



City of Holyoke

Financial Management Review

Division of Local Services / Technical Assistance Section

December 2007

Introduction

At the request of the mayor, the Division of Local Services (DLS) within the Department of Revenue (DOR) has completed a financial management review of the City of Holyoke.

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, members of the city council and the finance committee, the city auditor, city collector, city clerk, treasurer, chief assessor, 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 reconciliation reports, statements of indebtedness, the city ordinances as well as other assorted financial records. Other documents reviewed included the city's outside audits for fiscal years 2004, 2005 and 2006 completed by Melanson, Heath & Company, PC.

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, city council and others, 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

This financial management review was formally requested by the Mayor of Holyoke following a meeting in his office with DOR Deputy Commissioner Robert G. Nunes, Bureau Chief Rick Kingsley and DOR Bureau of Accounts field representative, Joe Boudreau, together with various city finance officers. The initial intent of that meeting was to discuss how the city might avoid repeating errors that delayed DOR approval of the city's FY2007 tax rate. Subsequently, ongoing issues involving the treasurer's performance came to the forefront. This financial management review now becomes the most recent in a series of reports and responses addressing serious, long standing shortcomings in that office.

Deficiencies in the treasurer's financial practices were cited as "reportable conditions or material weaknesses" in the annual audits of city finances by Melanson Heath & Company, P.C. (Andover, MA) for fiscal years 2004, 2005 and 2006. Later, the State Inspector General (IG), at the request of the mayor, investigated the city treasurer's office and, in May 2007, issued another damaging report. Among its recommendations was that the city seek this financial management review. Increasing concerns about the treasurer's performance prompted the city council to summon him to address the issues cited by the auditors. When the IG report raised recurring questions regarding the treasurer's performance of statutory duties, he was once again called to report to the council, in October 2007.

Our observations and conclusions relative to the treasurer's performance in office mirror those of prior investigations and reports. In addition, we found the office to be devoid of leadership and management, and little evidence of the treasurer's capability or interest to initiate positive change. We question whether employees are properly trained, sufficiently supervised or, in some cases, capable of completing assigned duties. Because of what appears to be neglect or disinterest on the part of the current treasurer, there is little basis, if any, to conclude that he is capable of fulfilling those staff and cash management responsibilities commonly attributed to and legally required of a municipal treasurer. As a result, we are not confident that essential financial controls are consistently or effectively implemented.

Among the deficiencies or improprieties identified in our review, by the outside auditor or by the Inspector General were the following:

- Necessary adjustments, identified by staff from Accountemps, have not been posted to the treasurer's cash book. As a result, the cash book has not been accurately reconciled to the auditor's general ledger since 2004 and the precise cash standing of the city is uncertain;
- Month-long delays have occurred in posting bond proceeds to the cash book and reporting receipts to the city auditor;

- Vendor payments have been issued without prior warrant approval on several occasions;
- A box was recently found in the treasurer's office with almost \$60,000 in tax title settlement payments dating back 11 months, including more than \$1,000 in cash;
- Failed to recognize and post \$600,000 in stabilization fund interest;
- Adequate controls are lacking over the stamp used to sign city checks;
- As a result of delays in posting and reporting receipts, the annual outside audit is delayed and its value diminished;
- The office has failed to file state meals tax returns electronically as required, resulting in financial penalties averaging \$100 a month over the last two years;
- As a result of on-going withholding or electronic payment problems, apparently originating in the treasurer's office, city employees are not receiving credit for their contributions to the Medicare system;
- Payments for federal tax withholdings have been late or missing; the IRS has imposed financial penalties of approximately \$5,200 in fiscal 2005 and \$3,900 in fiscal 2006. At least one other payment was made to the IRS from a manual check that was not recorded in the cash book or the general ledger;
- Reports of absenteeism by the treasurer and the lack of rules, or the uniform enforcement of rules, on staff attendance.

At the same time, our review goes beyond the treasurer's office to include all the financial management functions of city government. We offer recommendations accordingly. However, the situation in the treasurer's office stands out as most symptomatic of a fundamentally flawed structure that penetrates the entire executive side of city government. In short, line authority and the ability to hold people accountable are lacking.

Holyoke's government reflects a Plan "B" structure, which is characterized by a "strong" mayor and a city council. The mayor and members of the council are elected by popular vote every two years. Seven of 15 council members represent the residential wards of the city and the remaining eight are elected at large. Among its duties under the city charter, the council appoints the city collector, city auditor, assessors, certain other municipal officers and it confirms most mayoral appointments. It is noteworthy, however, that city council has had few opportunities to exercise real appointing authority. The auditor has been in office for 19 years and is civil service protected, the collector has occupied that position continuously for 14 years, and one of the two assessors is 20 years in office.

The mayor, who serves only a two year term, appoints the city solicitor, remaining department heads, commissioners and municipal officials with the exception of the city clerk and

treasurer, who are elected in their own right. The treasurer, who serves a four year term, has held office since 1998.

Under this structure, the notion of a strong mayor is illusory. In reality, the mayor does not function as a fully empowered, central authority who can demand that jobs get done. Nor can he hold elected department heads or those officers, appointed by the city council, accountable for their actions or inactions. In fact, none of the financial officers are appointed by the mayor, or report to him. This lack of authority severely limits the ability of the mayor to impose sound financial management practices, to coordinate activities of city departments, or to ensure that personnel policies are equitably applied to all city employees. Also impacted is his ability to implement city-wide initiatives with goals to improve services, complete projects and generally advance the quality of life in Holyoke.

These factors are particularly relevant in this time of increasing fiscal pressures on municipal government and for larger cities like Holyoke which has a fiscal 2008 budget of \$131.8 million. Holyoke's budget is funded largely by state aid (60.1 percent in 2007) and local property taxes (28.6 percent). Only Lawrence (69.3 percent) and Springfield (60.6 percent) received larger shares of their revenues from the Commonwealth. Holyoke's large state aid share is a reflection of the poverty in the community, not the lack of effort on the local tax front. Holyoke's average single-family tax bill was \$2,830 in fiscal 2007, and was 36 percent below the state average. With a residential property tax rate of \$12.95 per \$1,000 and a commercial/industrial/personal property tax rate of \$34.55 in 2007, it is one of 108 communities which shift a portion of their tax burden from the residential to the business sector. The 2007 commercial/industrial tax rate was the highest in the Commonwealth.

In this fiscal environment, the mayor has managed to follow prudent policies and, as a result, has built a reserve of almost \$8.5 million (6.4 percent of its budget) in its stabilization fund. On September 17, 2007, the city's free cash was certified in the amount of \$4.4 million which represents 3.3 percent of its annual budget. These reserve balances are due in large part to rigorous controls against overspending of appropriations and extremely conservative estimates of local receipts.

Oversight of city finances originates, in large part, from a strong city auditor's office. The auditor plays a role in the budget development and, through the course of the year, works in tandem with the city procurement office to monitor departmental spending through rigid, long-standing practices. Among other departments, the personnel office is under the jurisdiction of the mayor, and administers appropriate policies, but has little leverage to impose strict enforcement. For example, needed, but lacking, are rules for completing daily timesheets that are uniform and required of all employees.

Although the office of the collector and the assessing department function in virtual isolation, cooperation exists. However, there is no leadership mechanism that connects departments and there is little incentive to work collaboratively on city-wide issues. As a result, regular communication between the mayor and city department managers appears to be ad hoc, and on an as needed basis. This structure fails to create strong reporting relationships,

particularly between the mayor and finance officers, and builds separation into the system which will over time increasingly impact financial operations.

Conclusion – The negative effect of the mayor’s inability to oversee department activities was most evident last year when he was unaware that decisions by the assessors and that were later challenged by DOR would delay approval of the city tax rate and mailing of tax bills to residents. Lack of communication may have been a factor when, in four of the last six years, the city failed to meet December deadlines for submission of the Tax Recap Sheet in order to generate the January 1 tax bill on time. With more accountability, the mayor and city council may have been better able to respond to the outside auditor’s management letters which have been critical of the treasurer’s office for three consecutive years.

Today, in terms of financial management procedures, there are steps the collector, the assessors, and other departments can take to improve operations. These are reflected in our recommendations. In some instances, changes are required by statutes while in others, the mayor can direct implementation of change. Otherwise, under the current structure of government and for all practical purposes, department managers report to no one, are not accountable to anyone and cannot be compelled to act. The same may be said about employees, many of whom are not required to account for their time or their performance.

Most egregious is the city treasurer, whose performance and whose office has received continuous, widespread and justifiable criticism. In response, our recommendations for that office are numerous, and consistent with comments and recommendations in the outside auditor’s management letters and in the IG’s May 2007 report.

More to the point, the succession of increasingly critical management letters from the auditor, a harsh IG’s report, and this financial management review represent an escalation in actions, intended in part to convey to the treasurer the seriousness of his circumstances. To date, there is no evidence that they have captured his attention. As a result, we share the concern of the mayor, and others, that city cash balances are uncertain, that reports on the city’s financial condition are not credible, and that an error of far reaching impact may be imminent.

At this stage, circumstances limit the ability of DOR to right the situation, but there is action that the mayor and city council can take. In our recommendations, we offer a means to immediately address the treasurer’s office issues, as well as a longer-term course to correct underlying causes that run counter to accountability in government.

Summary of Report Recommendations

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- 19) Send School Payroll Checks to School Department
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- 21) Control Over Signature Stamp
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- 39) Develop On-Off Payroll Notification Process

Primary Recommendations

Despite repeated warnings in the last three management letters from the city's outside auditor, an investigative report by the Inspector General, and questioning by the city council, there appears to be little improvement in the treasurer's efforts to fulfill many of the most basic duties of his office. We believe that there is weak evidence that repeated assurances by the treasurer of his intent to manage staff and alter his behavior and performance have merit.

As the treasurer continues on his current path, we believe the mayor and city council have little choice but to abandon the restraint shown to date and to respond with immediate, decisive action. Toward that end, we recommend the following.

Recommendation 1: Come to Agreement on a New Position in the Treasurer's Office

We recommend that the mayor and city council president meet with the treasurer to come to agreement on a new position for that department, but with conditions. To assist in this regard, the Commissioner of Revenue will send his representative to this meeting. He will do so under the authority of MGL c.41, s.39B, a statute that grants the Commissioner the authority to initiate a process to remove a municipal treasurer if, in the Commissioner's opinion, the safety of city funds are jeopardized by the treasurer continuing in office.

In the fiscal 2006 city budget, funding was approved for an additional position in the treasurer's office. However, because the treasurer failed to fill the position over the fiscal year, funding was not continued in subsequent budgets. More recently, the treasurer has stated that an additional staff person is needed to resolve problems in his office.

We recommend that, once again, the mayor propose and the city council approve funding for an additional position in the treasurer's office, but only if the treasurer agrees that the person in the position:

- will be appointed by the mayor with approval of the city council;
- must meet qualifications that include requisite knowledge and credible work experience sufficient to perform duties and responsibilities outlined in a written job description of the treasury functions;
- will be second-in-command to the treasurer with authority to act as treasurer in his temporary or long-term absence;
- will supervise staff and monitor office practices and procedures;
- will maintain the cashbook, manage bank accounts and complete monthly reconciliations of cash internally and with the city auditor's office.

We recommend that the city provide a salary for this position of between \$60,000 and \$70,000 a year to attract candidates with the necessary qualifications. To improve the chances of attracting a sufficiently qualified candidate, the city should also consider waiving its residency requirement.

Recommendation 2: Require the Treasurer to Report to the City Council

We recommend that the city council require the treasurer to present reports on a regular basis. Under Section 2-107 of the city charter, the treasurer is required, once in six months or more often if required, to report to the city council on all monies received and paid by him and otherwise on the condition of city accounts. We recommend that the city council require reports on a monthly, or at least quarterly, basis.

Recommendation 3: Convert the Treasurer to an Appointed Position

We recommend that the city act to convert the treasurer to an appointed position. In Holyoke city government, the collector, the auditor and the assessors are already appointed positions. Like each of these officers, the treasurer performs a strictly ministerial function which requires a certain skill set and professional background. Only through an interview and appointment process can the city ensure that a qualified individual will occupy the position. This is in contrast to the random qualifications of candidates when the treasurer is an elected office. Therefore, we recommend that the city, through a special act of the Legislature, amend its charter to make the treasurer a position appointed by the mayor. If approved, the current treasurer could remain in office until his present term ends in two years. Thereafter a new appointee would occupy the position.

Recommendation 4: Initiate a Process to Evaluate the Structure of City Government

We recommend that the mayor and city council jointly create a government study committee. On paper, the mayor appears to run Holyoke city government on a day to day basis. However, he has virtually no authority over key executive branch financial officers. Under the current city charter, the treasurer is elected, while the collector, auditor and assessors are appointed by the city council. Given the general lack of line authority and true accountability, this structure has proven to be marginally functional and ill-suited to meet the challenges ahead for Massachusetts cities.

Therefore, we encourage the mayor and city council to acknowledge the limitations of the current structure and initiate a process to invoke change. This can be accomplished through the formation of a joint government study committee or by more immediate action by the mayor and city council to agree on draft amendments to the city charter making the treasurer, collector, auditor and assessors mayoral appointments.

We further recommend seeking approval of the charter amendments through a special act of the Legislature. It is likely that a special act passed by the General Court and signed by the Governor would also require the approval of Holyoke voters before it can take effect.

Overall Financial Management

A review of the city's overall financial management practices focuses on the procedures in place to accomplish tasks that typically cross over various municipal departments, as well as those that tend to impact city government on a global basis. Accordingly, we examined the budget process and the payroll and vendor warrant processes. We looked at long-term planning, financial monitoring practices and financial policies, as well as the effect of the city's organizational structure on the operation of government. We examined the purchasing system and personnel administration. We considered the roles and relationships among individuals together with the level of communication and cooperation that exists among offices. Finally, we reviewed local compliance with state laws and regulations relating to finance issues and adherence to timetables for the submission of the annual balance sheet (for free cash certification), Tax Recap Sheet (for tax rate approval) and Schedule A (to report year end financial activity), and periodic reports to the State Department of Revenue (DOR).

In this context, the budget process in Holyoke is well-defined. It begins in early November when the city auditor circulates requests for appropriations to department managers and typically ends in the first week of May with the mayor's presentation of the budget to the city council. Revenues to support the budget are estimated separately in January, after the formal budget process starts, but do not include long-term projections. The mayor is responsible for submitting an annual capital improvement plan to the city council, which is funded by certified free cash. However, there is no process spelled out for evaluating the city's infrastructure or for prioritizing requests, and there are no formal debt policies to guide borrowing decisions.

Outside the budget process, procedures are followed to produce payroll and vendor warrants, but the city still needs to gain greater control over the payroll process. Not every employee submits a daily timesheet and not all department managers sign timesheets as required by law. The personnel department is charged with maintaining a centralized repository that accounts for employee accrued sick leave and vacation time. However, files are incomplete because employees are not required to document when they use regular, or compensated, time. In many instances, the system places responsibility on employees to track their own accrued time and report it, for approval, only at year end to a department manager.

The city has done well to create reserves equal to almost 10 percent of its budget with \$12.9 million in stabilization and free cash entering fiscal 2008, but there are no written policies for building on or safeguarding these reserves. The city's free cash position has been augmented by conservative estimates of local receipts, but this is the result of a long-standing practice of the city auditor, not a formally adopted policy. Also, looking ahead, like all municipalities, the city needs to identify and address liabilities associated with other post employment benefits (OPEB).

The city has set a policy to control spending which is executed through a rigorous purchase order (PO) system. Every departmental purchase of goods or services requires advance approval of a requisition and issuance of a PO. The requisition is first approved by the chief procurement officer and the approved PO is later presented to the auditor, with an invoice, for review and placement on the vendor warrant once the good or service is received. While the lineal process makes sense, the volume of work may be unnecessarily heavy because even the smallest of purchases requires a PO.

We are satisfied that personnel files are secure, but for completeness and greater accuracy, the personnel department should be directed to update job descriptions for all positions, starting in the treasurer's office. Many of the staff we interviewed in city hall seemed unaware of their own job descriptions. Where collective bargaining agreements present obstacles, discussions should be held with union representatives to overcome them so that job descriptions can reflect what people actually do.

Conclusion - Despite the situation in the treasurer's office, there is, in most other offices, a commitment to routine procedures that has allowed the city to annually manage its budget and build reserves. Even so, there are additional steps the mayor can take to help improve operations, and actions that the city council and voters of Holyoke can take to remove barriers to a more accountable government. Our recommendations address these and other issues.

Recommendation 5: Set City Hall and Employee Hours

We recommend that the mayor propose and city council approve an ordinance establishing city hall and employee hours. It is our understanding that in city hall, not all offices are staffed when they are intended to be open to the public. If the treasurer's apparent policies are typical, where it is reported that he routinely takes time off and enforces no rules on staff attendance, then uniform guidelines for managers and staff would appear justified. Therefore, to hold all departments to the same standard and to better serve the public, we recommend that the mayor and city council act to set city hall work hours for all offices.

Under M.G.L. c. 40 s. 21A, a city may, by ordinance, set the work hours for all non-school, non-union employees and those employees under collective bargaining agreements which do not speak to employee hours. If a union contract addresses employee hours, it would supercede the ordinance unless and until changed through negotiations. Such an ordinance would, as well, set the hours of elected and appointed managers and officials.

Recommendation 6: Require Detailed Time Sheets from All Employees

We recommend that employees and managers be required to complete daily timesheets. State law (M.G.L. c.41 s. 41) requires a department head or an appointing authority to approve, through a signature, the salary due employees for each pay period. The city auditor is obligated (Government Accounting Standards Board, Statement No. 16), at year end to report the city's

liability for accrued compensated absences as part of its financial statements. To fulfill this responsibility, the city must be able to account for sick leave, vacation time and compensated time both earned and used by each individual employee. Therefore, we recommend that the city require all non-school employees to complete daily time sheets indicating the number, and type of, hours worked each day.

To some extent, this system is in effect for police, fire and public works departments and other wage earners, but it is not complete and not consistent across all departments. A daily timesheet system should also be adhered to by salaried employees, including appointed department heads. Because hours are static, the process would involve exception reports. That is, it is assumed that “regular” pay is used each day, unless sick, vacation or compensated time is otherwise indicated. The department manager, or appointing authority, would then confirm and approve employee compensation for each pay period.

However, it is our understanding that, currently, salaried employees are not required to indicate any hours worked and submit no timesheets. The only records of employee time shown to us appear to require an end-of year signature by a department head, and did not always indicate employee use of regular, sick, vacation or compensated time. With no independent and detailed records, the city is exposed to potential liabilities if confronted by a legal claim for compensation for unused time.

We further recommend that the treasurer consult with Munis support staff about how their payroll software could be used to track and update sick and vacation time, which should be an available enhancement. To do this, a baseline of the amount of earned and unused sick leave, vacation time, and compensated time will have to be determined for each employee. While the auditor is required to report the city’s liability for accrued compensated absences, the information would typically be drawn from a centralized record of the entire city’s sick and vacation time.

Recommendation 7: Formulate Other Post-Employment Benefits Liability Policy

We recommend the city formulate a policy in response to the Other Post-Employment Benefits (OPEB) liability. The OPEB unfunded liability is the cost assigned to benefits (other than pensions) already earned by public employees and to be distributed upon retirement. While there is no requirement to fund the OPEB liability thus far, the Governmental Accounting Standards Board (GASB) Statement 45 requires that, through actuarial analysis, the dollar value of the unfunded OPEB liability be determined every two years. Holyoke has initiated steps to determine their liability by means of the actuarial evaluation. Holyoke, like most municipalities, presently covers OPEB expenses on a pay-as-you-go basis, i.e., only paying for benefits of current year retirees. If a community chooses to fund the liability, the adoption of special legislation would be necessary to create an OPEB reserve.

After it completes an actuarial evaluation, which is required as of June 30, 2008 under GASB 45, the city should define an OPEB policy. It may be as simple as confirming that costs will be covered on a “pay-as-you-go” basis, working toward the establishment of a reserve through special legislation, or a combination of the two. For additional information regarding OPEB, and steps to reduce the size of the liability, see resources available on the Department of Revenue, [Division of Local Services website](#).

Recommendation 8: Establish an Audit Committee

We recommend that the mayor and city council jointly create and appoint an audit committee. An audit committee is a group of people who can help determine in advance the requirements and objectives of the city’s outside audit. Its members may be involved in the selection of the city’s independent auditor. More importantly, the committee could review the auditor’s management letter and monitor progress in resolving audit issues. The 2004, 2005 and 2006 audits by Melanson Heath and Company each identified approximately 30 issues in the city’s financial practices that, including several “reportable conditions” and “material weaknesses” in the treasurer’s department, should be addressed. Nearly half of the issues raised by the 2005 and 2006 audits were originally raised in the prior year’s audit; and, several issues originally raised in 2005 were elevated to “reportable conditions” in the 2006 audit. The mayor, working with finance officers, would be expected to formulate a corrective action plan to address issues raised in the auditor’s management letter. He would also be primarily responsible for the execution of the plan. An audit committee would monitor progress.

We recommend that the mayor and the city council each appoint members to an audit committee from the general public. Ideally, audit committee members, numbering five or so, would have some level of accounting knowledge and experience. Given the substance of an audit report, finance officers should not serve as members of the audit committee in order to avoid potential conflicts of interest.

Recommendation 9: Create a Financial Team

We recommend that the city establish a financial team through the adoption of an ordinance. The financial team should be a permanent committee. It should be chaired by the mayor and meet on a regular basis throughout the year. Its membership should include at least the auditor, collector, treasurer, principal assessor and IT director. A financial management team can serve as a means to open lines of communication and improve coordination between and among departments and officials. An ordinance would formalize the participation of the above officials in the financial team process, especially since none of them currently are answerable to the mayor.

The purpose of the financial team is to assist the mayor in compiling comprehensive financial information from a variety of sources to assist the city’s policymakers in their decision-

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

Recommendation 10: Systematic Review of Job Descriptions

We recommend that the personnel director systematically review and revise the employee job descriptions, beginning in the treasurer's office. The personnel office maintains job descriptions for all non-elected positions in its central files and typically reviews them as turnover occurs. However, many of the staff we interviewed indicated they were unaware of the substance of their own job descriptions. Therefore, we recommend that a systematic review of all job descriptions be conducted. The process should seek to confirm or document what employees actually do and that all legal responsibilities are accounted for. Conformance with collective bargaining agreements should also be considered. The revised job descriptions should be reviewed by the affected personnel and appropriate department head.

We further recommend that this process start with the treasurer's office. Allegations of absenteeism, lack of training and a leadership vacuum raise concerns whether essential functions, beyond those we have already identified are accounted for and fulfilled.

Recommendation 11: Institute a Purchase Order Threshold

We recommend the city institute a purchase order (PO) threshold for all city and school departments. Through the city auditor's office and the procurement office, the city has implemented a policy that favors tight control and close monitoring of departmental spending. Under current practice, all departmental purchases, regardless of expenditure amount, require a PO which substantially increases staff workloads. Even though further checks and balances are built into the verification process completed by the auditor, we do not question the value of additional financial controls. We suggest, however, that a PO may not be needed for smaller dollar purchases. Most often, communities address this issue by establishing a dollar threshold (e.g., \$250, \$500, \$1,000, etc.) under which a PO is not necessary.

Therefore, we suggest that the chief procurement officer conduct an analysis of POs issued through his office during the course of a fiscal year. This analysis should indicate where, from a financial control and a workload perspective, a reasonable threshold might be set. For instance, if 70 percent of all POs are for an expenditure of \$250 or less, this amount might be set as a threshold. If a threshold is created, then a policy should be developed and distributed to departments.

Computers and Technology

Computers and technology play a vital role in municipal financial management today. On the revenue side, computers are used by the assessor to maintain property values, set tax rates and generate the property tax and motor vehicle excise commitments; the collector takes the assessor's commitments electronically to generate the tax bills, and then to post receipts and manage receivables; the treasurer records the turnovers of city monies to his department to track the city's cash position. On the expenditure side, departments enter data from vendor invoices and employees' time into the Munis software so that the auditor can generate the warrant for the mayor's approval; the treasurer signs the computer-generated checks and tracks the disbursements in his electronic cash book. Cash balances and receivables are all reconciled on electronically generated reports. Debt schedules, monthly revenue and expenditure reports, annual budgets, and balance sheets are all maintained in electronic files. Email is used regularly to communicate and to provide internal access to information. Computers play a key role in virtually every element of the city's finances.

In an arrangement beginning in fiscal 2007, Holyoke "outsourced" their information technology (IT) planning and support functions to the Holyoke Gas & Electric Department (G&E). The G&E Telecommunications Manager oversees the city's network and IT infrastructure, with his staff providing design, installation, training and support functions for both the G&E and the city. This agreement appears to work quite well for both the G&E and the city. The G&E was only willing to provide services if that could be done without the G&E ratepayers subsidizing the project; that seems to be the case here. IT services cost the city \$170,000 annually, which the G&E estimates as the approximate cost of two IT tech positions.

Training for basic computer tasks is done in-house by G&E personnel, which saves the city money. City IT users email support requests to the G&E, and they respond very quickly according to users in city hall. Most service requests are addressed, and usually resolved, in a matter of hours by G&E staff. Support for the financial software, Munis (auditor's, treasurer's and collector's offices) and Patriot Systems (assessor's office), is still provided by the software vendors.

The city is entering the 2nd year of a 3-year capital IT improvement plan designed by the G&E. In the first year, critical needs including securing the Munis financial system were addressed. The Munis server, which is mission-critical to the city's financial offices, is now backed up by a second server. The other primary network servers were also upgraded this year with brand new Dell servers. System security is being addressed this year. Data on all servers are backed up by the G&E staff. Backing up individual workstations to the servers falls to each department. The G&E maintains all original program discs and can restore a server-based application very quickly.

The mayor has appointed an information technology committee that includes the police and fire chiefs, the auditor, collector, DPW director, the school superintendent and the director of the gas and electric department. There is a consolidated computer budget of \$446,000 for Fiscal 2008, including the \$170,000 payment to the G&E.

Conclusion - Holyoke is addressing its computer and information technology needs. A technology committee and a separate line-item for technology are both positive elements of a comprehensive technology strategy. The management relationship with the gas and electric department is new, but seems to be working well. The G&E technology staff seemed knowledgeable, realistic and committed to serving the needs of the city while maintaining their primary focus on G&E customers. We offer the following recommendations to the extent that they fit within the scope of work under the current G&E agreement with the city.

Recommendation 12: Survey Staff

We recommend that the information technology (IT) department conduct a survey to measure staff proficiency levels and to identify where procedures can be streamlined. By reviewing each office's procedures, the IT assessment may identify repetitive tasks that may be automated or streamlined. It may also identify shared data that may be transferred electronically or developed into a shared database available to more than one office. The survey results may help the IT consultant 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 13: Increase Training Opportunities for Staff

We recommend that the city follow up the survey with training sessions for staff. The city should be sure to budget for training with the city's outside financial software vendors as the gas and electric department has no knowledge of them. Vendors should be contacted for training on data transfers so that the assessor and collector can more easily reconcile the transfer of the assessor's real estate commitment from Patriot software to the collector's Munis software. Munis personnel could show the payroll clerk how to print reports to spool files (see Recommendation 18), and to track sick and vacation time electronically.

Treasurer

The treasurer is a community's cash manager and, as such, has custody of all municipal money. Included is the responsibility to make certain that city receipts are deposited into appropriate bank accounts and to monitor balances to ensure that sufficient funds are available to cover city obligations as they become due. The treasurer invests city funds and manages debt to maximize investment income and meet cash flow needs. To fulfill these responsibilities, the treasurer maintains a cashbook, debt schedule, check registers, and various logs to track balances for grants, trusts and revolving funds as well as other special revenue funds. As a financial control, the treasurer is obligated to reconcile cash balances and debt, internally, and then with the auditor on a regular basis. Finally, the treasurer maintains tax title accounts, conducts sales of land and prepares documents to petition for foreclosure. In Holyoke, the treasurer's office is also responsible for payroll and benefits administration.

The Holyoke treasurer was first appointed in 1998 to fill the unexpired term of the previous treasurer and was re-elected in 2001 and 2005. His current term ends in 2009. Prior to his election, he served ten years as a city assessor. Staff include a deputy treasurer, an assistant treasurer and a payroll clerk who have three years, three years and two months, respectively, as full-time office employees. The assistant treasurer previously served in the Hampden County treasurer's office and the payroll clerk worked three and a half years in the Holyoke collector's office. A person from Accountemps, whose wages are paid by the city gas and electric department, also works in the office in addition to a summer intern.

The office is set up with six desktop computers which are networked and are installed with Munis financial management software. The office computers also have access to Microsoft spreadsheet and word processing applications.

Conclusion - It appears that, up until 2004, the treasurer relied heavily on his former assistant treasurer to complete many of the critical tasks of the office. With her departure, it is not clear that all her responsibilities were reassigned. With very little overlapping time with her successor and the deputy treasurer, it is likely that insufficient training occurred. Earlier in this report, we make a recommendation for an additional staff position in the treasurer's office with responsibilities to oversee and manage staff. Whether or not this position is created, a stronger effort to set and enforce rules, monitor work, and generally manage staff is a critical department need.

In this context, our recommendations below reflect steps that can be taken to improve operations in the treasurer's office.

Recommendation 14: Account for All Office Responsibilities

We recommend that the treasurer account for all requisite job responsibilities and arrange for staff training where necessary. The treasurer should review a list of requisite department tasks and assign them to staff. Whether or not there are written job descriptions, he should meet with the personnel administrator to review assignments and agree on formal staff duties. As important, the treasurer needs to monitor staff performance and manage staff activities to ensure that staff responsibilities are performed accurately and in a timely fashion.

At the end of the recommendations section of the report is a summary of the duties of municipal treasurers with statutory references (Appendix One). As the treasurer considers the delineation of office responsibilities in the future, he must be certain to, at a minimum, see that each of those tasks has been assigned to someone in his office.

Recommendation 15: Reconcile Cash Promptly

We recommend that the treasurer and the auditor conduct prompt, monthly cash reconciliations. After the monthly closing, the treasurer should internally reconcile the cashbook with all bank statements and then provide balances to the auditor's office to be reconciled with the general ledger. Holyoke's treasurer has come under fire from both the city's outside auditor and the Inspector General for failing to reconcile his cash to the banks statements dating back to 2004. In response, an accountant from Accountemps is in the office to assist in identifying and researching variances between the cash book and the bank statements. To complete the process, the treasurer now needs to make sure that the corresponding corrections in the cash book are made. Only then can the corrected cash book be reconciled to the auditor's general ledger. Once this is done, the treasurer needs to commit to a monthly schedule.

Failure to fulfill these responsibilities has delayed the city's auditors and added to the cost of the audit. In addition, prompt and frequent reconciliation is essential in order to maintain control over cash.

Recommendation 16: Create a Monthly Cash Flow Budget

We recommend that the treasurer create a monthly cash flow projection budget. It is the responsibility of the treasurer to manage the city's cash and ensure that account balances are sufficient to cover city obligations as they arise. In this regard, a cash flow budget is a useful tool that can help anticipate periods of low cash balances and better manage short-term investment and borrowing.

A simple spreadsheet can be devised in Microsoft Excel to serve as a cash flow budget. By applying past patterns of monthly spending and collections (as evidenced by warrants and monthly revenue reports) to current year appropriations, and overlaying projected debt service obligations, a reasonable forecast of the city's cash flow will emerge. Through the course of the

year, the cash flow forecast can be adjusted for unexpected circumstances, and actual monthly costs or revenues should replace estimates.

Recommendation 17: Comply with Electronic Filing Requirements

We recommend that the treasurer comply with federal requirements that employee withholdings be paid electronically. Federal law requires municipal employers to withhold certain amounts for federal income tax and Medicare taxes. The city is required to report the wages paid and taxes withheld to the IRS quarterly on a Form 941. Payments are required to be deposited using the Electronic Federal Tax Payment System (EFTPS) or at an authorized financial institution. To meet DOR notification requirements, the city must file its meals tax return with them electronically as well. The city has been fined for not complying with these electronic payment and reporting requirements. These fines could be easily avoided by complying with this requirement. The treasurer should learn how to make electronic payments, or assign the task to someone otherwise capable.

Recommendation 18: Print Payroll Reports to Spool Files

We recommend that the treasurer print payroll reports to spool files instead of the printer. Processing payroll in Munis requires the payroll clerk to print several voluminous reports at several points in the process. It is not clear how useful these reports are, or whether they are just processing triggers. To the extent that they are indeed useful, transmission of the reports would be facilitated by attaching them to an email distribution list or, if possible, making them available on a shared network drive.

Recommendation 19: Send School Payroll Checks to the School Department

We recommend that the treasurer send the school payroll checks to the school department in the summer just as he does the rest of the year. Office interruptions occur when teachers without direct deposit come to pick up their paychecks in the summertime. We suggest instead that the treasurer keep to his normal practice and route the checks to the schools or school department offices for distribution as occurs throughout the year. Requiring direct deposit for all employees would be another way to deal with this issue.

Recommendation 20: Bond All Employees Who Handle Money

We recommend that the treasurer take the appropriate steps to immediately bond all employees in his office. It is our understanding that the deputy collector, who is most proximate to the service counter and who accepts departmental turnovers is not bonded. Neither is the assistant treasurer bonded, even though she is primarily responsible for receiving money from

city departments. Currently, the only member of the treasurer's office who is bonded is the treasurer himself.

Although M.G.L. Ch. 41 §35 requires bonds only of treasurers, under the interpretation of statutes, assistant treasurers and temporary treasurers are liable on their bonds even for money lost without any fault on their part. Therefore, all members of the treasurer's office who handle city money must be bonded, removed from the office or given other responsibilities.

Recommendation 21: Control Over Signature Stamp

We recommend that the treasurer secure the check signature stamp in a locked place and create a log sheet for its use. The official stamp for signing city checks and documents is merely placed in an open office vault when not in use. All office employees, and potentially others entering the office area, have access to it. When not in use, the signature stamp should be under lock. In addition, the treasurer should institute a written policy on the proper use of the stamp, create a log recording when it is used, and permit only bonded employees access to it.

Recommendation 22: Cease Writing Manual Checks

We recommend that the treasurer issue all checks electronically and cease issuing any manual checks. The deputy treasurer spends several hours each month manually typing 15 to 60 checks from a vendor warrant produced and approved by the retirement board. The treasurer should contact the Retirement Board about generating the checks for his signature electronically, as they already do with the benefit checks. It is our understanding that the retirement board is considering software upgrades that will have check producing capability.

In other instances, the treasurer has issued manual checks without a warrant in violation of M.G.L. Chapter 41 §56. The warrant process provides a financial control, protects against fraudulent and improper payments, and creates an audit trail. It provides for the auditor's review to determine that the payment is proper and requires mayoral approval before the check is issued.

Recommendation 23: Improve Controls Over Tax Title Accounts

We recommend that the treasurer create a log in Excel to track the status of properties placed in tax title and any subsequent payments, and assign someone in his office to deposit any payments daily. During the 2006 audit, Melanson Heath discovered a box containing nearly \$57,000 in payments, including \$1,000 in cash, for tax title properties which had accumulated over 11 months. It is our understanding that although the deputy collector is reportedly responsible for maintaining tax title accounts, the treasurer reserves to himself the task of making all deposits. Failure to deposit these funds in a timely manner exposed the office to potential theft and lost interest. Failure to account for these payments raises additional questions concerning the status and accuracy of tax title accounts. These circumstances speak to a

disregard for security, a lack of procedures, and a neglect of responsibilities. We recommend that the treasurer address these issues.

Recommendation 24: Distribute All Longevity Pay at One Time

We recommend that all longevity payments be distributed in July at the start of the fiscal year. For each payroll, the treasurer's clerk must review a list of employees to identify who is entitled to a longevity payment based on their service anniversary date. As a result, longevity checks are issued throughout the year. This is an inefficient expenditure of time.

We recommend instead a policy stating that a person who qualifies for a longevity payment will begin receiving it in the next fiscal year, as opposed to their service anniversary date. In this way, all longevity checks can be distributed at the start of the fiscal year to all who are and became eligible through the just ending fiscal year. This change will require collective bargaining.

Recommendation 25: Address the City's Custodial Credit Risk

We recommend that the treasurer adopt policies to address the city's custodial credit risk. Custodial credit risk is the risk that the city's deposits may not be returned to it in the event of a bank failure. The Federal Deposit Insurance Corporation (FDIC), an agency established to maintain stability and public confidence in the nation's financial system, insures deposits up to \$100,000 in virtually all United States banks and savings associations, but Holyoke maintains large balances that are above these insured levels. At year end in fiscal 2006, \$29 million or 86 percent of the city's bank balances was exposed to custodial risk as uninsured or uncollateralized. Some municipalities have adopted policies requiring their banks to obtain additional insurance from the Deposit Insurance Fund (DIF) or otherwise collateralize deposits over \$100,000. This additional protection gives depositors with large balances an additional level of security. Other risk policies provide for the prudent selection of banks that the city invests with and limit the amount of the city's balances that may be held in a single bank.

Collector

A municipality's tax collector possesses the authority to collect real and personal property taxes, excises, betterments and certain other charges added to and committed as taxes. Collections need to be counted, posted to taxpayer accounts, and either turned-over to the treasurer or deposited daily. Delinquent accounts need to be pursued and then moved efficiently into the treasurer's tax title accounts. To be successful, a collector must maintain an up-to-date receivable control that is reconciled internally and then externally with the auditor monthly. Credit reports should be run as appropriate and research needs to be completed to confirm legitimate refunds due to residents. In accordance with state law, the office should respond to requests for municipal lien certificates within ten days. In most communities, the collector manages the contractual agreement with the deputy collector.

The Holyoke tax collector was appointed to his first, three-year term by the city council 14 years ago. Staff includes an assistant collector and three clerks. All are full-time and trained to cover the essential functions of the office.

The real and personal property commitments are received from the assessors and forwarded to the outside deputy collector who prints, stuffs and mails approximately 9,700 real estate tax and about 460 personal property tax bills quarterly. The deputy collector receives motor vehicle billing information directly from Registry of Motor Vehicles and issues the city's more than 43,000 excise tax bills through the fiscal year.

Collections are counted and posted to taxpayer accounts in Munis using scanning wands, as received, and deposited to a collector's bank account daily. As an appropriate financial control in preparation of a deposit, each clerk runs an adding machine tape on cash and checks received, and reconciles the total with a Munis report of payments posted from bills. However, the assistant collector then merges the calculations, or settlement sheets, produced by the clerks and essentially repeats the process on a daily and monthly basis in hardcopy.

Roughly half of all collections are received by mail, 25-30 percent are processed by tax escrow services and 10 percent come in over the counter. The collector holds the money in his account until the checks clear and then turns receipts over to the treasurer monthly. As these turnovers take place weeks after the taxes are paid, the treasurer is denied access to a significant portion of the city's cash. The delay also makes it difficult to track and forecast the overall cash flow.

Delinquent tax accounts are pursued and moved into the treasurer's tax title accounts, but typically not until late in the calendar year. The collector maintains an up-to-date receivable control, but it is unclear whether it is reconciled to source documents each month. At the end of each quarter, information is provided to the outside auditor who reconciles the collector's receivable control balance to the city auditor's general ledger. This, however, may provide the city a false sense of confidence in its receivable position if the receivable control is not

reconciled to the collector's source documents. The collector maintains four bank accounts and each should be reconciled monthly.

The assistant collector also serves as the city parking clerk. She tracks charges and payments using customized software and maintains a separate bank account for that purpose. Approximately 200 parking tickets are issued each month.

Conclusion - The collector's office performs most of the statutory duties of the office well. However, the infrequency of turnovers to the treasurer and the failure to reconcile his bank accounts and receivables have been cited in two of the last three audits. Our recommendations address these issues and other issues.

Recommendation 26: Turnover Receipts Frequently / Deposit Directly to Treasurer's Account

We recommend that the collector comply with M.G.L. Chapter 60 §2 and with Section 82-63 of the city ordinances by turning-over receipts to the treasurer at least once every week. The collector receives payments of real and personal property taxes, and motor vehicle excise throughout the fiscal year and deposits them into a bank account under his control. Although payments are quickly posted, he then waits until month-end to turnover the cash to the treasurer. He typically turns over the interest accrued on account balances once a year. While the collector does maintain interest bearing accounts, the treasurer should have control of the money to properly manage the city's cash, investments and borrowing. Therefore, we recommend that the collector comply with state law and the city's ordinances that require turnovers at least on a weekly basis.

We also recommend that the collector deposit receipts directly into the treasurer's bank account. The paperwork documenting a collector's turnover should still be completed on a weekly basis in order to create an audit trail. In addition to the treasurer, the city auditor should also receive a copy of the turnover.

Recommendation 27: Create Daily Log Sheets in Excel

We recommend that the collector create daily log sheets for the three clerks in Excel spreadsheets. During the course of the day, the three collection clerks accept payments over the counter or by mail, post them to Munis, and run adding machine tapes on the cash and checks received. At days-end, each clerk completes a handwritten log sheet that details money collected by revenue type by year, total receipts and an additional breakdown of cash and checks. Finally, they compare the totals on their log sheet to a Munis report of the day's collections. When the two totals agree, the logs are forwarded to the assistant collector who recalculates the checks and cash from each clerk, and then manually combines them to derive the total daily collections. She then prepares the day's deposit slip.

This process involves an unnecessary duplication of effort, and under-utilization of the Munis software. In the first instance, each clerk should reconcile her total from the adding

machine tape to a report from Munis of payments she posted from the bills. She should dispense with the handwritten logs. Once complete, the assistant collector accomplishes nothing by recounting each clerks' work. An error would have already been discovered and corrected. To prepare a single deposit, she can add totals from each of the clerk's tape, and compare it to a report from Munis on the day's total receipts. Munis should be able to run a single report that provides receipts from all three clerks.

Recommendation 28: Reconcile Detail Receivable Balances to Receivable Control

We recommend that the collector reconcile his receivable control to the detailed reports of balances due on a monthly basis. The collector maintains a monthly receivable control that shows the total amount of uncollected tax and excise by fiscal year. The report shows the initial monthly balance and adjusts for additional commitments, refunds, abatements, tax title transfers and payments to report the outstanding balance. However, the outside auditor has reported regular variances between the collector's receivable control and the detailed balance due reports. As a result, either receivables due to the city are not reflected in the city's general ledger, or they are not reflected in the balance due report and cannot be collected. Frequent reconciliations make it easier to identify problems as they occur and take corrective action. 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.

Recommendation 29: Improve Controls on the Deputy Collector Account

We recommend that the collector pay his deputy collector through the standard vendor warrant process and turn over the interest from the deputy collector account weekly. Like most collectors, Holyoke uses the services of a deputy collector to generate motor vehicle excise tax bills and to collect delinquent motor vehicle excise and personal property tax bills. The deputy collector deposits delinquent payments to a collector's bank account. The collector periodically pays the deputy collector fees outside the warrant process with a check written on that account. While this payment arrangement is allowed under the law, financial controls are stronger when the deputy collector submits a detailed bill to the collector, which is paid through the standard vendor warrant process with the appropriate checks by the city auditor. We also recommend that the collector turnover the balances in this account to the treasurer weekly, including interest.

Recommendation 30: Send Demand Letters after 15 days

We recommend that the collector send demand notices to collect outstanding taxes as soon as the law allows. With the collector posting receipts on a daily basis, the identity of tax delinquents is known soon after the close of the 4th Quarter due date. State law allows demands to be sent on the 15th day thereafter, but the collector delays until near the end of the calendar

year to do so. To his credit, additional letters are sent to delinquent taxpayers in between legal notices or actions, but the process should not lag.

The tax title process is intended to protect the interest of the city, and its ability to pursue payments by securing a lien on the property of tax delinquents. The collector has an obligation to send demands, notices of tax taking and to execute tax takings in a timely fashion. Therefore, we recommend the collector create a fixed schedule for the tax title process, assign the responsibility to a staff member, and otherwise act accordingly to protect the city's interests. Taking firm action early in the process not only produces better results, but serves notice that the city is serious about tax collections.

Recommendation 31: Impose Maximum Penalty for Bounced Checks

We recommend that the collector impose the maximum fee allowed by state law for bounced checks. Under M.G.L. c. 60 § 57A, cities and towns are allowed to impose a penalty of one percent of the amount of a bounced check or \$25, whichever is greater. If the collector has not already done so, we recommend that he impose the maximum penalty on those whose checks in payment of an obligation are returned for insufficient funds.

Recommendation 32 Reformat Billing Address Information

We recommend that the collector contact his deputy collector to alter how old and new property owners appear on property tax bills. State law requires that real estate taxes be assessed to the property owner as of January 1 of each year. If title to the property is transferred later, the new owner is listed in the assessors' system as a "care of." When the tax bill is mailed, it is addressed to the old owner c/o the new owner at the property location. However, if the old owner instructs the post office to forward his or her mail to a different address, the bill goes there instead, and is subsequently returned to the city without payment.

To ensure that the tax is received by the new or current owner, the software from which bills are printed need only be reprogrammed to display the old owner's name apart from the address which would retain the new owner's name. If bills go out in a window envelope, the prior owner's name can appear on the face of the bill, but outside the window. If self-contained, perforated bills are used, the prior owner's name can be printed in some other location on the face of the bill apart from the mailing address. The result should be far fewer returned envelopes with unpaid bills to the collector's office.

Assessors

The assessors' office is responsible for valuing all the city's real and personal property, assigning tax payments to owners, and generating the commitment authorizing the collector to collect real estate tax, personal property tax and motor vehicle excise payments. They process abatements and exemptions and estimate new growth as part of the budget process.

To ensure that residents are taxed equitably and accurately, the office maintains and updates property records with information received in response to mailings, from deeds and through the on-site inspection of sale properties and properties where a building permit has been issued. Additional information is gathered during an on-going property measure and list program. Upon resident application, assessors act on and track exemptions and abatements. They conduct classification hearings. The assessors set the tax rate, recommend the annual overlay and provide levy information for use in the Tax Recap Sheet submitted to DOR. The office is also required by DOR to document an annual property value adjustment analysis and to prepare for state certification of property values every three years.

The volume of work in the Holyoke assessing department involves approximately 8,425 residential real estate parcels and 1,224 commercial/industrial accounts. There are an additional 459 personal property accounts. All are billed on a quarterly basis. Over the course of one year, motor vehicle commitments total about 43,000 accounts. All properties are inspected every nine years as part of a cyclical re-inspection program and building permit inspections total approximately 600 per year. Sales range from 300-400 per year, and while information is collected from the Multiple Listing Service (MLS) and at open houses, few sale properties are inspected. Also in fiscal 2007, the office issued 38 residential abatements and 320 personal exemptions.

In Holyoke, the members of the board of assessors are appointed by the city council and work full-time in the office as part of the staff. One member, with 20 years on the board, functions as the department's chief assessor, and a second board member of two years serves full-time as well. The third seat on the board has been unfunded and vacant for the last ten years. Basic office functions are performed by an assistant assessor and a principal clerk, while data analysis, value determinations and other higher level assessing duties are completed by the chief assessor and the second assessor.

The computers in the office are installed with Patriot Properties appraisal software which stores property data and aids in property valuation analyses. Patriot staff also inspect and value commercial, industrial and personal properties. The consulting budget is typically \$30,000 per year including the cost for software support. This year the assessor has requested an additional \$75,000 to have Patriot revalue all the commercial/industrial properties in city.

Conclusion - From the perspective of DLS and in the opinion of the city's BLA community advisor, the assessing office fulfills its basic function and is generally in compliance

with BLA accepted practices and state regulations. There are, however, two immediate exceptions. The city needs to adjust the number of board members to meet state law requirements. The assessors need to address reasons why tax bills have been late in four of the last six years. Our recommendations address these issues.

Recommendation 33: Appoint an Odd-Numbered Member Board of Assessors

We recommend that the city council increase or reduce the number of assessors to comply with city ordinances and state law. Section 15 of the city ordinances requires the city council to appoint an assessor every year to a three-year term to fill-out a three-member board. M.G.L. Chapter 41 §24 requires that assessing boards be an odd number, yet the city only has two appointed assessors. In this instance, the mayor's budget should fund and the city council should approve a third member of the board. Alternatively, the city can, by amending its ordinances, reduce the board of assessors to one member, and retain the current second assessor as paid staff.

Recommendation 34: Adopt an Assessing Department Calendar

We recommend that the chief assessor develop a schedule of deadlines for the completion of critical departmental projects. In addition to routine tasks, the assessing department has important responsibilities which can have city-wide implications. If not completed, each has the potential to influence revenue projections, impact city expenditures, affect the budget process, as well as restrict the city's ability to get its tax rate approved by DOR.

To help ensure that city-wide priorities are met, the chief assessor should set a 12-month schedule of activities which would establish departmental deadlines in line with city deadlines for the completion of revenue projections, and the Tax Recap submission. In this way, workloads can be planned, progress can be monitored and, more importantly, problems can be anticipated and corrected in advance of critical deadlines.

Recommendation 35: Redefine Relationship with Professional Real Estate Appraisal Firm

We recommend that the city enter into a performance-based contract with its professional real estate appraisal firm. Assessing offices throughout Massachusetts vary in how the workload is assigned among the assessing board, in-house staff, and outside consultants. Regardless of who performs them, however, all fundamental duties and responsibilities must be accounted for and carried out effectively to ensure public confidence that taxation is consistent and equitable.

In the opinion of some, the city's failure to issue tax bills on time in four of the last six years is related to the lax deadlines it places on Patriot Properties to complete necessary valuation work. The Holyoke board already has a standing, per diem relationship with Patriot for commercial/industrial inspections and valuation analysis in which a defined scope of work

and performance deadlines can be specified to meet DOR requirements so that the tax rate is set on time. These deadlines are not typically written into a per diem arrangement. As a matter of practice, appraisal firms feel more obligated to service clients under contract and, as a result, are unavailable to assist the city, particularly at times when all municipalities are trying to set their tax rates. The Bureau of Local Assessment's community advisor believes this would solve the biggest impediment to setting Holyoke's tax rate on time.

Recommendation 36: Inspect All Sales Properties

We recommend that the assessing office include sales properties in their inspection schedule. Whether the sales inspections are performed by the assessors or the consulting company, they need to be done. Currently, the office sends out selective sales questionnaires and only inspects those properties where the terms of the transaction seem incompatible with current data. To their credit, the assessors do gather information on sales properties from MLS listings and attend some open houses prior to sales. However, sales properties are critical to the determination of market trends and the accurate valuation of all the parcels in the city. Therefore, to enhance the reliability of the data, the office should send out questionnaires and inspect all sales properties

Recommendation 37: Accompany the Real Estate Appraisal Consultant

We recommend that the assessors periodically accompany the real estate appraisal consultant on inspections. The assessors have contracted with Patriot Properties for a complete revaluation of all commercial and industrial properties this year. To more fully understand the process and to become more familiar with the variables involved, we suggest they accompany the consultant on a sample of their inspections.

Auditor

The auditor has a legal obligation to oversee all financial activity of a municipality. Through the maintenance of independent records and by following well-defined procedures, the office documents the flow of money into and out of municipal accounts and plays a role in the system of checks and balances established by statute to monitor and protect local assets. To fulfill this responsibility, the office prepares warrants; maintains a general ledger where receipts, expenditures and all other city financial activity are recorded; reconciles cash and debt with the treasurer and receivables with the collector monthly; produces a monthly expenditure report and reports annually on the city's liability for accrued sick leave and vacation time. The auditor also tracks revenue and is typically involved in the annual budget process.

Among required submissions to DOR, the auditor is responsible for producing the city's annual Schedule A by October 31 and its year-end Balance Sheet (for free cash certification). Finally, the auditor works with the assessors and city clerk in the preparation of the city's Tax Recap Sheet.

The Holyoke city auditor is appointed by and reports to the city council. He has been in office for 18 years and is protected by civil service laws. He is assisted by three full-time staff including an assistant auditor and two clerks - one for revenues and one for disbursements.

In terms of fulfilling his primary duties, the auditor's office functions well. Staff assistants enter data from invoices for most of the city's departments, and review the expenditures of the school and gas & electric departments, which enter information directly into Munis, so that vendor warrants can be prepared for mayoral approval bi-weekly. Staff also check the assistant treasurer's payroll entries against departmental time sheets to prepare payroll warrants weekly. By January, the auditor produces a revenue estimate and continues in a primary role during the annual budget process.

Conclusion - Longevity in office gives the auditor a valuable understanding of Holyoke and how it operates. As a result, the auditor's office functions well and fulfills fundamental responsibilities relative to the general ledger and the payroll and vendor warrant process. The current auditor is capable and diligent in fulfilling his duties, is committed to financial checks and balances and provides valuable stability to financial operations. Our recommendations are few and are offered as a means to enhance financial controls by requiring departments to provide turnover sheets directly to the auditor and bringing reconciliations in house.

Recommendation 38: All Departments to Submit Turnover Sheets to the Auditor

We recommend that the auditor design departmental turnover sheets and require departments to provide him a copy. Departments turning over money to the treasurer are required by statute to provide a copy of their turnover sheet both to the treasurer and to the auditor. In Holyoke, most departments only provide a turnover sheet to the treasurer, who later

provides a copy to the auditor as an attachment to his schedule of receipts. The auditor's office should insist on receiving an independent copy at the time of the departmental turnover to the treasurer. As a check and balance, the auditor would then reconcile amounts on the turnover sheets to the treasurer's schedule of receipts.

Most communities are also moving toward utilization of turnover sheets designed as Excel spreadsheets in a single format and customized by department. Typically, the form is created once as a customized template and emailed or manually distributed to each department. The name of the department is at the top of the page with appropriate locations at the top or bottom for dates, affirmations and signatures. The form is also preprinted with one column that lists all the revenue types that originate from the department and a second column with corresponding account numbers or revenue codes. A third, blank column allows for the manual entry of turnover amounts. If entered electronically, the total can be automatically calculated at the bottom.

Recommendation 39: Develop On-Off Payroll Notification Process

We recommend that the auditor's office work with the city personnel administrator to develop a notification process when employees go on or off the payroll. It is our understanding that each pay period, the auditor's head clerk goes through the exercise of comparing an "earnings proof" (report of employees) to an Excel spreadsheet listing of staff in search of persons who have been added to or removed from the payroll. As a possible alternative to this page-by-page comparison of employee lists, we recommend that the auditor's staff work with the city personnel administrator to develop a system for receiving timely notice when employees are added or removed from the payroll. When new employees come on the payroll, a copy of the "acquisition form" would suffice. Similarly, department managers should be required, if not already, to provide notice to the personnel department when a person leaves city service.

Appendix One

Duties of the Treasurer

Below is a summary of the duties of the city 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 city; receives and identifies monies due the city and reports the same to the auditor ([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 city's funds ([MGL Ch. 44, Sections 55, 55A](#))
- Upon authorization of the mayor and auditor, 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 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 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 city's 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 auditor, 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.

Appendix Two:**RECOMMENDED CALENDAR FOR HOLYOKE'S ASSESSORS****MARCH – *ENGAGE APPRAISAL CONSULTANT TO BEGIN WORK FOR COMING FISCAL YEAR*****JUNE 15 – *PRELIMINARY TAX COMMITMENT***

The preliminary tax commitment must be based on the prior year's net tax on the property and may not exceed, with limited exceptions, 50% of that amount.

JUNE 20 – *FINAL DATE TO MAKE OMITTED OR REVISED ASSESSMENTS*

If a property is inadvertently excluded or mistakenly under-assessed, it is the assessors' role to correct the mistake and assess the property correctly.

JUNE 30 – *OVERLAY SURPLUS CLOSES TO SURPLUS REVENUE***JUNE 30 – *SUBMIT ANNUAL REPORT OF OMITTED/REVISED ASSESSMENTS TO DLS*****June 30 – *Last day to submit requests for current fiscal year reimbursements of exemptions granted under the various clauses of c.59, §5 to DLS***

If the Assessors fail to submit a request, the city's loss of tax revenues will not be offset by exemption reimbursements from the state.

June 30 – *Submit LA-3 (real property verified market sales) to DLS***September 15 (Recertification years) – *Preliminary certification from DLS*****October 15 (Recertification years) – *Public disclosure***

A release in a newspaper of general circulation in the community that addresses the basis of valuation changes, the overall effect on assessments, and the manner and time period in which taxpayers may ascertain the proposed new assessments prior to tax billing. Required to last at least five days. DLS recommends 10 days.

October 15 – *Begin work on Tax Rate Recapitulation sheet***November 5 (Recertification years) – *Final certification from DLS*****November 15 – *Submit new growth to DLS*****December 1 – *Submit tax recap to DLS*****On-going:**

- Enter deed changes
- Verify building permits and enter into property records
- Other updates to property records
- Accept applications for abatement and exemptions for consideration by board of assessors
- Cyclical inspections

Acknowledgements

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