to interpret and in many instances incomplete. We have found some computerized expenditure reports did not include all line-items within a departmental budget and/or rendered inaccurate totals. Repeatedly, DOR has expressed concerns about the ability of the city's computerized financial system to produce complete in-house financial reports or a balance sheet. When raised with the MIS director, he was unaware of these long-standing concerns. The MIS director indicated that the current system has the ability to create user-defined reports to address the financial reporting needs and would gladly work with the financial offices to design reports according to DOR specifications.

#### RECOMMENDATION 10: EXPAND THE REMOTE ACCESS TO THE FINANCIAL SYSTEM

We recommend that remote entry be given to all departments to enter vendor bills to the city's financial system. With proper training, departments (including the schools) would be responsible for data entering all payroll and vendor payment requests for the auditor's department. 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 11: SURVEY CURRENT OPERATIONS AND PROVIDE TRAINING

We recommend that MIS survey office staff on the 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, MIS may identify repetitive tasks that may be automated or streamlined. MIS 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 MIS 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 12: REVIEW EXISTING MANAGEMENT REPORTS

We also recommend that the MIS staff meet with each financial office to review current computerized reports to evaluate their accuracy and effectiveness. If reports are inaccurate or produce erroneous results, the MIS staff will be able to correct them. Similarly, if the current standard reports do not yield useful management information, the MIS staff may be able to customize new reports such as an internal, combined balance sheet.

## CHIEF FINANCIAL OFFICER/TREASURER/COLLECTOR'S OFFICE

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Since 1998, New Bedford has had a combined CFO and treasurer/collector's position. Currently, the office has a CFO/treasurer/collector, an assistant collector, an assistant treasurer, eight clerks, four cashiers, and a part-time tax title attorney. The CFO/treasurer/collector has been employed by the city for about 20 years and in his current position for eight years. The assistant collector has been employed by the city for 18 years with the last 10 in her current position. The CFO earned the designation of Certified Massachusetts Municipal Collector and Certified Massachusetts Municipal Treasurer from the Massachusetts Collectors' and Treasurers' Association (MCTA). The assistant collector has attended MCTA annual school held in Amherst four times over the last 10 years. The assistant treasurer was hired nearly two years ago and has received all of his training on the job.

The office is responsible for collecting approximately 27,000 property tax bills quarterly, 78,200 motor vehicle excise bills annually, 23,450 water/sewer bills monthly, and 600 boat excise bills annually. This office generally prepares about 2,000 municipal lien certificates annually. However, the city adopted a new policy that requires a municipal lien certificate prior to the issuance of a building permit, and it is estimated the number of municipal lien certificates could double. As a community service, the city also accepts cash payments for utility/service bill payments (e.g., gas, electric, cable, and phone) from residents. The office also is responsible for cash management, including the investment, disbursement and borrowing of cash.

The city receives payments by escrow service, Internet, mail, and at the counter. According to the city, less than 50 percent of the real estate bills are received through escrow and Internet services, and the office processes all other payments. The cashiers accept payments over the counter and post the payments to the appropriate account. Previously, all payments by mail were batched for processing by one of two clerks with scanners, however it has been reported that more staff members are scanning payments now and the numerous trays of backlogged work has been cleared up. A calculator tape is run for each batch of checks processed and then the funds are deposited to the bank.

Each staff member that posts payments on the city's computerized financial system prepares a daily settlement report of activity. Each staff member's report provides a summary breakdown of type of payment (by year) and the total cash taken in, which should balance. This information is reviewed by a supervisor and used to prepare the bank deposit slip(s). While the data may be generated off the city's computerized financial system, each staff member prepares the settlement reports manually.

Daily collections are kept in three-ring binders, a separate binder for each billing (e.g., real estate tax, personal property tax, motor vehicle excise, and utility charges) and separate accounting sheets for each fiscal year. Daily deposits, returned payments, and running collection totals are manually entered on each sheet. These reports are kept to verify monthly collections with the city auditor's office. The collector's office does not maintain a receivable management control (e.g., commitment, collections, abatement/exemptions, refunds, and outstanding receivable balances), which may be used to reconcile with the treasurer's (collections/turnover reports), auditor's (receivables) and assessing (abatement/exemptions granted) offices.



Currently, New Bedford has a significant amount of outstanding tax, excise, and utility payments due the city. We reviewed the detailed receivable balances for FY2005 and prior (as of 4/4/06) provided by the city. Not including tax title, foreclosed, and water/sewer accounts, New Bedford has over \$4.351 million in outstanding receivables. This includes over \$3.964 million motor vehicle excise (dating back to 1988), over \$355,000 in personal property (dating back to FY1989), and about \$52,000 in real estate.

Once a real estate tax bill becomes past due, the collector issues a demand notice. If the demand notice does not result in payment, the collector initiates tax taking procedures, thus explaining the low receivable balance of about \$52,000 for FY05 and prior years. Unfortunately, once in tax title, properties have lingered in recent years. The city currently has over 1,100 properties in tax title, totaling nearly \$16 million. New Bedford hired a new tax title attorney in January 2006. Upon taking office, he found the tax title database was not complete or current, which he and two clerks are working to correct. He has contacted property owners with large outstanding balances in an effort to elicit payment and has had some early successes. The tax title attorney also is tracking absent owners of vacant and/or blighted parcels for outstanding amounts as well as persuading them to sell the properties so they can be fixed up and placed back on the city's active tax rolls. For other properties, he is pursuing/following up on foreclosure options through Land Court or land of low value.

For past due motor vehicle excise, the city issues a warrant to a deputy collector, who completes online license and registration markings for non-renewal status with the Registry of Motor Vehicles. The deputy collector deposits all receipts into a city account and prepares weekly turnover reports. Despite using all collection options available to the city, the city still has a substantial motor vehicle excise receivable balance of over \$3.9 million, some of which may need to be written-off with the assistance of the assessing office.

When a bill issued by the collector's office is undeliverable as addressed, it is returned to the city. The collector's staff places all returned mail into letter trays. During one of our visits, we observed about a dozen letter trays stacked against a wall full of unopened mail that was stamped undeliverable. We were informed that the staff would handle the stack when time allowed.

In addition to municipal bills, the city receives revenues for departmental licenses, permits, and services, as well as funds from state and/or federal agencies. Generally, the user pays for the departmental fees and charges at the treasurer/collector's office. If a department accepts payments, the funds are turned over immediately and reported on a manual schedule of departmental payments to the treasurer, which includes a description and amount but not necessarily a revenue account code. Similarly, funds received from other governmental units may provide detailed information and/or a department has notified the treasurer and city auditor in advance of receipt so the funds may be deposited/credited appropriately. In the absence of documentation/grant agreement/contract, the unidentified funds are retained in a treasurer's account, which reportedly keeps some funds for months and often proves to be part of the city's cash reconciliation problem at year's end.

All funds received and deposited are reported to the city auditor's office daily via a treasurer's settlement of cash report. This is a manual report that provides a statement of the city total cash position (e.g., prior day's balance, deposits, warrants, and returned checks) and a breakdown of the

day's receipts. The information is then entered into the city's computerized financial system and summary and detailed reports are produced, which are reconciled back to the manual report.

According to the CFO, the daily statement of the city's total cash position (found at the top of the treasurer's settlement of cash report) serves as New Bedford's cash book. In DOR's opinion, this does not adequately serve as a cash book. According to M.G.L. c. 41, §35, the cash book is the source of original entry, organized by date, for recording all municipal receipts (evidenced by departmental turnovers, wire transfers, etc.) and deposits, as well as disbursements (summarized by payroll and vender warrants). When accurately maintained, it should not only reveal the total cash position of the community at any given time, but also include subsidiary ledgers for all bank accounts and serve as an important financial control when the treasurer reconciles it to monthly bank statements and then to the city auditor's general ledger cash balance on a monthly basis.

Currently, the treasurer's office has 84 bank accounts, which the assistant treasurer oversees. However, the city does not keep an internal accounting of each, tracking/verifying deposits, transfers, disbursements, outstanding checks, and running balances, nor does the office reconcile cash with the city auditor's office until after the close of the fiscal year. In reviewing one checking account statement, it listed numerous outstanding checks, some dating back three years. The assistant treasurer reported that these checks have not been researched as to whether they were unclaimed or returned payments (that were issued to pay employees and vendors, refund municipal taxes or charges, or pay other city obligations) or if they were voided checks that the bank failed to delete. The lack of routine reconciliations of bank statements adds to the offices workload at year's end and contributes to New Bedford's cash reconciliation differences. Reportedly, the city has an unidentified cash variance of almost \$1.5 million as of 6/30/05 that it had not resolved as of this writing.

At DOR's suggestion, the city installed additional scanners, which have eliminated the backlog of work in the collector's office. Also at DOR's suggestion, the city is contracting with a lock box service beginning in FY2007, which makes posting automatic, accelerates deposits, makes funds available sooner, and improves investment earnings for the city.

#### RECOMMENDATION 13: ATTEND PROFESSIONAL CLASSES

We recommend that the assistants attend professional training courses. Attending formal professional training and refresher courses (e.g., workshops and/or the four-day annual school provided by the Massachusetts Collectors and Treasurers Association) will provide useful information and opportunities to learn about alternative professional practices conducted in other municipalities. Both assistant positions should be fully trained to assume the role and responsibilities of the treasurer/collector in his absence, thus preventing unnecessary interruptions or delays.

#### RECOMMENDATION 14: MAINTAIN COMPREHENSIVE CASH BOOK AND RECONCILE PROMPTLY

We recommend that the treasurer create and maintain a comprehensive cash book in an automated application (e.g., electronic spreadsheet, Quicken, or Quick Books). New Bedford's current cash book is manual and provides no assistance when reconciling bank statements or cash. Creating an automated cash book, which has subsidiary ledgers to record activity in all city bank accounts and

summarizes the city's total cash position at any time, will provide useful management information and enable the office to perform internal and external reconciliations.

We recommend that the treasurer reduce the number of bank accounts. While a revenue source or fund type may need to be accounted for separately, there is no requirement to keep separate bank accounts for each. When fund balances are combined, the treasurer may improve the earnings on investments. More importantly, reducing the number of accounts may reduce the time required to maintain and reconcile them.

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 the assistant completes this activity timely. Once reconciled internally, the treasurer's office should reconcile with the city auditor's general ledger, ensuring funds are not missing and financial records are correct. Prompt and frequent reconciliations are essential in order to maintain control over cash.

We recommend that the city customize its departmental turnover sheets. For each department that collects and turns over funds, a report should be created in a spreadsheet application, which clearly lists all the revenues generally handled by that department or board. It should include a brief description, operating fund, and the revenue account codes. Customized forms will assist the treasurer/collector's office to post the revenues efficiently.

We recommend that the office make it a priority to post other governmental funds received promptly. For any unidentified state aid or grant receipts, the treasurer should check the state comptroller's VendorWeb site ([www.massfinance.state.ma.us](http://www.massfinance.state.ma.us)) to obtain the breakdown and basic funding descriptions, which may direct the office to the appropriate department involved.

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

#### RECOMMENDATION 15: STREAMLINE COLLECTION PROCEDURES

We recommend that the office use the computerized reports and discontinue manual ones. The manual reports are prepared from the automated system information and/or compiled from adding machine tapes. For example, when the office receives timely payments for the entire amount, the staff should scan the bills and then print off an itemized batch report that is identical to an adding machine tape for turnover/depositing purposes. While the staff originally may have prepared the manual reports to verify the accuracy of the automated systems, this duplicate activity is no longer warranted.

We recommend that the staff open returned mail upon receipt and research the correct address. For returned property tax and utility bills, the collector's staff should contact the assessing office for recent changes in ownership. For returned excise bills, the collector should contact the deputy collector to locate the individual. Alternatively, the city could use its LexisNexis subscription, an on-line legal service, to locate individuals whose listed address is wrong.

We recommend that the office discontinue the peripheral activity of collecting private utility/service bills. While this is a nice community service, the treasurer/collector's office has a significant backlog of work that needs to be addressed. The city's financial operation would be better served if the office staff focused on its primary activities.

#### RECOMMENDATION 16: MANAGE OUTSTANDING AMOUNTS & RECONCILE RECEIVABLES TIMELY

We recommend that the assistant collector create and maintain an electronic receivable management system. In place of the current manual binders, a consolidated accounting of all commitments, collections, abatements/exemptions, refunds, and outstanding balances for each tax/excise/utility bill by year should be created. This system will enable the assistant collector track daily and monthly activity, which will assist her in reconciling with the assessing and auditor's offices.

We recommend that the assistant collector and city auditor conduct prompt, monthly receivable reconciliations. It is best that these activities be prioritized and completed immediately after the close of the month rather than putting them off to a later time, potentially facing non-reconciling items that could delay and/or impact the completion of the annual audit and certification of free cash.

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

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

## CITY AUDITOR'S OFFICE

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

The acting auditor has been employed by the city for 16 years, seven of which he has served in his current capacity. The assistant auditor also has worked for the city auditor's office since 1999, starting as a payroll clerk and being promoted twice to her current position in 2005. Most of the auditor's and assistant's training has occurred on the job. To be an effective office, it is essential that the auditor and assistant possess good accounting skills and demonstrate knowledge of Massachusetts municipal finance laws, regulations, procedures and concepts. Without proper training or access to continuing education, it is difficult for these professionals to keep abreast of new information/regulations as well as ensure that the assistant is able to carry out the duties of the office (e.g., approving warrants, year end closings, and reconciliations) in the auditor's absence.

The auditor's office should reconcile the cash and tax receivables with the treasurer/collector and the overlay account balances with the assessing office monthly, but generally performs these after the close of the fiscal year. Failure to reconcile cash and all receivables as of June 30 can result in free cash not being certified or certified but the amount approved by the Director of Accounts is adjusted downward for non-reconciling amounts.

The auditor's office prepares and distributes monthly expenditure reports to all department heads (M.G.L. c. 41, §58). These reports are printed off the city's computerized financial system and show the expenditures to date versus the budget appropriations. Attached to each report is a cover letter from the auditor that requires each department to enter the auditor's summary account figures, provide internal department balances, which confirm the general ledger's figures or provide an explanation for any variance. The department head signs the cover letter, provides supporting documentation if corrections are required, and returns everything to the auditor's office. Corrections received are entered as time allows, and trial balances, which are not reported by fund to ensure they are in balance, are run infrequently. Based on a review of over 700 FY2004 adjustments from the private auditor, we found most are posting corrections that would have been identified and corrected had the auditor's office performed monthly reconciliations and produce monthly trial balances.

Revenue reports are not mandated by statute but are highly advisable and an extremely useful management tool. Due to the limitations of Proposition 2½, budgeting is a revenue-driven activity and therefore it is essential that city officials have access to timely financial information in order to make informed decisions regarding city finances. Currently, a report that includes all budget-to-actual revenues for the fiscal year may not be produced from the city's financial system. Instead, city officials manually extract property tax and excise collections-to-date and enter them into a spreadsheet. Budget-to-actual local receipt information generally is not compiled until the subsequent

fiscal year's property tax rate is done. Consequently, city officials have no hard data upon which to monitor current year's activities, making course adjustments for revenue that may not materialize, or to project revenues upon which the ensuing year's proposed spending plan is based. Shortfalls in revenue estimates are generally not known until after the close of the fiscal year, by which time, the next year's budget may need to be reduced or new revenues raised to bring the budget into balance.

Annually, the accounting officer should prepare external reports required by DOR, including the balance sheet, reconciliation of cash and receivables, and the Schedule A. As noted previously, these reports have been submitted late, incomplete, or not at all. The city last submitted its own internal balance sheet to DOR in FY1989, relying on the private auditor's report instead until FY2002, when New Bedford stopped submitting a balance sheet. At the encouragement of BOA, New Bedford is developing an internal balance sheet, will issue all authorized bonds or bond anticipation notes to bring capital funds into balance, and plans to submit a balance sheet for certification of free cash in FY2007. The auditor also prepares the Schedule A, which is due on or before October 31<sup>st</sup>, and failure to file the Schedule A timely can result in the withholding of state aid distributions. According to BOA records, the city generally submits the Schedule A report in December. However, the report often has missing sections because the city has not closed its books completely and/or the city auditor has not reviewed the report for completeness. From the initial submission, the city generally makes subsequent submissions by March (with multi-million dollar changes) before it is accepted by DOR.

In 2004, the Government Accounting Standards Board (GASB) issued Statement 45 on the financial reporting and accounting of other post employment benefits (OPEB) other than pension plans. OPEB are the benefits a governmental unit is providing or has promised to current and future retirees such as healthcare benefits, life insurance, disability, and long-term care benefits when they are provided separately from a retirement plan<sup>1</sup>. 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. New Bedford is a tier-1 community and will be required to implement Statement 45 by the end of FY2008. 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 17: MAKE PERMANENT APPOINTMENT & ATTEND PROFESSIONAL CLASSES

We recommend that the mayor appoint a city auditor. When a department head is promoted to a higher position or leaves a community's employment, it is common to appoint someone internally to an acting position until a permanent replacement is found. Generally, an acting position last up to six months not seven years. The mayor needs to appoint a permanent position immediately.

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<sup>1</sup> For further information, refer to DLS' website at [www.dls.state.ma.us/mdmstuf/Technical\\_Assistance/Best\\_Practices/opeb.htm](http://www.dls.state.ma.us/mdmstuf/Technical_Assistance/Best_Practices/opeb.htm).

We recommend that the auditor and the assistant auditor attend professional development courses.

The benefits of outside training are that it will provide useful information about current laws and professional practices as well as allow the staff to interact with other municipal accounting personnel.

#### RECOMMENDATION 18: CONDUCT RECONCILIATION PROMPTLY

We recommend that the auditor reconcile the city's cash and all receivable balances with the treasurer/collector and overlay balances with the assessing office at least monthly. Frequent reconciliations make it easier to locate and correct posting errors, minimizing the additional workload at year's end. Regular cash and receivables reconciliations also enable city officials to verify that revenues reported and resulting receivable balances are accurate, thereby ensuring the cash and assets of the community are safeguarded.

#### RECOMMENDATION 19: PREPARE INTERNAL REPORTS TIMELY

We recommend that a priority be placed on the achievement of in-house financial activities. Upon receiving budget reconciliations from departments, any corrections should be entered into the city's computerized financial system immediately. Trial balances for all funds should be completed on a monthly basis within 15 days of the close of the month. These activities ensure the integrity of the auditor's books and enable all parties to track the city's financial position with reasonable clarity and confidence.

DOR recommends that the auditor monitor departmental expenditures and prepare a detailed analysis of the projected year-end results at least monthly. Based on departmental spending patterns, the auditor should be able to reasonably estimate annualized spending for the city. In addition, the auditor should review historical spending information and discuss the findings with the mayor and CFO. Comparing these projections to the budget will enable the auditor to identify potential problems early and to avoid deficit spending. This information should be distributed to department heads so that corrective action may be taken and shared with the city council to keep them informed.

We recommend that the auditor's office work with MIS to automate this budget reconciliation process and develop useful revenue reports. By developing a template that pre-loads the monthly account balances and requires departmental entries and attachments of proof and/or documentation that would be electronically returned, the process may be streamlined. Complete budget-to-actual revenue reports compiled at least monthly would provide useful management information that may be used to monitor the financial performance of the city, to analyze the underlying causes of any shortfalls, excesses and one-time receipts, and to make necessary mid-course budget adjustments.

#### RECOMMENDATION 20: FILE ACCURATE EXTERNAL REPORTS

We recommend that the city annually prepare an internal balance sheet and submit it to DOR for certification of the city's free cash. By producing an internal balance sheet prior to the annual audit engagement, the city will be able to review its financial positions (e.g., assets, liabilities, reserves and equity) by fund. In order to ensure the highest free cash certification, the city should make sure there are no overdrawn funds or deficits and that cash and receivables reconcile. Beginning in FY2007, the city's prior fiscal year audit must be filed with DOR prior to the certification of free cash.

We recommend that the auditor review the annual Schedule A report for completeness and accuracy before submitting it to DOR. Until the auditor closes the city's books and produces an internal balance sheet, the city's Schedule A cannot be completed correctly. Knowingly submitting an erroneous Schedule A report, in order to prevent the possibility of the city's third-quarter state aid distribution being delayed, does not really help the city because it only adds to the concerns DOR has about the city's financial records.

#### RECOMMENDATION 21: PLAN FOR GASB STATEMENT 45

We recommend that the auditor begin planning for GASB Statement 45. The city will have to gather employee and retiree information and have an actuarial study performed. Based on the actuarial results, New Bedford will know the true costs of the OPEB earned by employees over their estimated years of actual service.

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 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, seven part-time officials (four elected and three appointed) are enrolled in the city's health insurance plan, an FY2006 estimated expense of about \$51,900.



## ASSESSING OFFICE

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Chapter 5 of the Acts of 1990 provides for the appointment of an administrative assistant by the mayor, with the approval of the city council. The administrative assistant “shall have all the powers and perform all the duties of assessors of cities in accordance and in compliance with the General Laws.” As such, the administrative assistant appoints and manages the assessing office staff, establishes full and fair cash valuations and classification of all property, oversees the in-house triennial revaluation of property, and represents the city in all judicial and administrative matters. The administrative assistant reviews all abatement and exemption application and makes recommendations to a part-time, elected, three-member board of assessors, who have the authority to grant or deny as recommended, or substitute another amount.

In addition to the administrative assistant, the assessing office has 13 additional full-time staff positions. There is an appraiser who reviews all data collected (i.e., building permit, sales and cyclical inspections) and assists the administrative assistant in determining values. There are three data collectors who conduct between 9,000-9,500 inspections annually, measuring and listing new and improved properties, viewing sale properties, and conducting cyclical re-inspections. The office also has an office manager, who oversees seven clerical positions and manages the office in the administrative assistant’s absence. The clerks maintain all records, process deed transfers, handle exemption and abatement applications, and data-enter property and legal information on the CAMA system. In addition, the clerks handle the motor vehicle and boat excise accounts, maintain betterment records, respond to public inquiries, and perform other support as necessary.

The assessing office is responsible for maintaining assessment data on approximately 25,180 real property parcels, 1,780 personal property accounts, 78,000 motor vehicle excise accounts, 600 boat excise accounts, and 120 betterment accounts. In addition, the office processes approximately 1,650 exemptions and 350 abatements (450 in recertification years) annually.

The city’s real property assessment records and personal property accounts are maintained on a computer assisted mass appraisal (CAMA) system that is used to compile analytical reports and property tax commitments. Each staff person has a personal computer that is connected to the CAMA system and the city’s computerized financial system, which is used for transferring changes of property ownership, abatement and exemption information. There is also a stand-alone computer located on the counter with property data information for public viewing. The assessing office prepares timely reports for DOR, including new growth and taxable parcel count reports, and works with the CFO to prepare and submit the tax recapitulation sheet with adequate backup documentation.

By law, the administrative assistant is required to submit his values to DOR for certification every three years. In the intervening years, the administrative assistant and staff analyze sales data and income & expense statements, and make timely adjustments to the city assessment data on the CAMA system, complying with requirements of M.G.L. c. 59, § 38 to maintain full and fair cash values. As each revaluation is conducted, BLA may find circumstances or problems that the community must address prior to having its values certified or it is recommended that they be corrected by the next

certification. For example, New Bedford was advised that additional CAMA training be obtained for staff so that they could better use the mass appraisal components rather than valuing individual properties on a case-by-case basis. As a result of the FY2004 certification, BLA recommended that New Bedford review all neighborhood delineations and adjust them as needed for the next revaluation. BLA found that the city has in excess of 100 neighborhoods despite consistent valuations among them based on a sales analysis. The administrative assistant and appraiser agreed that too many neighborhoods are being used, but have not addressed this issue yet.

For economic development incentive reasons, New Bedford has entered into special tax agreements<sup>2</sup> (STA) and tax increment financing<sup>3</sup> (TIF) exemptions with specific businesses. For both STAs and TIFs, the tax committed should be based upon the value of the parcel after allowing for the exemption, rather than upon the parcel's full and fair cash value. This means that there should not ordinarily be an abatement or charge against the overlay account because of these exemptions. It also means that the value after exemption will be used in calculating the levy class percentages under M.G.L. c. 40, §56 and the minimum residential factor under M.G.L. c. 58, §1A. Generally, this is the case in New Bedford.

There is one TIF exception, which the city set the maximum real estate taxable amount to \$50,000 for the duration of the exemption. In the initial couple of years this did not present any problems. However, due to the commercial property tax rate adopted between FY2004-FY2006, the taxable amount for the parcel exceeded \$50,000 by \$1,532, \$5,923, and \$1,994, respectively, and the assessors granted annual abatements because they thought they had no other way to handle the excess assessment. Had the assessing office contacted BLA about this problem, the city would have been provided with a specialized program that would have enabled the administrative assistant to comply with the TIF agreement and not use overlay funds needlessly.

New Bedford also adopted M.G.L. c. 59, §2D, referred to as the supplemental tax assessment on new construction, that enables the assessing office to make pro rata assessments on the value of improvements that are greater than 50 percent of the billed value when an occupancy permit is issued after January 1. This provision allows the city to issue a bill (back to the date of occupancy between January 1-June 30) for the current fiscal year on qualifying property improvements, resulting in additional general revenue. Because it is triggered by the issuance of an occupancy permit, the data collectors ride along on the inspection with the building department, enabling the office to gain access and verify and/or update the property record information. BLA guidelines require that a community completing an interior and exterior inspection of all property over a specific time period, not exceeding nine years. Currently, the city has a cyclical re-inspection program that requires every property be inspected at least once every five years. In many communities, the assessing staff also rides along with the fire department (smoke and carbon dioxide detector inspections) prior to the completion of a 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.

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<sup>2</sup> A STA (M.G.L. c. 23, §3E) is a four-year declining exemption equal to 100 percent of a parcels' value in the first year, 75 percent in the second year, 50 percent in the third year, and 25 percent in the fourth and final year.

<sup>3</sup> A TIF (M.G.L. c. 59, §5 Clause 51 and c. 40, §59) is an exemption of a percentage of the increase in a parcel's value over its base value in the year before the exemption was granted. The exemption can last for up to twenty years, and the percentage of the increased value that will be exempt can be up to 100%.

When real estate abatement applications are filed, the assessing staff logs the application into the city's computerized financial system. As each is acted upon, the staff enters the board of assessors' actions (i.e., denied or granted). Any that are appealed to the Appellate Tax Board are also logged into the city's computerized financial system and the final action/settlement is entered upon the completion of the case. Personal property abatement applications are kept manually and only entered into the city's computerized financial system if granted.

#### RECOMMENDATION 22: REVIEW NEIGHBORHOOD DELINEATIONS

It is recommended that the assessing office prepare an analysis of the residential sales immediately. Based on the results, the assessing office will be able to determine the appropriate number of neighborhoods it should use and correct its property database.

#### RECOMMENDATION 23: ADMINISTER STA & TIF EXEMPTIONS PROPERLY

We recommend that the city request the modified tax recapitulation sheet program from BLA for communities with STA and TIF exemptions. This will enable the administrative assistant to determine the tax commitment based on the value after allowing for the exemptions and complying with the law by no longer abating tax dollars. The specialized program enables the city to run multiple scenarios based on various percentage shifts in the split tax rate that may be presented to the city council.

#### RECOMMENDATION 24: ACCOMPANY OTHER INSPECTION DEPARTMENTS

We recommend that the assessing office work with the fire department to accompany it on inspections prior to all property sales. While teaming up with the other department may impact the annual number of cyclical re-inspections conducted by the data collectors, it will reduce the number of scheduled visits to the same properties and ensure timely, interior inspections for the assessing database.

#### RECOMMENDATION 25: AUTOMATE THE PERSONAL PROPERTY ABATEMENT PROCESS

We recommend that the assessing office log personal property abatement applications in the city's computerized financial system and discontinue the manual, off-system log. The city's computerized financial system is designed to record and track all abatements from the time each application is filed until it is resolved. Entering the personal property abatement applications will provide a useful tool to manage the process and catalog the history of each application in one, concise system.

## ACKNOWLEDGEMENTS

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