

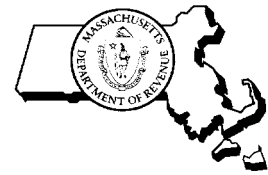


City of Salem

Financial Management Review

Municipal Data Management and Technical Assistance Bureau

August 2006



Introduction

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

We have based our findings and recommendations on site visits by a Technical Assistance team consisting of staff from the Division's Bureau of Accounts, Bureau of Local Assessment, and Municipal Data Management & Technical Assistance Bureau. During these visits and by telephone, the team interviewed and received information from the mayor, finance director/auditor, assistant finance director, treasurer, collector, director of assessing, human resources director, purchasing agent, city engineer, and data processing director, as well as other staff members, as available, in each office.

DLS staff examined such documents as the tax recapitulation sheet, warrants, annual budgets, balance sheets, cash and receivable reconciliation reports, statements of indebtedness, the city by-laws as well as other assorted financial records.

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 boards, officials and staff involved in the financial management function; and 4) the general efficiency of financial operations measured by the city's success in maximizing resources and minimizing costs.

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

Overview

The history of Salem begins in 1626 when it was one of the earliest settlements in Massachusetts Bay. Once established, and for a long period thereafter, the local economy centered around fishing and ship building. Later, the city became widely known for the Salem Witch Trials of 1692, and somewhat less known when, on the verge of the American Revolution in February 1775, North Salem reportedly became the site of the first armed resistance to British troops. By the time of the industrial revolution in the 19th Century, leather tanneries and cotton mills proliferated and Salem emerged as a major force in commerce and overseas trade.

Originally encompassing an expansive land area that later spawned all or parts of Wenham, Manchester-by-the-Sea, Marblehead, Middleton, Beverly and Danvers, Salem is now an ocean front city of approximately eight square miles. With an estimated population of 42,000, it is mid-size among 45 Massachusetts cities and compares well with the other eastern Essex County cities of Peabody, Revere, Beverly and Gloucester.

Like its counterparts, Salem must confront the problems of an older city. Like Gloucester, in particular, Salem contends with distant and relatively slow access to major, Eastern Massachusetts highways. The city does benefit from two stops on the commuter rail service to Boston and from a recently initiated water ferry service from Salem Harbor to Boston. Work is underway to improve north-south highway access from Beverly. However, when discussion of an east-west connector road between Salem and Route 128 ended in the early 1970s, travel routes became a recurring factor in, and sometimes an obstacle to, economic development.

Today, in part as a result of sluggish growth in the commercial/industrial tax base, and in part due to robust expansion of residential property values, Salem is experiencing a shift in the local tax burden from business owners to homeowners.

In FY97, 49.2 percent, or almost half, of the city's total tax revenue was generated by commercial/industrial/personal property taxes (CIP), compared to only 28.0 percent in FY06. In dollars, the CIP levy is \$5.3 million less (a 19 percent decline) in FY06 than in FY01, a ten-year high point. By comparison, tax revenues generated by residential properties have increased in each of the last ten years and are \$21 million higher (a 101 percent increase) in FY06 than in FY97.

The \$5.3 million decline in CIP tax revenue is largely due to a schedule of declining payments in lieu of taxes from the Salem power plant to the city. Those payments have decreased \$4 million from \$8.7 million in FY98 to \$4.7 million in FY06. Because new CIP development has not produced sufficient revenue to fill the gap, the city has been forced to increasingly rely on residential taxes to support municipal services.

From another perspective, in FY90, the city's average single family tax bill ranked 180th among 338 cities and towns. It rose to 147th in FY97 and became the 117th highest in FY06. At

\$3,765 in FY06, it only approaches the state-wide average of \$3,799, but is 7th highest among 38 cities that reported.

These are not uncommon trends among Massachusetts cities and towns. However, operating under these circumstances places a burden on local government to manage well and spend wisely. For the new mayor, working toward these goals produced an immediate need to gain control of city finances. In a term beginning mid-way through the prior administration's FY06 budget, the mayor was confronted by a \$3.5 million deficit.

To address the FY06 deficit and to present a balanced FY07 budget to the city council, aggressive steps were taken to generate savings and enhance revenues. Sixty-eight and a half city and school department positions were eliminated. Twenty-six departments were consolidated into ten divisions. Police and fire overtime was curtailed. City parcels were put up for sale. A trash fee was imposed on commercial property owners. The city adopted MGL Ch. 32B §18 allowing a shift of retiree health care costs to the Federal Medicare program. Various city services were contracted out at a savings. At the same time, however, the city was forced to deplete all of its available free cash and draw down the stabilization fund to under \$300,000.

Despite these actions, but not unexpectedly, Moody's downgraded the city's credit rating earlier this year to A2 from A1 with a negative outlook. Standard & Poor's lowered its rating for the city to A- from A+, but with a stable outlook. In accompanying statements, each cited a basis of concern (declining fund balance, depleted reserves, among others), but also acknowledged some positive conditions. However, the agencies also predicted that, in the present economic climate and within the limitations imposed by Proposition 2½, recovery will take time.

We agree and, in our recommendations, underscore the importance of developing, formally adopting and committing to financial policies that will lead to building and sustaining reserves. An essential starting point is the formulation of long-term revenue and expenditure projections. We also advocate the establishment of debt policies to guide future borrowing decisions and we recommend renewed emphasis on the city's long-term capital improvement program.

These and related subjects have already been the focus of internal discussions and at meetings of the mayor's Management Task Force - a group of prominent persons with extensive knowledge and experience in municipal government administration and public finance. Enlisted by the mayor in January, the group meets periodically and provides advice on problems facing the city as well as strategies addressing higher level management issues. In addition to reserve policies, a capital plan and long-range forecasting, other topics have included fixed asset inventories, health insurance deficits, pension management, and the city's credit rating.

We also recommend further refinement and formalization of the budget process that proved effective in developing the FY07 appropriations package. The process began with realistic, long-term revenue projections that provided decision makers with an accurate measure of the city's immediate and future fiscal capacity. It ended with city council support and approval of the mayor's recommendation which is described as "a bare-bones FY07 budget." In

between, the mayor and finance director met with department managers in budget development sessions focusing on essential services, critical functions and priorities.

Previous reliance on overly optimistic revenue projections that extended only one year out effectively stripped the city of its ability to foresee and plan for future financial events. Also in prior years, departments were reportedly assigned expenditure levels by the mayor or finance director without discussion of operations or priorities with managers.

One carry-over that warrants additional attention is budget format. While expense detail is provided to the city council, appropriations are approved in general salary or expenditure categories by department. This is a common format intended to give department heads maximum flexibility to manage their budgets by permitting internal transfers of funds. The practice also gives rise to questions whether original appropriation goals are achieved. We offer recommendations that address this issue.

The recent budget process, including the formulation of long-term revenue and expenditure projections, which we recommend be formalized, opened new lines of communication between the mayor's office and city departments. In the same way, the mayor meets weekly with the city council president and has an open-door policy for the benefit of all councilors. These are positive developments, but still, we recommend more.

In the day-to-day administration of city business, finance-related departments generally function well. Managers are experienced and staff are competent. Checks and balances, in the form of procedures to regularly reconcile cash and receivables, are in place and city assets are secure. Nonetheless, we make recommendations at the departmental level to tighten-up what we view as loose practices. In some cases, our recommendations are intended to bring operations into stricter compliance with state laws or regulations. In others, they address general lapses in security resulting from long standing practices.

There are further instances where a lack of clarity exists in the delineation of responsibilities among staff and between departments. Some of the blurred lines have formed over time due to convenience, personnel availability or entrenched practices. The recent staff reduction forced by the FY06 budget deficit may have also been a factor. In any event, it is essential that departments fulfill critical functions and that employees understand their respective responsibilities and, in particular, are clear about what is expected of them in the performance of their duties.

Therefore, we recommend the implementation of a formal employee performance evaluation program within the executive branch of city government. Even when not tied to wage or salary increases, a performance evaluation program has value. It would help clarify the mission of city government. It would force a needed update of job descriptions so that they reflect what people actually do. It would function as a staffing study so that informed decisions can be made to allocate personnel resources to where the need most exists.

In a separate recommendation, we suggest reassessment of the data processing department. This can be accomplished through the appointment of a data processing advisory board, as authorized in ordinance, or technology committee with a broader mandate. The

underlying goal would be to establish where the needs of the city lie, and whether those needs can be best addressed by a data processing function, technology function, or combination of each.

The recommendations referenced above are regarded as initiatives with long-term impact. We also include recommendations that present potential revenue enhancements, that address compliance issues with state law and regulations, and better security practices. Other recommendations speak to financial management practices in general.

Conclusion - In hindsight, the FY06 mid-year budget crisis might be a watershed event for the city of Salem. On the surface, it forced a new mayor and finance director to scrutinize municipal finances more deeply than in the past in order to overcome a \$3.5 million deficit. It compelled the mayor to quick action, with support of the city council, in order to restore balance to city finances for the remainder of FY06. She was then able to carry the same methodology seamlessly forward as an equally constrained FY07 budget, by necessity, took shape.

In the process, however, the failings of past, short sighted government practices and policies were revealed. They were later underscored when Moody's and Standard & Poor's downgraded the city's credit rating. Now, despite revenue enhancements and other cost savings, budget cutting steps have impacted operations as positions have been lost and responsibilities consolidated. As a result, departments feel hardships. Service levels are at risk. Inevitably, public confidence in municipal government is shaken.

Relief, however, is no longer in the form of reserves which are now depleted. Nor is it likely to emerge from a business as usual approach to budget development or financial affairs in general. Staffing and service levels, as well as confidence in government decisions, can only be built-up, if at all, over time and with a change in the approach to city business.

The underlying causes that have put the city in this position did not arise suddenly. The city's financial problems have been percolating, over time, just beneath the surface and out of view. They stem from practices, prevalent in most communities, that tend to focus on short-term solutions, and that hold government in a perpetual crisis mode of operation.

However, a contrary approach is needed in order to reach financial stability, and redirected priorities are necessary if confidence in government is to be restored. The mayor, drawing on her prior experience in municipal management and advisory positions in Chelsea and Beverly, instinctively recognized the need to be decisive in dealing with the FY06 budget crisis, and deliberative otherwise. After six months in office, she has charted a new course, setting-out goals for a more open, responsive and professional city hall. She has committed to a government more forward looking in its practices.

Through the recommendations in this report, we endorse all these initiatives and goals. Furthermore, we encourage the mayor and city council members to work to preserve and enhance the open and cooperative relationship that has so far evolved. Ultimately, we hope consensus is reached that the city and taxpayers' interest are best served by abandoning the financial practices of the past in favor of a realistic view of the future.

Summary of Report Recommendations

Long Term Initiatives

1. Develop Long-Term Revenue and Expenditure Projections
2. Formalize Debt and Reserve Policies
3. Formalize the Annual Budget Process
4. Review Budget Format
5. Develop and Implement a Capital Improvement Strategy and Program
6. Appoint Data Processing/Technology Advisory Board
7. Implement a Performance Evaluation Program

Potential Revenue Enhancements

8. Eliminate Water/Sewer Payment Discounts
9. Lien Outstanding Water/Sewer Charges onto Real Estate
10. Pursue Water Meter Upgrade Program
11. Implement Direct Deposit for All Employees
12. Establish a Golf Course Enterprise Fund
13. Review Payments in Lieu of Taxes
14. Expand “5 After 5” Program to the Church Street Lot
15. Contract for “On Call” Towing
16. Increase Dollar Penalty for Parking Meter Violation
17. Reconsider Assessing Department Organization

Compliance/Security Issues

18. Revisit the Resident Parking Permit Program
19. Minimize Handling of Money by Departments
20. Improve Cash Controls at McKabe Marina and Winter Island
21. Establish Security Policy

22. Ensure City Employee Are Bonded
23. Complete Time Sheets at End of Pay Period
24. Disburse Checks Only After Warrants are Signed
25. Review Revolving Funds
26. Generate a Payroll Warrant by Individual
27. Transfer Tax Title Responsibilities to Treasurer
28. Maintain An Independent Debt and Debt Service Schedules
29. Improve Security of Personnel Files
30. Restrict Distribution of Personnel Action Form
31. Restrict Access to Personnel Files
32. End Unauthorized Use of City's Federal Employer ID Number
33. Create Separate Enterprise Fund Articles

Other

34. Delegate Appointment of Winter Island Manager
35. Consolidate Accounts on Vender Checks
36. Change Return Address on Water Bills
37. Move Switchboard Responsibilities
38. Provide Data Collector with Laptop
39. Share Assessors' Information with Collector's Office
40. Address Coin Count Discrepancies
41. Relieve Treasurer of CRS Duties
42. Mail Merge Monthly Notices to COBRA Enrollees

Long Range Initiatives

Recommendation 1: Develop Long-Term Revenue and Expenditure Projections

We recommend that the annual budget process start with revenue projections and that long-term revenue and expenditure projections be developed at the same time for planning purposes. Even during periods when there is no expectation of program growth, projections are an important budgeting and planning tool. Because Massachusetts municipal budgets are revenue drive, i.e., a community can only spend to the extent that it has anticipated income, the development of revenue projections should mark the beginning of the annual budget process.

Long-term revenue and expenditure forecasting is an important task that works hand-in-hand with capital planning and debt management in developing a strong fiscal blueprint for the city. Realistic forecasting clarifies revenue and expenditure potential, anticipates “spikes” or “hits” to revenue and, as a result, maximizes the city’s ability to plan future programs, services and projects.

We realize the mayor and finance director both recognize the importance of revenue projections to developing an annual budget and the value of long term projections if effective planning is to occur. We would expect the process to begin sooner in the upcoming budget cycle, and that all departments be involved in the process to identify and refine revenue sources and potential gains or shortfalls.

The finance director’s presentation of the projections to the mayor might be followed by a similar presentation to the city council. In this way, both the executive and legislative branches of city government should reach consensus and operate within the same framework when considering the annual budget and financial outlook. These forecasts can also be instrumental in establishing the city’s financial capacity to support long-term financial commitments, such as, a capital improvement plan and proposed union contracts presented during collective bargaining negotiations.

Recommendation 2: Formalize Debt and Reserve Policies

We recommend that the mayor formalize a policy that establishes guidelines for funding and maintaining reserves. As a result of revenue constraints in recent years, the city has been forced to deplete its reserves. Moving forward, we recommend that the mayor act immediately to adopt a policy and a four-to-five year plan to direct the use of and to replenish the city’s reserves. The provisions of a sound reserve policy and plan would, among other things, specify the following:

- 1) Identify Target Levels - Set target balances for stabilization, free cash and other reserves as a total dollar amount or as a percentage of the total annual budget. In

general, credit rating agencies favor a total reserve balance from all funds that is equal or greater than 10 percent of annual expenditures.

- 2) Adopt a Long-Range Plan - Develop and commit to a four-to-five year plan that gradually replenishes and then maintains reserves at target levels. Limit expenditures from reserves.
- 3) Identify Funding Sources - Use all, or a portion of, one-time revenues as a funding source for reserves by appropriating an equivalent amount from the general fund to stabilization, or by allowing the one-time revenue to close to free cash. Dedicate specific receipts, i.e., rental income, to reserves by appropriating an equivalent amount from the general fund, or by allowing the receipts to close to free cash.
- 4) Restrict Use of Free Cash - Specify that a certain percentage of annual free cash remains unexpended and thereby provides a starting point for the subsequent year's free cash calculation. Of the free cash available for use, direct a portion to capital improvements or other one-time expenditures, and restrict the percentage that might be used for operations.
- 5) Restrict Use of Stabilization - Use stabilization funds only for one-time expenditures over a certain dollar threshold. Establish targeted stabilization funds for specific long-term purposes.

We recommend adoption of a debt policy that guides borrowing decisions and works to preserve the city's credit rating. An effective debt policy should, among other considerations:

- Specify purposes for which long and short-term borrowing will be permitted;
- Set goals for the average maturity (i.e., less than ten years) of long-term debt;
- Set limits on the debt service payments as a percent of operating revenues. If enterprise debt is included, then include enterprise revenue as well. Operating revenue should not include debt exclusions, free cash, grants, transfers and non-recurring revenues;
- Dedicate special assessment or betterment revenues to support long term debt.

In considering factors that influence the city's credit rating and are within control of city management, recognize that rating agencies (Moody's, Standard & Poor's, Fitch Investment Services) consider the following:

- Revenue forecasting and a community's ability to anticipate future events;
- Interim financial reporting and monitoring;
- Contingency planning policies (reserves);
- Policies on the use of non-recurring revenues;
- Debt management policies; and
- Capital planning.

Recommendation 3: Formalize the Annual Budget Process

We recommend that the budget process be formally adopted as a policy. Forced by the urgency of addressing a \$3.5 million current year budget deficit, the mayor and finance director initiated a thorough analysis of city government operations and structure to identify cost savings and revenue enhancements. The process naturally carried over into preparation of the FY07 budget as well, and is likely to be replicated in future years.

Consistent with the requirements of city ordinances, we recommend adoption of a formal policy (or as an ordinance) that would identify roles and responsibilities in the budget process. It would establish a sequence for task completion and deadlines for the collection and analysis of information. A policy might also specify the budget format, the content of a budget message and the approvals to be obtained.

In general, a policy would define and solidify the budget process and go far to ensure consistency from year to year. In doing so, it would inspire confidence among department managers, city councilors and residents that budget decisions are made pursuant to a thoughtful process over time as elected and appointed officials change.

Recommendation 4: Review Budget Format

We recommend that the finance director review the budget format with city council members. Like many municipalities, the Salem City Council approves each department appropriation where expenditures are generally grouped into one of two categories: salaries and expenses. In this way, the department head has flexibility to move money between line items within each general category (no transfers can be made between categories). This allows department heads to use money where it is needed, with limitations, and helps avoid the situation where mid-year transfer requests and end-of-year turn backs occur in the same department.

As a negative by-product, when department managers transfer funds out of a line-item, the intended goal of that particular appropriation may not be met. When transfers are free-flowing, actual year-end expenditures may not quite resemble the priorities established with approval of the budget. It is less clear where efficiencies can be gained.

Ultimately, department heads should be encouraged to be as accurate and realistic as possible when submitting their line item budget request. Internal transfers should be recognized as a sound management practice, but should also be monitored each month on expenditure reports produced and distributed by the finance department. During the budget process, a specific appropriation goal can be protected by presenting and approving it as a separate, isolated line item.

We recommend that the mayor's office and city council members meet in advance of the next budget cycle to address issues associated with budget format.

Recommendation 5: Develop and Implement a Capital Improvement Strategy

We recommend the adoption of a capital improvement policy and amendments to city ordinances to clarify responsibility for developing the capital improvement program. The city ordinance currently provides for a 12-member capital improvement advisory committee. However, as in many communities, when faced with budget constraints, priorities tend to shift away from funding capital improvements and capital improvement committees become dormant.

So, for FY07, the finance director prepared the city's long-range capital improvements plan. However, there is confusion in this regard. Under the capital budget ordinance (Section 2-503), it states "the city finance director/auditor shall...develop a seven-year capital budget." Among the duties of the planning director (Section 30-95(6)) is to "assist the planning board in the preparation of the long range capital improvement program for the city."

We encourage a policy that addresses general, as well as water/sewer and school infrastructure needs, and that establishes a mechanism to allocate resources or creates a mechanism for ranking all projects based on the same criteria. A minimal policy statement would commit to a recurring funding source (i.e., a portion of free cash, rental income, etc.), or expenditure level, for capital improvements which many communities base on a percentage of total prior year receipts, a percentage of total proposed budget for capital outlays and/or debt service, or a fixed amount that changes annually with budget guidelines.

Policies would set out which projects qualify for bonding (i.e., threshold dollar amount and useful life) and which are to be accomplished through direct capital outlay. A policy would also direct the formulation and review of a long-range capital plan. A willingness to adhere to the plan then becomes a critical factor in its influence as a sound and effective financial practice.

We also recommend that the mayor propose an amendment to city ordinances that clarifies responsibility for developing an annual and long-term capital improvement plan.

Recommendation 6: Appoint Data Processing/Technology Advisory Board

We recommend that the mayor appoint a data processing/technology advisory board. Section 2-2024 of the city ordinances authorizes the mayor to appoint a three-person advisory board "to assist the data processing director in planning and scheduling the use of the data processing center." Whether appointments are made under this ordinance, or the mayor appoints a technology committee with a broader mandate, we recommend a review of the current responsibilities of data processing in the city's financial operation.

In today's municipal environment, "data processing" is a somewhat obsolete term. The work of processing or producing data from a central location reflects the technology of a prior time. Today, it has been overtaken by a decentralized system where desktop computers give end users the ability to originate, maintain and extract their own data and reports.

There are ten sections under Article XIV of city ordinances that enumerate responsibilities of the data processing department, particularly in regard to the city website. The

function of data processing, in the context of these ordinances and in relation to finance department responsibilities, needs to be reviewed, updated and more clearly defined.

Toward this end, the data processing/technology committee should distinguish the role of data processing from an information technology (IT) function. It should determine if the current organizational structure and allocation of resources adequately meets the government's technology demands relative to its computer hardware, software and network, and to what extent there is a data processing need.

The mayor should look to the advisory board or technology committee, as well, for evaluations and recommendations on software and hardware upgrades, and for input on long term capital planning. To accomplish these goals, the committee members should have the knowledge and expertise in technology related fields. We recommend that the mayor identify qualified potential candidates and personally solicit their participation. A technology committee can have any number of members and a mix of municipal officials and private citizens.

Recommendation 7: Implement a Performance Evaluation Program

We recommend the development and implementation of an employee performance evaluation program. As municipal operations become more complex and demanding, budget constraints can cause shifts in priorities. When this happens, less visible tasks sometimes shift as well, or are re-assigned, to certain department managers and staff. A performance evaluation program can help management re-establish priority functions, create clarity of roles for employees, and generally enhance accountability in city government.

A performance evaluation program can, in the first instance, shed light on the delineation of staff responsibilities. Guidelines for managers should identify step-by-step procedures for reviewing an employee's work responsibilities, previously established goals, if any, and job expectations. There should be agreement, from the top down, on departmental and staff priorities and on new goals for the ensuing evaluation period. In this way, annual reviews provides a chance to define roles for employees, as well as managers. Based on the insights gained, job descriptions should be rewritten so that they are appropriate to the job title or classification, and accurately reflect what people actually do.

As important, the initial process is tantamount to a staffing study - a task we recommend the city undertake. This sort of examination was achieved, in part, during the mayor's recent departmental reorganization and can be continued as part of an annual performance review program. An understanding of essential functions and a decision on public services to be provided are necessary first steps to determining whether personnel resources are adequate and appropriately allocated.

Finally, a well-thought out annual performance review program provides the opportunity to reinforce the hierarchy of government and the division of departmental responsibility. If implemented in a methodical, even-handed way, regular job performance evaluations elevate employee morale and build taxpayer confidence in government.

Potential Revenue Enhancements

Recommendation 8: Eliminate Water Payment Discounts

We recommend that the city eliminate the water payment discount program. The city currently grants about \$135,000 per year for the early payment of water bills. However, this only reflects part of the true cost of this program. The staff in the collector's office, data processing office, and the water and sewer department spend a considerable amount of time administering the discount program, explaining it, and correcting errors caused by it.

Furthermore, the fact that ratepayers only receive the water discount if they have a zero balance has led to a system in which the city does not charge interest to any overdue account for ninety days. Until recently, the payments for one water usage period overlapped with the issuance of bills for the subsequent period. The resulting timing issues often led to small interest charges appearing as an amount due on individual accounts. Therefore, many people who expected to receive a discount would not. The water and sewer department had to grant abatements of a few dollars to multiple people and the collector's office would field calls and visits from frustrated customers. Now, the city avoids this problem by not applying interest charges to overdue accounts until a subsequent bill is issued, ninety days later.

The original goal of the discount program, i.e., to encourage early payment to improve cash flow for the city, is no longer achieved. Instead the program costs money. Therefore, we recommend it be discontinued.

Recommendation 9: Lien Outstanding Water/Sewer Charges onto Real Estate

We recommend that the city cease mailing water shutoff notices and lien outstanding water charges to the real estate bill. As part of the collections process, the city mails letters to homeowners warning that their water service will be shut-off unless delinquent bills are paid. However, the water department lacks the personnel to enforce the shut-off orders. We recommend the city cease sending water shut-off notices. We recommend instead that the city adopt MGL Ch. 40 §§42A-42F (water) and Ch. 83 §§16A-16F (sewer) which allow overdue water and sewer charges to become a lien on the real estate. Outstanding amounts, plus interest, then appear on the subsequent year's property tax bill. This is a proven and effective method used by virtually all municipalities for the collection of outstanding water and sewer bills.

Recommendation 10: Pursue Water Meter Upgrade Program

We recommend that the city move forward with its water meter upgrade program. Of approximately 11,000 water meters in the city, a small percentage, mostly assigned to large consumers, have modern "radio read" capability. The remaining meters are of suspect accuracy and in need of replacement. According to the director of public services, estimates indicate that

13 percent of water consumption in Salem is unaccounted for, or lost through inflow and infiltration (I/I).

It is our understanding that the water enterprise fund has accumulated sufficient retained earnings to finance a water meter replacement program. The project is stalled due to delays related to the development of bid specifications. We encourage the city to overcome bid preparation obstacles and move forward quickly with the meter replacement program.

By moving forward, sooner rather than later, the city will avoid escalations in the cost of labor and materials that routinely occur over time in the construction market. It will more quickly realize income gains, as actual revenue surpasses budgeted revenue. Abatements due to faulty meters will decline. And, an equitable system will emerge where each consumer pays his or her fair share, and no resident is subsidizing the water consumption of another.

Recommendation 11: Implement Direct Deposit, Bi-Weekly Pay for All

We recommend the city implement direct deposit for all employees on the payroll. Governments, companies, and organizations nationwide have found that direct deposit benefits both the employer and employee. In Salem, approximately, one third of the city workforce is currently enrolled. Additional employees can voluntarily enroll in direct deposit, but to impose it universally will require collective bargaining.

Direct deposit eliminates the cost of expensive micro-toner and check stock necessary to print paychecks - a potential savings of \$10,000 per year. Instead, the city would only need to print and distribute, or make available via the Internet, statements to mirror the pay stubs that employees currently receive.

Moreover, staff will no longer need to devote hours, as they currently do every week, dealing with lost and uncashed checks. Employees will benefit from immediate access to their pay as it will be credited automatically to their accounts before the city offices and the bank even open. Furthermore, many banks offer incentives to individuals who enroll in direct deposit.

We recommend that all employees be on a bi-weekly pay schedule. Cost savings are also possible if all employees were moved to a bi-weekly pay period. As a start, the number of checks issued annually would be cut in half. Efficiencies in the use of staff time would also be gained. Currently, teachers in all communities are paid every two weeks, with options for summer pay. Moving city-side employees to a bi-weekly pay schedule would require collective bargaining.

Recommendation 12: Establish a Golf Course Enterprise Fund

We recommend that the city establish an enterprise fund for golf course operations. Salem Golf Course operations and maintenance are currently funded from the city's general revenues. Course income, which is primarily generated from greens fees, is recorded as a general revenue of the city. If, however, the business of the golf course operated as an enterprise fund under MGL Ch. 44, §53F^{1/2}, income and expenditures would be independently accounted for. As a

result, the city could accurately measure whether golf course revenues cover expenses (including indirect costs), whether course operations are subsidized by the city, or whether the city benefits from excess golf course income.

These issues take on greater meaning as the city, looking to control costs, considers the future of the golf course. In Salem, golf course revenues are up slightly in 2006, but up to this point had been on a five-year slide. Although a new course has opened in Peabody, other North Shore courses in Middleton, Rowley and Lynnfield are reportedly scheduled to close. In this context, independent information would help the city decide whether to continue operating the course, whether to contract out its management, or whether to sell it outright.

For the same reasons, the city should consider establishing an enterprise fund for the Witch House operation.

Recommendation 13: Review and Document PILOT Agreements

We recommend that the city review payments in lieu of taxes (PILOTS). The only evidence of payments in lieu of taxes the city receives is an Excel spreadsheet listing sources and historical dollar amounts dating back to FY01. The finance department has no documentation or agreements specifying when payments began or what mechanism was used for establishing annual payment levels.

We recommend that the finance director review current payments to determine that PILOTS are fair and equitable to the city. We further recommend that the city initiate discussions with the individual paying parties to negotiate formal agreements, including a formula for setting the annual payment. The formula should have long-term applicability in a way that produces fair and consistent annual payments. For insight, we encourage the finance director to communicate with other municipalities (i.e., Boston, Groton, Bellingham, Plymouth) which have negotiated PILOT agreements with municipal light companies, educational institutions, power plant operators, etc..

Recommendation 14: Expand “5 After 5” Program to the Church Street Lot

We recommend that the city immediately adopt the proposal to expand the “5 after 5” program to the Church Street parking lot. The shift ends for the person manning the 142-space Church Street parking lot at 8:00 pm. The exit gate is then left open and any vehicle leaving, or entering and leaving, after that time pays no parking fee. According to the parking director, if drivers entering the lot between 5 pm and 8 pm are charged a flat \$5, in advance, the city could realize \$70,000-80,000 in additional revenue annually.

Recommendation 15: Contract for an “On Call” Towing

We recommend that the city create an “on-call” towing capacity. When a meter maid identifies a vehicle with five or more parking violations, she marks it for towing. However,

rather than call for a tow truck at that moment, she places the vehicle registration number on a list which is forwarded to the police department. While on routine patrol, officers can check vehicles they stop against the list, but are otherwise expected to search for, or notice, vehicles targeted for towing. This approach is unrealistic and ineffective.

We recommend that the city issue a Request for Proposals (RFP) for on-call towing services. If meter maids can summon a tow truck immediately upon identifying an offender vehicle, the city will increase its ability to collect amounts due for outstanding parking violations, plus fees and its share of towing charges. As an alternative, the city might evaluate its capacity to fund, maintain and manage its own towing operation.

Recommendation 16: Increase Dollar Penalty for Parking Meter Violation

We recommend the city increase penalties for parking meter violations. In Salem, the penalty for a parking meter violation (\$10) is less than the maximum charge for parking in a city garage or lot (\$12). As a result, whether for reasons of convenience or because it is an acceptable risk, drivers have an incentive to park on the street.

In 2005, the City Council approved changes in regulations to enhance parking related income. Additional options are available. For instance, under MGL Ch. 90 §20A, municipalities can assess a maximum penalty of \$25 for parking violations. While we understand that overly punitive measures conceptually work counter to downtown economic revitalization, this is not necessarily the case here. Often times, those who park at the meters all day are employees of local businesses or the Superior Court, which is located in the central business district.

Therefore, we encourage the city to examine the relationship between parking rates and meter violations, and reconsider approval of the proposal previously tabled by the City Council.

Recommendation 17: Reconsider Assessing Department Organization

We recommend changes to property data collection, office responsibilities and valuation analysis. Despite a full-time effort, the assessing department's data collector is unable to keep up with the sale, building permit and personal property inspections that need to be completed each year. A contributing factor is the inordinate amount of time he devotes to data entry. He estimated that of all the time he spends on permit inspections and processing related changes, approximately 30 percent of that time is data entry. Approximately 50 percent of the time he spends on personal property and sales verifications involves data entry.

The department is also behind in its cyclical inspections. To maintain up-to-date records, DOR expects communities to reinspect all properties at least once every nine years. Salem is among those municipalities that, rather than schedule an on-going program, engages an outside contractor (Patriot Properties) two or three years before the end of a cycle to conduct a complete measure and list of all real property. This is in addition to the (lower) cost for Patriot Properties' assistance in the valuation of the city's residential, commercial and industrial properties every three years and personal property annually.

Now, as the 2010 deadline approaches for the current property re-inspection cycle, the city has no choice but to cover the cost of a full measure and list. This cost could reach hundreds of thousands of dollars, or it could be less if a high volume of qualified property inspections have already been completed by the department's data collector. Looking beyond that point, however, alternatives to the present practice might be considered.

For instance, we recommend that the city do an analysis that compares the cost and benefit of contracting-out for assessing services to that of performing those services in-house and also hiring an additional, part-time data collector.

The combined work of a part-time and full-time data collector should allow re-inspection of the 13,000 or more city parcels in less than seven years. The time and responsibilities of the two data collectors and the current full-time clerk should then be reallocated to ensure not only that inspections are completed, but that data entry and office coverage issues are addressed as well. If the data entry workload still appears too heavy, the department can engage the services of Patriot Properties, as it has periodically in the past, to complete the task at a nominal \$300 per day.

At the same time, the chief assessor and assistant assessor should stop performing data entry and routine office functions. While exceptions will occasionally occur, these tasks represent an inefficient use of their professional training, skill and salary. Perhaps a better utilization of professional staff time would be to bring, completely in house, the valuation of commercial, industrial and personal properties. Given her background, experience and job track, we suggest that the assistant assessor is well equipped and positioned to take-on this higher level responsibility in its entirety.

With this type of shift in responsibilities, the office would remain in compliance with DOR specifications for cyclical inspections program. The change would address the need for office coverage and data entry, and would more effectively and appropriately utilize professional staff. It would be justifiable fiscally, if the cost of a part-time, data collector over seven years were to be offset by the cost savings realized by eliminating a measure and list, and by avoiding charges for outside assistance during two triennial revaluations of all property types, and annual personal property assistance over the same period.

Compliance/Security Issues

Recommendation 18: Revisit the Resident Parking Permit Program

We recommend that the city reconstitute the resident parking permit program. Currently, residents can purchase a 3-year permit to park on neighborhood streets for one dollar. However, it is doubtful that one dollar covers the cost to administer the program by the city clerk's office. Enforcement is also an issue.

We recommend that the program be modified to offer a permit for one or two years. The fee can remain modest, but should be increased to reflect a more proximate estimate of the city's cost in time and material to produce and process the permit. As part of a city-wide effort to realign responsibilities into offices where they legally or naturally belong, the resident permit parking program should be administered out of the parking department. The parking office at the main garage offers a central location and wide ranging hours for the benefit of residents.

To curb abuses of visitor passes, the pass should be granted for a fixed time period with maximum stays set by policy. The pass should display beginning and ending dates and should always be visible in the vehicle. If desired, one renewal or a renewal for a limited number of days may be permitted.

Finally, if residents are asked to pay a higher fee, then they need to have confidence that enforcement will follow. Discussions should follow with the police department to determine how the program might be more effectively enforced.

Recommendation 19: Minimize Handling of Money by Departments

We recommend that only the treasurer's office accept over the counter payments for departments at 120 Washington Street. At 120 Washington Street, there at least nine municipal departments, including boards and commissions, that receive over-the-counter payments to the city. Money received is subsequently turned-over to the treasurer's office which is located in the same building.

To minimize money handling, a particular department, board or commission would direct individuals to make payment of a required fee or charge at the treasurer's office and return with a receipt as evidence of payment. The treasurer would appropriately account for the money, but would not treat it as a turnover.

Procedures for receiving over the counter payments by city departments (i.e., city clerk, parking department) in other buildings would remain unchanged.

Recommendation 20: Improve Cash Controls at McKabe Marina and Winter Island

We recommend implementing tighter cash controls at the marina's boat ramp and on Winter Island. The current procedures for collecting and recording fees at these two locations do not adequately reduce risk or ensure accountability. At the marina, cash is collected every day in the form of boat launch fees. Notwithstanding the practical need for the attendant to make change, excess cash should be placed in a secure location rather than carried by him throughout the day. Normally, the attendant makes a night deposit of the receipts, but until that time, cash should be placed in a non-removable lockbox installed by the recreation department in a proximate location at the marina. In addition, the attendant should issue a receipt whenever he receives any payment. A system should include sequentially numbered receipts where one copy is given to the patron and a duplicate side, or copy, is retained by the marina attendant and kept in the lock box with the cash.

For similar reasons, a cash register should be used to record the fees collected for camping, RV parking, and use of the function hall on Winter Island. In this instance, a cash register should have the capability of generating a tape or other hard copy record of transactions.

Recommendation 21: Establish Security Policy

We recommend that the finance director establish security procedures for departments that take in money. It is common that various municipal departments take-in money over the counter or by mail as payment of fees or in exchange for services. Departments are generally diligent in turning receipts over to the treasurer on a routine basis. However, because departments can hold money overnight, or for days at a time, there should be a policy that establishes security measures for retaining funds. At a minimum, a policy should require that departments store funds in a lock box which should then be placed in a secure location overnight, such as a locked desk draw, file cabinet, safe or vault.

In addition, a two-part numbered receipt should always be given when a municipal employee accepts money on behalf of the city. The city's copy of the receipt should remain with the payment. All city employees receiving payments in cash or checks should be bonded.

Recommendation 22: Ensure Employees Are Bonded

We recommend that all employees who handle cash are bonded. The finance director should meet with the collector and treasurer to identify all city employees who handle cash or receive payments on behalf of the city. The city should cover each with a fidelity bond with a surety company. The surety, or performance, bond protects the city from any loss that might occur during the transfer or handling of money. Minimum bond amounts are assigned in accordance with a schedule promulgated by the Commissioner of Revenue.

Recommendation 23: Complete Time Sheets at End of Pay Period

We recommend that employee time sheets be completed and submitted only after the pay period has ended. Currently, timesheets for employees on a weekly pay schedule are completed and submitted on Wednesday of the week to which they apply. If an employee's actual attendance at the end of the work week is at variance with the previously submitted timesheet, an adjustment is made the following week. As a result, timesheets for two consecutive weeks fail to reflect actual circumstances. In terms of efficiency, the need to correct timesheets, presuming changes are even reported, creates additional work. In terms of statutory compliance, it can be interpreted that, under present practice, compensation is authorized for a service not yet received which violates state law.

We recommend instead that timesheets be submitted on Monday for the prior week. The finance director should then work with appropriate staff to review and make changes to the payroll process so that payroll checks are released within six days of the close of the pay period.

Recommendation 24: Disburse Checks Only After Warrants are Signed

We recommend that vender or payroll checks be released only after warrants are signed by the mayor. In the absence of a city ordinance, there is no general statutory requirement that a mayor of a city review or sign warrants for payments of bills or payrolls of city departments. In cities, only the city auditor or officer performing similar functions is required to review and approve warrants under MGL Ch. 41, §52.

However, in Salem, it is the practice of both the finance director/auditor and the mayor to approve warrants. Up until recently, payroll checks were released to department managers and otherwise disbursed by the treasurer prior to receiving a signed copy of the payroll warrant. It is our understanding that this practice has changed and is now in compliance with state law.

Recommendation 25: Review Revolving Funds

We recommend that the city act to ensure that revolving funds and receipt reserve accounts conform to statutory requirements. Massachusetts General Laws govern the purposes for which revolving funds and receipt reserve accounts can be established, the revenues that qualify, as well as the requirements for annual authorizations, if any. Each is defined as follows:

A revolving fund contains receipts from a specific revenue source that are accounted for separately from the general fund and may be spent without further appropriation to support the activity, program or service that generated the revenue.

Receipts reserved refers to receipts from a specific revenue source that by law are accounted for separately from the general fund and must be spent by appropriation for particular purposes.

Receipt reserve accounts and some revolving funds are authorized by specific general laws, or special acts. Other general departmental revolving funds are also allowed under MGL Ch. 44, §53E½. The statute requires that annual authorizations identify the program and purposes for which collected fees may be expended; which department receipts are to be credited to the fund; the board, department or officials authorized to expend from the fund; and the limit on the total amount to be expended. A departmental report to town meeting each year is also required under the statute.

The city's FY05 Schedule A lists a number of revolving funds, some of which (Local Emergency Planning Committee, Clerk of Works, Maritime and New England Pipeline, South River Improvement) are questionable. The city's FY05 balance sheet identifies receipt reserve accounts set up for the harbormaster, Witch House, clerk of works, Salem Common RCTS, which are also suspect.

We recommend that the finance director review revolving fund and receipt reserve accounts to ensure that the purposes qualify for the type of fund or account established, that special or general legislative authorization exists for each account, and that necessary annual re-authorizations occur where mandated. Finally, revolving funds and receipt reserve accounts should be consistently listed in the city's Tax Recap sheet, annual balance sheet, Schedule A, and in an annual budget article, if a revolving fund is established under Chapter 44, §53E½,

Recommendation 26: Generate a Payroll Warrant by Individual

We recommend that the payroll warrant provide detail by employee. Under current practice, the finance director/auditor and mayor are presented with a payroll warrant listing a series of salary account numbers with a corresponding dollar amount. While this format is appropriate for the purposes of the auditor's general ledger, greater detail is required on payroll warrants.

Whether incorporated into the warrant or attached as back-up documentation, gross, or preferably net, pay by employee must be made available if the requirements of MGL Ch. 41, §52 are to be met. To comply, whoever approves the warrant must be able to inspect and view each individual payment, which in this case would at least be an employee's name and gross salary. Net salary might also be included, but not individual withholding amounts, which should be indicated in the aggregate on the payroll warrant. The same information must find its way to the treasurer so that checks may be drawn.

Recommendation 27: Transfer Tax Title Responsibilities to Treasurer

We recommend that the treasurer assume responsibilities for tax titles. Once the collector effects a tax taking and records the city's real estate lien at the Registry of Deeds, the statutory responsibility to pursue delinquent taxpayers through the tax title/foreclosure process shifts to the treasurer. In Salem, this shift does not occur. Instead, the collector keeps physical possession of tax title accounts and works to continue the collection process.

We recommend that the city reassign tax title responsibilities consistent with state law. Upon recording of tax liens, the collector should transfer to the treasurer a listing of all tax title accounts. The treasurer should then carry-out or otherwise pursue the tax title/foreclosure process.

Recommendation 28: Maintain Independent Debt and Debt Service Schedules

We recommend that the treasurer create and maintain long-term debt and debt service schedules separate from the finance department. The treasurer currently maintains a chart of debt service obligations on a per month basis for the current fiscal year. Used in tandem with monthly revenue and expenditure estimates, this information is important to forecasting the cash flow needs of the through the course of the year. She also maintains the information necessary to complete the statement of indebtedness required to be filed with DOR at the close of each fiscal year

Although not specifically required by statute, we encourage municipal treasurers to create, and annually update, a long-term projection of principal and interest payments. Typically carried out 20 years, or to the longest term outstanding, this chart should identify the date of issue, the purpose of the bonds and whether or not payments are self-supporting (covered by rates or by taxes). As the years extend left-to-right into the future, the chart would display principal and interest obligations specific to each borrowing together with the total annual debt service at the bottom of the column. In this format, the chart would show when issuances begin and end, which becomes another valuable planning tool. Once or twice each year, the auditor and treasurer should reconcile outstanding debt and annual debt service amounts. At the close of the budget process, they should also meet with the city clerk to confirm city council action to authorize borrowing.

Recommendation 29: Improve Security of Personnel Files

We recommend that the finance director survey all locations where personnel files are stored with an eye toward security. Currently, personnel files in the office of the benefits managers are stored in file cabinets that do not lock. The office is locked each night, but is open during the day. An interior door passes to another finance office which must be locked to fully secure files. While we are confident that staff are diligent in the protection of employee records, offices that maintain personnel related files should be provided with greater security. Therefore, we recommend that the human resources director ensure that all personnel files are maintained in one location, except those concerning medical records which are required by HIPPA to be separately maintained. Further, all employee records should be stored in fireproof, waterproof file cabinets that lock.

Recommendation 30: Restrict Distribution of Personnel Action Form

We recommend that Human Resources cease distribution of six copies of the personnel action form. To its credit, the human resources department requires completion of a personnel action form at the start of employment and to track periodic changes in a person's employment status. To authorize a change in any personnel file, the signature of the department head (or appointing authority) and the personnel department is required. Once approved, six copies are maintained in six different city offices.

To protect employee privacy, the human resources department should immediately cease distribution of multiple copies of the personnel action form. Typically, to process a change, the department head would communicate with the human resources director and a personnel action form would be issued. We recommend that an original of the form circulate only to the department head (or appointing authority), the human resources director and the finance director to authorize the change. The actual data entry change to the employees file should only occur in the human resources office from the human resources director. The single original form should be maintained in the employee's personnel file. Sometimes, a copy is returned to the department head. No other copies should exist.

Recommendation 31: Restrict Access to Personnel Files

We recommend that authority to alter personnel files be restricted and require approval of the human resources director. The benefits manager used enrollment in the deferred compensation program as a example of when the personnel process allows her to make changes to an employee's withholdings. Briefly, after meeting with an employee and after that employee completes the forms that enrolls him or her in the program, the benefits manager changes the employee's withholdings schedule.

In order to protect employee records, protect staff from liability, and impose checks and balances, changes should occur to an employee's personnel file only with management authorization, even if already approved by the employee.

The finance director and the human resources director should first determine whether modifications to withholdings should be tracked and authorized using the personnel action form. Then, the signature of the human resources director should be required before any changes are made to an employee's record. Further authorization of the department head or finance director is not necessary.

We recommend that "super-user" status granted to payroll clerks in the fire and police departments be curtailed. It is our understanding that special "super-user" status is granted to payroll clerks in the police and fire departments which allows them to enter the MUNIS system to complete the weekly payroll. Because police and fire timesheets tend to be complicated, this is not uncommon. However, with "super-user" status, the clerks have access to the payroll and

personnel records of all city employees, including their own. If this is the case, it is needs to change.

With the MUNIS upgrade, password protections can permit and restrict access to various levels of information. The finance director should conduct a city-wide survey of information access privileges. A determination should be made as to who requires access to what level of information and passwords should be assigned accordingly.

We recommend that the data processing department not be asked to correct errors in the issuance of year-end W-2s. At the start of each new calendar year, the data processing department prints W-2 forms to be distributed to city employees. It is our understanding, however, that the data processing staff also review the W-2s for accuracy and make necessary corrections in the personnel files.

In the first instance, we question whether a data processing department should be responsible for reviewing data for accuracy. In strict terms, this is not a data processing function. It would seem more appropriately the duty of the treasurer's office where the data originates and its accuracy can be verified. Secondly, it is not a data processing function to enter underlying files and change employee information. Access to records containing employee information should be restricted and limited.

Recommendation 32: End Unauthorized Use of City's Federal Employer Identification Number

We recommend that the city identify and close all unauthorized accounts using the city Federal identification number. In the past, it was common for private, non-profit organizations to open a bank account using city's Federal Employer Identification Number (FEIN). Although the practice is no longer permitted, some of these accounts continue to be active. We recommend that the finance director direct the treasurer to survey area financial institutions for a list of all organizations using the city's FEIN on an active bank account. The city should then take the steps necessary to curtail the practice.

Recommendation 33: Create Separate Enterprise Fund Articles

We recommend that each enterprise fund budget be approved as a separate budget article. It is appropriate to list the enterprise fund appropriations in the mayor's line item budget in order to reflect total expenditures. However, each enterprise fund budget should also be approved in its own separate budget article that breaks out expenditures and identifies revenue sources. We direct the finance director to the DOR publication entitled "Enterprise Funds" (June 2002) which outlines the proper procedure for presenting and approving enterprise fund budgets. It can be viewed at www.dls.state.ma.us under publications.

Other Recommendations

Recommendation 34: Delegate Appointment of Winter Island Manager to Recreation and Community Services Director

We recommend that the authority to appoint the Winter Island Manager be transferred to the Recreation and Community Services Director. The recreation and community services department oversees the council on aging, and the operation of the Salem Witch House, Salem Golf Course, McKabe Marina, the Forest River pool and Winter Island. The Winter Island manager, who oversees the boat ramp activity, camping, tenting and recreational vehicle sites, a function hall and an on-site store, is appointed by the mayor. However, on a day-to-day basis he reports to the recreation and community services director. To establish consistent lines of authority and clear accountability, we recommend that the mayor delegate power to appoint the Winter Island manager to the recreation and community services director.

Recommendation 35: Consolidate Accounts on Vender Checks

We recommend that the all city accounts with the same vender be paid with one check. As examples of this issue, each pay period, National Grid receives 12 separate vender checks from the city, and Verizon receives 15 separate checks. Each check is in payment of a city account. Instead, the city should process a single check to each vender with sub-account details listed on the attached stub or coupon. The finance department should look for all instances where multiple checks are sent to a single vender and consolidate payments onto one check.

Recommendation 36: Change Return Address on Water Bills

We recommend that the city change the return address on water bills from 120 Washington Street to 93 Washington Street. Normally, water payments are mailed in a return envelope enclosed with the bill and received at the city's lock box (soon to be Eastern Bank). If a different envelope is used, payment is almost always addressed to the water department at 120 Washington Street. It might then take days before the water payments are received, through internal mail, at the collector's office at 93 Washington Street. To avoid this delay, we suggest the address on the bill appear as 93 Washington Street.

Recommendation 37: Move Switchboard Responsibilities

We recommend that the human resources department be relieved of switchboard duties. Under the present system configuration, if the switchboard operator is unable to take an incoming call, a recorded message runs through menu items. For whatever reason, callers frequently by-pass the message by dialing zero which directs them to the human resources office.

Each day after 2 pm, all incoming calls automatically jump to the human resources office, rather than to a recorded message.

This is not a legitimate function of the human resources office. It is also disruptive to staff and calls on them to respond to questions involving subjects of which they have no knowledge. This puts staff in a difficult and frustrating position.

Until a new telephone system is installed, we suggest a sequence that does not divert calls to the human resources office. Consideration should be given to forcing callers to go through all menu items (i.e., take away the dial zero option). While this may not be preferred, it would leave the caller no less frustrated than speaking with a live person who is unable to answer their question.

We recommend that the search for a new telephone system be viewed as a technology decision. It is our understanding that the human resources director is, somewhat by default, exploring options for a new telephone system in city hall. At first, we wonder whether this is the most effective use of the human resource director's time. Are there other priorities that demand his attention.

We suggest that given the evolution of telephone systems, this is a technology issue. As such, a search might be more appropriately conducted out of a technology-oriented department. During installation and once installed, it makes sense that interaction with the vendor would be through a technology department, and not human resources. Nonetheless, during the search process, staff input should be solicited so that a new system will have the features to meet needs and usage patterns.

Recommendation 38: Provide Data Collector with Laptop

We recommend providing the assessing department data collector staff with a laptop computer. This will allow more efficient collection and verification of data and will ease the volume of data entry in the office.

Currently, before leaving to inspect building permit properties, the data collector prints out a list of properties to inspect, as well as the property record associated with them. During the visits, he takes detailed notes that he enters into the computer when he returns to the office. A laptop would allow the data collector to enter his or her notes directly into the computer while in the field. When he returns to the office, he would simply upload the information into the property record database.

Furthermore, when on the road, the assessors' data collector often passes building projects and renovations underway. With an updated property database on a laptop, he can immediately verify whether a building permit has been pulled for the property. In this way, all new growth is accounted for and upon reporting the information to the building inspector, required fees can be collected.

Recommendation 39: Share Assessors' Information with Collectors

We recommend that the assessing office share changes in property ownership with the collector's office. Prior to advertising for tax takings, the collector searches the Registry of Deeds on-line, and often times on her own time, to ensure that owner information is current and accurate. Searches sometime total 70-80 a month. The assessors' office can help reduce the collector's workload by sending her a list of all ownership changes it records each month. Normally, the collector would receive these changes twice per year with tax commitments, but would benefit if the information was received more frequently.

It is our understanding, from other communities, that the Patriot software has the capability to easily generate a report of changes in property information entered over a specified period. Therefore, as a measure of cooperation and support, we recommend that the assessors' office explore how such a report can be produced and begin the practice of forwarding it to the collector each month.

Recommendation 40: Address Coin Count Discrepancy

We recommend that the city address variances in coin counts conducted by the parking department and the depository bank. The parking department staff person maintains and repairs meters and also retrieves coins from meters. He returns coins to the parking office, where he runs them through an automatic coin counter with a supervisor as witness. Nickels, dimes and quarters are accounted for in sealed bags and delivered by car to the nearby bank. The coins are then recounted, not by the bank, but by Brinks Security before being deposited into the city's account. The problem is that discrepancies have occurred between the city and the Brinks count, typically involving amounts to the penny. However, pennies are automatically kicked-out and are not part of the parking department count.

Among the alternatives for dealing with this problem are the following: 1) Change security services, 2) Work with Brinks, or Eastern Bank where deposits are made to identify why the shortages are occurring and act to correct the problem, or 3) Replace meters with built-in counters, and with a secure, electronic read collection mechanism. As a starting point, we recommend that nickels, dimes and quarters be counted and bagged separately. Determining whether Brinks weighs or counts coins is also important.

Recommendation 41: Remove Treasurer as CRS Treasurer

We recommend that the city treasurer not longer serve as treasurer to the Salem contributory retirement system (CRS). According to the city treasurer, she performs no function, as treasurer of the CRS, other than to complete an annual Form 945 with information the board provides to her. Consequently, she is attesting to numbers and procedures over which she has no control. She attends no CRS meetings. On the city website, the CRS page lists the city finance director as the board's staff liaison. Absent a substantive role, and given the relationship of the

finance director to the CRS, we recommend the city treasurer no longer serve as treasurer of the CRS. As a possible alternative, the appointing authority may choose to assign the CRS treasurer responsibilities to the finance director.

Recommendation 42: Mail Merge Monthly Notices to COBRA Enrollees

We recommend that the city benefits manager use the Microsoft mail merge function to send monthly notices to COBRA enrollees. As a courtesy, the benefits manager sends monthly letters to COBRA enrollees acknowledging receipt of their prior month's payment for health coverage and reminding them of the upcoming amount due. She manually prepares approximately 35 letters each month and also takes the time to photocopy and enclose a copy of the prior month's check.

We recommend instead that the benefits manager use the Microsoft mail merge function to automate the process, and that she cease photocopying and enclosing checks. Using Excel and Word, a standard text letter can be updated with data maintained on an Excel spreadsheet. To send a copy of the check merely duplicates the evidence of a check the enrollees receives from a bank statement each month. We encourage the benefits manager to confer with the data processing department to explore the mail merge option.

Appendix A - Primary Job Responsibilities

Auditor/Accountant

Below is a summary of the duties of the city auditor and town accountant as excerpted from the Accountant/Auditor Manual, published by the Massachusetts Department of Revenue.

- Verify that any expense payment is lawful, justified and that funding exists under the appropriate budget line item ([MGL Ch. 41, Section 52](#))
- Maintain municipal books including a general journal, general ledger and subsidiary ledgers ([MGL Ch. 41, Section 57](#))
- Maintain detailed records of all debt ([MGL Ch. 41, Section 57](#))
- Retain custody of all contracts and surety bonds ([MGL Ch. 41, Section 57](#))
- At the close of the fiscal year, receive from each department, board or committee a list of bills remaining unpaid ([MGL Ch. 41, Section 58](#))
- Certify, in advance, the availability of an appropriation for any construction contract in excess of \$2,000 ([MGL Ch. 44, Section 31C](#))
- Certify to the assessor's expenditures, approved in advance, in excess of appropriations for the removal of snow and ice ([MGL Ch. 44, Section 31D](#))
- Prepare a monthly statement for officers or department heads showing the total appropriations, expenditures and the balance in each appropriation.
- Notify the finance director or mayor, or town selectmen when it appears that an appropriation has been expended or is likely to be overdrawn ([MGL Ch. 41, Section 58](#))
- Furnish the assessors with a written report detailing money received for the preceding fiscal year from sources other than taxes, loans and trust funds ([MGL Ch. 41, Section 54A](#))
- Notify the assessor, in writing, by May 1, of the amount of debt falling due in the next fiscal year and of provisions made to meet these requirements ([MGL Ch. 44, Section 16](#))
- Immediately upon the close of the calendar year, prepare statements detailing the preceding year's appropriations and expenditures; appropriations for the current fiscal year; expenditures incurred during the first six months; estimates for expenditures for the second six months and estimates for the ensuing fiscal year ([MGL Ch. 41, Section 60](#))
- Make an annual report stating receipts and expenditures for the past fiscal year from all funds; showing the appropriation, the expenditure and purpose; stating any change in municipal debt, list of indebtedness incurred and unpaid at the end of the fiscal year ([MGL Ch. 41, Section 61](#))
- Prepare and furnish to the Director of Accounts, Department of Revenue, 1) a "Schedule A", 2) a statement of public debt, and 3) a "Balance Sheet" ([MGL Ch. 44, Section 43](#))

Treasurer

Below is a summary of the duties of the city or town treasurer as extracted from the *Treasurers' Manual*, published by The Massachusetts Collector and Treasurer's Association in collaboration with the Division of Local Services and others.

- Receives, takes charge of and accounts for all monies belonging to the municipality; receives and identifies monies due and reports the same to the accountant ([MGL Ch. 41, Section 35](#))
- Maintains a cash book; provides for adequate funds for current obligations (through issuance of long-term or short-term debt); invests the municipal funds ([MGL Ch. 44, Sections 55, 55A](#))
- Upon authorization of the mayor and/or auditor in a city, selectmen or accountant in a town, pay out public money ([MGL Ch. 41, Sections 52, 56](#))
- Pays over and accounts for salaries and wages, including payroll and personnel deductions ([MGL Ch. 41, Section 41](#)); maintains payroll and personnel records ([MGL Ch. 149, Section 178B](#); [MGL Ch. 175, Section 138A](#)); when so appointed, administers unemployment compensation programs ([MGL Ch. 40, Section 5E](#)); assures compliance with labor and industry, retirement and insurance laws; monitors compliance with personnel by-laws, union contracts and civil service regulations ([MGL Ch. 41, Section 35](#))
- With selectmen/city council approval, negotiates all borrowing, prepares necessary documents and notes and reports the same to the Director of Accounts ([MGL Ch. 44, Section 23, 24, 28](#))
- Report to the city auditor/town accountant, or if none, to the town advisory committee, the amount of debt and interest due in the next fiscal year when budgets are submitted ([MGL Ch. 41 sec. 59](#))
- Maintain custody of stabilization funds, pension reserve funds, trust funds, investments, and other funds not allocated to other agencies ([MGL Ch. 40 sec. 5B, 5D](#); [MGL Ch. 41 sec. 46](#); [MGL Ch. 44 sec. 53](#))
- Maintain custody of financial documents including insurance policies, fidelity bonds, deeds, etc. ([MGL Ch. 41 sec. 57](#), [MGL Ch. 44 sec. 54](#))
- Maintain tax title accounts; conduct sales of land; prepare documents to petition for foreclosure ([MGL Ch. 60 sec. 50, 61, 62, 63, 76, 77, 79, 80](#))
- Prepare reports including reconciliation of treasurer's cash, weekly or monthly report of receipts and balances to the accountant, reports of payroll deductions; an annual report; and reports to the Director of Accounts including a quarterly report of reconciliation of treasurer's cash, and an annual report of cash management achievements.
- Close and reconcile all books and accounts including cash book, warrants, bank accounts, insurance programs, retirement funds, debt records and tax title accounts.

Collector

Below is a summary of the duties of the tax collector and city or town collector as excerpted from the Collector's Manual, prepared by the Massachusetts Department of Revenue and the Massachusetts Collector's and Treasurer's Association (March 1997).

- As tax collector, possess authority to collect only real and personal property taxes, excises, betterments, and certain other charges added to and committed as taxes. ([MGL Ch. 60 sec. 1, 2](#))
- As a city or town collector, under a local acceptance statute ([MGL Ch. 41 sec. 38A](#)), has expanded authority to receive and collect all monies or accounts due a municipality.

Responsibilities enumerated below apply to both town and tax collectors:

- Furnish a fidelity bond with a surety (guarantee against default) payable to the city, town or district for the collector and appropriate staff. ([MGL Ch. 60 sec. 13](#))
- Verify that commitments received are duly and properly signed.
- Prior to mailing, conduct visual spot check of printed bills to ensure completeness and accuracy of information ([MGL Ch. 60 sec. 3, 3A](#)), and compliance with DOR prescribed form ([MGL Ch. 60 sec. 105](#)). Verify that total amount due summed from printed bills matches the total on the signed commitment.
- Submit to the city or town clerk (and retain a copy) an "Affidavit as to Time of Sending Tax Bills" ([State Tax Form 214](#)). Execute a separate affidavit for each property tax or excise mailing. ([MGL Ch. 60 sec. 3](#))
- Establish procedures for the daily collection, posting and deposit of money collected. Maintain a manual or electronic tax commitment list showing status of taxpayer account. ([MGL Ch. 60 sec. 6](#)).
- At least once per week, pay over to the treasurer a detailed report of all money received in the collector's office. ([MGL Ch. 60 sec. 2](#)).
- Maintain a tax receivable control, or cash book, ([MGL Ch. 60 sec. 7](#)) which records, by month, outstanding taxes due at the start of the period, with downward adjustments for collections, abatements, and exemptions, and upward adjustments for refunds. Reconcile the end-of-month daily deposits and turnovers to treasurer ([MGL Ch. 60 sec. 2](#)) and reconcile outstanding balance with auditor's/accountant's records.
- Establish a procedure for sending tax demands ([MGL Ch. 60 sec. 16](#)) and initiating tax takings. ([MGL Ch. 60 sec. 53, 54](#)).
- When engaging the services of a deputy collector, ensure compliance with DOR regulations. ([IGR 90-219](#))
- Establish procedures to report bounced checks to accountant, generating municipal lien certificates ([MGL Ch. 60 sec. 23](#)). Establish procedures to run regular credit reports, research potential refund payments and create a refund schedule for the auditor/accountant.

Assessors

Below is a summary of the duties of the municipal assessors as excerpted from *Assessment Administration: Law Procedures, Valuation* prepared by the Massachusetts Department of Revenue (September 1999).

- Complete required DOR Course 101, *Assessment Administration: Law Procedures, Valuation* for Assessing Board members. ([830 CMR 58.3.1](#))
- Value all real and personal property within the municipality on a fair cash value basis ([MGL Ch. 59 sec. 2A, 38](#)). Inspect property sales, implement a cyclical property reinspection program, complete annual property value adjustment analysis, and prepare for triennial certification of property values by the Department of Revenue.
- Conduct inspections of building permit properties and determine new growth for levy limit ([MGL Ch. 59 sec. 21C\(f\)](#)).
- Fix the annual tax levy and set the tax rate. Participate in the preparation of the Tax Recapitulation Sheet. ([MGL Ch. 59 sec. 21, 23](#)).
- Prepare the valuation and commitment list. ([MGL Ch. 59 sec. 43, 54](#)). Sign under oath ([MGL Ch. 59 sec. 52](#)) and send the commitment with a warrant to the collector. ([MGL Ch. 59 sec. 53](#)). Send a notice of commitment to the town accountant or city auditor. ([MGL Ch. 59 sec. 23A](#)).
- Process and act on abatement and exemption applications. ([MGL Ch. 59 sec. 59](#)). Send copies of approved abatement or exemption certificates to collector and to accountant or auditor.
- Establish the annual overlay amount ([MGL Ch. 59 sec. 25](#)) for insertion in the tax recap sheet. Determine any overlay surplus.
- Commit original and apportioned betterments to the collector ([MGL Ch. 80 sec. 4](#))
- Commit delinquent municipal charges, including water and sewer liens and charges, to tax bills. ([MGL Ch. 40 sec. 42A-F](#); [MGL Ch. 83 sec. 16A-F](#))
- Assess and administer motor vehicle, farm and boat excises. ([IGR 88-219](#))
- Meet all regulatory requirements, assessment administration standards of the Department of Revenue, Division of Local Services.

Acknowledgements

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In preparing this review, DLS interviewed the following persons

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Leonard F. O'Leary, City Councilor
Matthew A. Veno, City Councilor

Richard Viscay, Finance Director/Auditor
Nina Bridgman, Assistant Finance Director
Judy Giunta, Principle Account Clerk
Diane Full, Office Manager

Bonnie Celi, Collector
Sarah Hutchinson, Senior Account Clerk
Marie O'Hara, Principle Clerk
Susan Kocur, Principle Clerk

Doug Bollen, Director, Recreation
and Community Services
Alice LeBlanc, Principle Clerk

Joanne Rust, Director, Data Processing
Nina Clay, Computer Analyst
Diane Campbell, Computer Operator

James B. Hacker, Director, Parking Dept.
Bruce D. Thibodeau, Public Services Director
and City Engineer

Ann Busteed, Treasurer
Donna Michaud, Principle Clerk
Donna Briggs, Principle Account Clerk

Frank Kulik, Director of Assessing
Debbie Jackson, Assistant Director
Joe Murphy, Data Collector
Gloria Felix, Assessing Clerk

Albert C. Hill, Purchasing Agent
Liz Foley, Principle Clerk

Tom Leckrone, Director, Human Resources
Monica Dominquez, Personnel Aide
Alicia Brady, Office Manager
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