



The Commonwealth of Massachusetts
Office of the Inspector General

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May 4, 2007

Mr. David Donoghue, City Treasurer
The Treasurer's Office
Holyoke City Hall
536 Dwight Street
Holyoke, MA 01040

Dear Mr. Donoghue:

This letter is written to you in response to a request by Mayor Michael Sullivan that this Office review the policies and procedures of the City Treasurer as it relates to the financial health of the City of Holyoke. This examination is designed to assist your Office in addressing issues outlined below. Representatives from this Office met with you and several other City officials; reviewed audited financial statements and other documentation related to your Office; interviewed outside vendors; and spoke to a number of other state government officials over the past few months in order to complete this review. This Office has provided recommendations to improve the operations of the Treasurer's Office and trusts that you will implement them immediately.

The City of Holyoke's Treasurer is an elected Officer and, as such, is directly accountable to the citizens of Holyoke. According to the City of Holyoke's Charter and Massachusetts General laws, the major responsibilities of Holyoke's City Treasurer are to receive and account for all of the City funds; pay its bills; be the fiduciary custodian of special funds and of most financial documents; inform other City officials of financial conditions; manage tax title accounts; prepare written financial reports; and reconcile financial accounts. These responsibilities are of the utmost importance to any municipality's financial health. Without them, a City can not function in a rational fiscal manner. These responsibilities are heightened even more when the position is an elected one. Accountability should never be overlooked especially when a City treasurer is held to little or no oversight by a City body.

Being an elected official for the past four terms, you understand the importance of working together with other City officials and vendors in order to accomplish your duties. The relationships forged with the City Auditor, Mayor's Office, City Council, School Department

and outside vendors are vital to ensuring that City financial data is shared in a clear and concise manner. This Office has learned that this is not always the case.

Interviews with several City officials and the City's outside auditing firm has indicated that a four (4) year old pattern has emerged that is hindering certain financial transactions and duties from being accomplished in a timely and lawful manner. This behavior has affected your Office's ability to make timely payments to City vendors; increased the likelihood of late penalties being assessed by the Internal Revenue Service for not correctly withholding retirement and Medicare payments; delayed the timely depositing of cash and checks received from taxpayers and other City Departments; and placed in jeopardy the City's credit rating.

Listed below are incidents that raise questions for this Office regarding the manner in which you have performed your statutory duties. These instances have been highlighted by the outside auditing firm of Melanson Heath, P.C. (Melanson), City Officials and confirmed by this Office. They include:

1. A lack of internal controls with respect to financial reporting which could affect the City's bond rating.

According to Melanson, the City's Treasurer Office has consistently fallen behind in reconciling monthly bank statement balances for several City accounts. The City has approximately forty (40) bank accounts which need to be reconciled at the end of each month and ultimately each fiscal year. According to Melanson, the accounts have not been reconciled with the City's bank statements correctly and on time since 2003. This has delayed the issuance of financial statements by Melanson for the past four (4) fiscal years. This is Melanson's chief concern with the City and is referenced in its past management letters.

This continuing failure has been extremely time consuming for Melanson to resolve with your Office and is becoming a risk in performing its audits. Melanson has consistently recommended that your Office reconcile the cash ledger and each time you have told them that you will. Melanson has brought this to the attention of the Mayor several times and each time you have given reassurance that it will get done. Melanson has informed this Office that you committed to complete the following tasks by May 7, 2007:

- 1.) complete reconciliations of the City's bank statements for June 20, 2006;
- 2.) provide Melanson with copies of reconciled bank statements; and
- 3.) make the hundreds of cash book corrections identified by them in prior audits.

It is this Office's recommendation that these tasks are completed without delay.

You explained that in 2001 your Office had an employee who was arrested for stealing payroll checks and cashing them for personal gain. This, coupled with the early retirement of two (2) longtime key employees, left you short staffed and lacking the experience to perform certain functions of the Office. Since that time, you stated to this Office that you have had difficulty catching up on several tasks outlined by Melanson and in this review.

This Office recommends that you make a concerted effort to reach out to the Mayor's Office, City Council, City Auditor and Melanson to come up with a plan to hire an independent professionally trained vendor to assist you in catching up on all the bank reconciliation work and other issues outlined in this review and past Melanson management letters.

This Office also recommends the City increase funding to your Office in order to hire a permanent, professionally-trained employee who will assist you in your official duties. This person should have the necessary governmental experience in accounting and finance. Without experienced and trained personnel, your Office will continue to under perform, which will ultimately result in the City's inability to issue permanent bonding. It could also result in fraud going undetected.

2. Payments have been made to vendors and a non-profit without being placed on the City's warrant articles.

According to you, in 2006, a check to the Holyoke Girls Inc. (HGI) for \$14,518.36 and four (4) other checks totaling \$3,192, issued to an outside vendor, were released by your Office without following proper procedures. Specifically, you failed to obtain the proper approval and sign-off on warrant articles from appropriate City officials before issuing checks to vendors and to disperse grant funds.

You informed this Office that the funds issued to HGI were part of a federal grant that was funneled from the Commonwealth to the City of Holyoke. You stated that the Executive Director of the HGI requested the funds be released immediately. Rather than go through the proper warrant procedures which require the Mayor and City Auditor to approve the release of funds, you directly issued the check to the HGI. When this was mentioned at a meeting attended by Melanson, the Mayor, the City Solicitor, and the City Auditor, you admitted that you understood that it was wrong to have dispersed the funds in this manner.

Despite this admission by the same process, you subsequently issued four (4) additional checks to a vendor assisting your Office in performing reconciliation of City bank statements. When confronted by the City Auditor concerning whether or not this vendor was working under a properly procured and executed contract, you stated that he was. When the City Auditor asked you to produce said contract, you stated that you delayed producing the contract to him while continuing to pay the vendor directly. When the City Auditor advised you that he could not find any evidence of a contract for the vendor, you admitted that none existed and you again violated the warrant process.

You explained to this Office that you had a boiler-plate contract drawn up at the time, but that it was not executed by the City Solicitor. You stated that the City Solicitor was on vacation and that you couldn't wait to have it executed by the proper City officials because you were trying to use this vendor to catch up on your official duties. Despite your good intention of hiring a vendor to assist you in your official duties, there is no excuse for violating the warrant process a second time. Moreover, you intentionally misled other City officials while compromising the City's internal control process.

3. Lax records keeping and collection of Tax Title monies.

Your Office is responsible for overseeing the collection, depositing and record keeping of the City's delinquent tax title funds. It was brought to the attention of Melanson during the course of the fiscal year 2006 audit that a box was in the City Treasurer's safe which contained \$56,785.83 of un-deposited checks and cash from Holyoke businesses and residents. Of this amount, approximately \$1,000.00 was in the form of cash. The checks and cash were collected by your Office over the course of a year. Melanson stated that when you were asked about this box, you stated that you were too busy and simply did not have the time to go to the bank in order to deposit the checks and cash. You stated to this Office that you did not have an explanation as to why you waited approximately eleven (11) months to make the deposit. You also stated again that the lack of personnel and the falling behind in other official duties prevented you from properly depositing these checks and cash in a timely manner. When asked if you had a written policy on depositing checks and cash, you stated that it should be performed on a weekly basis.

This Office recommends that you assign an Office employee to make routine weekly deposits of all monies and checks collected from the public as well as other City Departments. By not depositing these checks and monies into the City's bank accounts in a timely manner, you run the risk of exposing the Office to theft and loss of accrued interest. This lack of internal control places the public's reliance on properly accounting for their tax titles in jeopardy and must be tightened.

4. The City Treasurer's Stamp.

According to Melanson and confirmed by this Office, certain employees have access to your official stamp used to sign City documents and endorse checks.

This Office recommends that you take extra care in ensuring that only employees who are properly bonded have access to your stamp and that a written policy should immediately be implemented to secure the proper use of the stamp.

5. Late payments and related penalties for incorrect withholdings on employees Medicaid and social security.

According to City officials, the IRS has in the past threatened to place a lien on the City for non-compliance issues relating to the late payments on employees payroll Medicare and Social Security withholdings. This has resulted in several late penalties the City has been assessed over the years.

A similar situation also occurred with the School Department's Medicare contributions and employee reporting requirements. According to a School official and the City Auditor, you

stated that this would be corrected as soon as possible.

This Office recommends that you contact the School Department and City Auditor and devise a plan to fix this problem immediately.

6. No official hours kept.

You stated to this Office that there is no official work schedule policy for your Office. You advised that you typically keep a standard Monday to Friday, 8:30 a.m. to 4:30 p.m. work week and that you always work longer than these hours. It was also expected that your employees work the same schedule as you. When asked if you have employees keep a time card-sign in sheet in order to keep track of hours worked, time off, vacation, sick and personal days, you stated that there is no official time tracking system. You also stated that you approve all employee vacation, sick, personal leave and submit the payroll.

It has been reported to and confirmed by this Office by several sources, that you do not keep the stated work schedule. In fact, your typical work schedule has been reported to be hindered by constant late arrivals to City Hall, frequent outside City Hall coffee breaks, extended lunches, short work days, and a three (3) time a week teaching position at Holyoke Community College.

This Office recommends that you implement a written work schedule that mirrors the Holyoke Code found in Article II, Section 2-34 (a) and (b) which states that, "All municipal offices . . . shall be opened to the public for the transaction of business from 8:30 a.m. to 4:30 p.m., each day of the week, . . . The hours of employment of all persons employed in municipal offices, . . . shall be restricted to the hours from 8:30 p.m. to 4:30 p.m. . . ." There should also be procedures in place for accounting of vacation, sick and personal days for the Office employees. Although you, as an elected official, do not have to statutorily keep a certain work schedule, it is recommended that you, at a minimum, adhere to your self proclaimed standard work schedule.

7. Summary

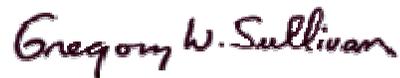
It should be the goal of the Holyoke Treasurer's Office to provide superior customer service in all venues and ensure the fiscal integrity of the City at all times. The Treasurer's Office should strive to achieve this by implementing the recommendations of this review as well as reaching out to the Massachusetts Department of Revenue (DOR) and requesting a review of the City's financial procedures as soon as possible. This review should jointly be requested by you and the Mayor with support of the City Council directly to the Commissioner of DOR. It is the belief of this Office that the DOR will be able to work directly with you and your employees to identify the proper procedures and protocol for handling the numerous responsibilities of your Office.

Your Office should also strive to:

- Work with the Mayor's Office and the City Council to hire a vendor to assist your Office in completing all recommendations previously made by Melanson;
- Work with the Mayor's Office and the City Council to put into your budget a fully funded position for a professionally trained employee to work with you directly in fulfilling your statutory duties;
- Concentrate on creating and implementing rules and regulations pertaining all personnel guidelines including vacation, sick and personal leave; the handling (depositing) of checks and cash; stamp access; bonding of employees; strengthen internal controls and contracting with and the payment of outside vendors;
- Provide the necessary training for other Treasurer employees for all facets of their jobs;
- Develop and implement more streamlined business processes for the convenience of the public and other City Departments;
- Strictly adhere to all federal, state and local laws governing the management, withholding and dispersing of public funds; and
- Work with Melanson and other external auditors to provide accurate and timely financial data to other city Departments, the banking community, and the DOR.

If you should have any questions regarding this review, please do not hesitate to contact this Office.

Sincerely,



Gregory W. Sullivan
Inspector General

cc: The Honorable, Michael Sullivan, Mayor
Brian Smith, City Auditor
Melanson Heath, PC
Massachusetts Department of Revenue