



City of Lynn

Financial Management Review

Division of Local Services / Technical Assistance Section

June 2009

Introduction

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

We have based our findings and recommendations on site visits by a Technical Assistance team consisting of staff from the Division's Technical Assistance Section, Bureau of Accounts, and Bureau of Local Assessment. During these visits and by telephone, the team interviewed and received information from the mayor, the assessors, comptroller, collector, city clerk, chief financial officer/treasurer, the information technology, personnel and purchasing directors, 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 charter, as well as other assorted financial records. Other documents reviewed included the city's outside audit for fiscal year 2007 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 boards, committees and officials.

Overview

Lynn with a 2007 population of 87,000 is the largest city in Essex County and the tenth largest city in the Commonwealth. Located in eastern Massachusetts on the northern shore of Massachusetts Bay, it is bordered by Saugus and Lynnfield on the west, Peabody and Salem on the north, Swampscott and the Atlantic Ocean on the east, and Nahant and Revere on the south. Lynn is only nine miles north of Boston with easy access by commuter rail.

Lynn was settled by colonists from the New England Company in Salem in 1629 and later incorporated as a city in 1850. Early settlers relied primarily on family farming and shell fishing but leather tanning became a major industry very early on. When the Eastern Railroad was extended from Boston in 1837 it went through Lynn, encouraging growth in the shoe industry. Lynn shoe manufacturers invested in the early electric industry and the Thomson-Houston Company became a dominant electrical innovation company and major competitor to Thomas Edison's Edison General Electric Company. The two companies merged to become the General Electric Company in 1892. Lynn remains home to part of the jet engine division of General Electric, a major local employer, as well as Durkee-Mower, makers of "Marshmallow Fluff."

While Lynn developed as an industrial city, handsome summer estates were being built along its shore by the middle of the 19th century, establishing the city as a fashionable Boston resort area. When Lynn Shore Drive was opened in 1910, it encouraged the development of mid-level high rises to take advantage of the shore view. Today, Lynn is an urban manufacturing and commercial center, densely populated and culturally diverse.

To accommodate the service needs of its residents, Lynn's operating budget has grown from \$119.9 million in FY1990 to \$263.2 million in FY2009, or by nearly 120 percent, similar to the experience in other Massachusetts cities where budgeted revenues increased by an average of 112 percent. However, the source of the growth in Lynn's spending is quite different than the average Massachusetts city. During that time, the city's property taxes have almost doubled (92.1 percent increase), state aid has tripled, and local estimated receipts have remained fairly constant (4.9 percent increase) compared to the average of Massachusetts 51 cities where property taxes, state aid and local receipts increased by 141.2 percent, 105.6 percent and 75.0 percent, respectively. In Lynn, the escalation of property taxes is due exclusively to the annual statutory 2.5 percent increase and new growth that is generated by new construction and building renovations; the city has never approved a tax levy debt exclusion or override. The growth in state aid reflects changes in the state legislature's annual appropriations as well as state distribution formulas that incorporate equity factors (e.g., property wealth and income). Lynn is below the state average in both property value and personal income and benefits significantly as a result. At the same time, Lynn is more vulnerable during periods of state fiscal crisis when

local aid is reduced because state aid supports a larger share of the city's budget than in other communities.

Like all cities and towns, Lynn is affected by the so-called 9C cuts to FY2009 local aid. While the city's share was \$2.7 million out of budgeted revenues of \$263.2 million, or only 1 percent of its budget, its budget was fully committed and two-thirds of the fiscal year was already over. With no reserves, Lynn was left with no alternative but to cut its departmental appropriations. School spending was reduced by \$1 million through a combination of expense cuts and furlough days; the balance was taken from the municipal side of the budget. The mayor eliminated 40 municipal employees through a combination of layoffs and attrition; all of the financial offices lost at least one position.

Looking forward to FY2010, the local aid situation is even more somber. On the municipal side, the Senate budget includes \$17.6 million in unrestricted local aid¹, 30 percent or \$7.5 million less than the city received in FY2009 after the 9C reductions. For FY 2010, the city made further cuts to expenses and did not fill several positions vacated due to retirements. The schools performed a major review of classrooms citywide and 133 positions are being eliminated.

Over the last couple of years, DOR had already become increasingly concerned about the city's financial position. The Bureau of Accounts has observed a steady decline in the city's fund balances and certified free cash. The health insurance trust fund has been in deficit when incurred-but-not-reported (IBNR) expenses are included. The health insurance deficit reduces the city's fund balance and the amount of certified free cash. In effect, the city starts off in the hole each year as this amount must be raised on the current year's recap and is otherwise unavailable for expenditure. Clearly, Lynn needs to address its health care deficit if it ever hopes to be able to generate significant levels of free cash again.

Table One
Health Care Trust Fund, Free Cash and Stabilization Fund (millions)

| Fiscal Year | Health Care Trust Fund | | | Free Cash | Stabilization |
|----------------|------------------------|----------|---------|-----------|---------------|
| | Appropriation | Expenses | Deficit | | |
| 2006 | \$24.7 | \$27.9 | -\$3.2 | \$5.5 | \$0.0 |
| 2007 | \$27.7 | \$32.0 | -\$4.3 | \$3.7 | \$0.0 |
| 2008 | \$31.1 | \$33.6 | -\$2.4 | \$0.4 | \$0.0 |

Often, when times are tight, municipalities defer capital spending and technology investments. This is the case in Lynn where there are no funds available for capital projects. Technology issues also need to receive greater priority. In terms of staffing and budget, we

¹ Unrestricted aid includes additional assistance and lottery aid.

found the IT Department in Lynn to be smaller than corresponding offices in all of the other eight cities we have reviewed recently. Numerous opportunities to streamline operations and improve the exchange of data are available with a relatively small investment of resources.

Over time Lynn has adopted generous personnel policies it can no longer afford in today's climate. One feature that we believe is unique to Lynn is a charter provision that grants life-time tenure to all appointed department heads who successfully complete their first three-year term of appointment. In addition, the city has generous longevity bonuses, personal leave policies and an automatic sick leave buyback policy. At the same time, there is little effort given to performance measurement so accountability in government is lacking.

Despite the strained fiscal situation Lynn finds itself in, we observed that people in decision-making positions are generally knowledgeable. The mayor effectively leads the annual budget process and maintains strict control over municipal purchasing. Financial practices and procedures are mainly well established and followed, although they could be made less labor intensive if greater priority were given to technology issues. Under the coordination of the chief financial officer, the fiscal offices communicate well and work cooperatively to accomplish required tasks in a timely fashion. They diligently exercise checks and balances to safeguard the city's assets. However, in this fiscal climate, Lynn will have difficulty sustaining current services without thoughtful planning and significant changes to city operations.

Conclusion - Lynn did not get into its current situation overnight and it will require a concerted effort to improve the city's fiscal condition. The state Senate's FY2010 budget for local aid is a real clarion call for action. We acknowledge that the city has eliminated 40 positions in response to the 9C cuts to FY2009 local aid distributions, but we recommend that the city conduct a vigorous ongoing review of all staff as the city's options narrow. This report includes a top to bottom review of the city's financial offices, but city officials need to similarly scrutinize the other city departments for efficiencies and cost savings.

Today citizens and public officials are demanding "reform before revenue." So, too, Lynn's leaders must realize that they can no longer pursue business as usual. The city has operated under its present charter since 1978 and we suggest that it is time for a comprehensive review, with particular attention paid to the municipal finance provisions. One charter provision in particular, life-time tenure for department heads after three years, is, in our opinion, ripe for review.

In addition, we recommend the city reconsider its decision to self-insure for employee health insurance benefits, whether it is through participation in the state's Group Insurance Commission or other group purchasing agreements. Technology issues need more attention if users in city hall are to realize the full potential of the software systems to reduce workloads and facilitate the communication of information. As a result, we recommend several changes in the Information Technology Department. We also recommend several changes to long-standing

personnel policies that, in our opinion, the city can no longer afford or which will enhance accountability in government.

There are no quick and easy answers to Lynn's fiscal problems. In fact, the IT changes may require additional costs for consulting; modifying the city charter will not be accomplished easily. At the same time, it is clear that the city can no longer afford the status quo.

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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 personnel administration and the purchasing system. 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, adherence to acceptable form, and to timetables for the submission of periodic reports to the State Department of Revenue (DOR).

In this context, finance department heads and staff are effective in producing vendor and payroll warrants for review and approval by the city comptroller. The chief financial officer/treasurer (CFO) plays the lead role in the development of the annual budget for the mayor's submission to the city council. Per the city's charter, the mayor is responsible for delivering a five-year capital outlay program to the city council each year in advance of the annual budget submission.

Staff involvement is necessary, as well, in the preparation of required submissions to DOR. The balance sheet (for free cash certification) is completed by the comptroller, as is the city's Schedule A. Finally, the assessors, comptroller and city clerk collaborate on the preparation of the city's Tax Recap Sheet, which is the basis of DOR approval of the annual tax rate. DOR needs to approve Tax Recap submissions by December in order to generate the first actual quarterly tax bill on time; Lynn has met the December deadline in all but one (FY2004) of the last eight years.

Lynn has an outside audit of its financial statements performed each year, currently by Melanson, Heath & Company, PC. The objective of an audit is to provide independent assurance that a community's financial statements are reliable, accurate and complete. As important, the independent audit is a valuable management tool for assessing the fiscal performance of a community and identifying areas that need improvement. Lynn consistently takes corrective action in response to issues raised in the auditor's management letter.

The CFO is an integral factor in the successful accomplishment of these routine tasks and regular responsibilities. In addition to his role as treasurer, he oversees the activity of the assessors, collector and comptroller. However, he has no formal authority over the information technology, personnel or purchasing offices, which are also critical to the city's successful

financial performance. Unlike other cities and towns, there are no regular meetings of all of the city's finance officers or a financial management team to coordinate all fiscal activities.

During the course of our review, we also noted the general lack of any official statements of financial policies with the exception of the capital plan required by the charter. There are no formal policies for multi-year revenue and expenditure forecasts, or for the use of free cash and reserve levels. As a result, the city is less prepared to deal with unanticipated revenue shortfalls, cuts in local aid or emergency needs. Certified free cash has declined the last three years and there is no stabilization fund as we noted in the previous section. There are no policies on debt management. The city is preparing to issue \$5 million in debt, the first debt issue in the last five years. In the meantime, the mayor's capital plan has gone largely unfunded.

Conclusion—There is considerable communication and cooperation between the mayor, CFO and the various city financial officials. As a result, important regular financial tasks such as the preparation of warrants, the commitment and collection of taxes, reconciliations, and preparation of the annual budget recommendation are accomplished relatively smoothly. At the same time, tight budgets and the prospects of local aid cuts have preoccupied city fiscal leaders with day to day management issues at the expense of long run planning.

Recommendation 1: Create a Financial Management Team

We recommend that a financial management team be formed and meet regularly.

Whether officials are elected or appointed, we would expect among them a common desire to be informed and to more effectively manage the city's finances. To open formal channels of communication and to better coordinate the city's financial affairs, we recommend a financial management team be formed and meet monthly. We suggest that the members include the mayor or his chief of staff who would serve as chair, the CFO/treasurer, collector, comptroller, assessing board chair and the school business manager. It would also be of value to include the city's information technology, personnel and purchasing directors.

The financial management team meetings would be a forum where the budget calendar and other finance-related deadlines can be reviewed. The team would analyze the financial impact of future events. It would identify critical junctures and offer early strategies to deal with anticipated areas of concern. A financial management team might be a useful vehicle to reduce the chance of major budgetary errors. It might also facilitate the collection of data that would serve as a basis for decisions by the city's policy-making bodies concerning debt limits, reserve fund levels, revenue/expense estimates and annual budget guidelines.

Recommendation 2: Develop a Menu of Cost Saving Initiatives

We recommend that the mayor convene the financial management team to develop a menu of cost saving items as part of the strategy for balancing the city budget in FY2010 and beyond. Lynn faces two unenviable alternatives—widespread layoffs of city workers and cuts in services, or change and less widespread layoffs and cuts. Lynn should look to other cities and towns for strategies that may help them balance their budget. State government and many municipalities have instituted mandatory unpaid furloughs and curtailed all unnecessary travel. Others have cut city and town hall hours and reduced the length of the work week. Still others have increased fees and sold surplus property in an effort to forestall layoffs. Another strategy, requiring collective bargaining, is to increase the amount employees' pay for health insurance by boosting contribution rates and co-pays. Several communities have also had success financing energy saving investments through savings generated in cooperative ventures with energy service companies (ESCOs).

Recommendation 3: End Self-Insurance/Evaluate Health Insurance Options

We recommend that Lynn discontinue its practice of self insurance and explore providing employee health insurance through a premium-based system with the State's Group Insurance Commission (GIC) or other joint purchasing group. First, Lynn would benefit from participation in a larger risk pool, about 300,000 subscribers in the case of the GIC, which allows for significant purchasing power in the health care market. In addition, premium-based plans tend to be less volatile and can be budgeted with greater certainty. The city's spending on employee health insurance increased by 188 percent from FY2001 to FY2008, compared to the GIC increase of 84 percent. In total, the spending of the city's health care trust fund amounted to 15.3 percent of general fund expenditures in FY2008.

As part of the Municipal Partnership Act, Chapter 67 of the Acts of 2007, cities and towns are now permitted to join the state's GIC. Although plans offered by GIC may not be identical to those provided through the city, they offer comparable health coverage with a greater variety of cost and coverage options for enrollees. Available options include indemnity, preferred provider-type organizations (PPO), and HMO plans.

In order for Lynn to join the GIC, local officials must enter the coalition bargaining process with union and retiree representatives (MGL Ch. 36§19). Under this process, union votes are weighted based on enrollment, with retirees having ten percent of the vote. An agreement to join GIC must be approved by at least 70 percent of the weighted votes. Additional information regarding participation in GIC is available at mass.gov/gic.

In addition, Lynn should raise employee contributions for health insurance to capture the full employee share of health insurance spending. At the very least, the city should increase the amount it raises in withholding deductions for the employee share of health insurance to reduce another possible trust fund deficit. In addition, they may consider recovering the employees' portion of past health insurance trust deficits. Because the city shares the cost of health insurance with employees, the health insurance deficit should be similarly shared.

Recommendation 4: Review the City's Charter and Ordinances

We recommend that Lynn perform a comprehensive review of the 1978 city charter. A charter establishes the organizational chart of local government and gives a community the ability to decide on how it wishes to be governed in the future. It is a means for creating an organizational foundation, defining relationships among officials, boards and commissions, and more clearly setting-out financial procedures. The choice of a new charter as a vehicle for change reflects a decision to study and assess all of municipal government rather than address individual aspects of management through incremental adjustments.

We recommend Lynn conduct a comprehensive review of city ordinances simultaneously. Fundamental to the formulation of a charter is the underlying principle that its purpose is to establish parameters through broad statements of policy, as well as structure and procedures with the expectation that detail is embedded in ordinances or bylaws. The outcome should be companion documents that complement each other with the effect of providing a foundation for long-term stability as well as flexibility to adapt to changing circumstances. Consequently, a full ordinance or bylaw review typically accompanies the adoption of a new charter or individual charter provisions.

We recommend that the city review the charter provision granting lifetime tenure to department heads. Most department heads in Lynn are appointed by the mayor with the approval of the city council. A provision of the city charter adopted in 1978 grants these department heads lifetime tenure if they successfully complete their initial three-year term of service. There are charter provisions for removal, but they are protracted and cumbersome. We believe that Lynn would be better served if it followed the growing practice in other cities and towns where the contracts typically provide a clear set of performance expectations for the office holder with an opportunity for annual performance reviews. It is unfortunate that this provision from 1978 is still in the charter making it very difficult for the mayor to change. However, we believe it is important enough to pursue if the city decides to review its charter.

Recommendation 5: Develop Multi-Year Revenue and Expenditure Forecasts

We recommend that the CFO develop revenue and expenditure forecasts for the next three-to-five fiscal years. Building revenue and expenditure projections helps community leaders to enhance fiscal stability through planning, and quantify the future financial commitment required for current policy decisions. Forecasting reveals trends in revenue and spending, and enables a community to build capital and infrastructure improvements into a financial plan. More importantly in the case of Lynn, a rigorous, well designed forecast can be a useful tool for educating residents on the city's fiscal position and demonstrating some level of fiscal competence to the citizens.

DLS offers a free forecasting tool that can be downloaded from the Internet at the "Financial Management Assistance" page at www.mass.gov/dls. The tool draws the city's historical data from DOR databases and presents it in an organized way. It then offers a structured method for developing a multi-year forecast. Such a tool would help the mayor, city council, and CFO to analyze the impact of different fiscal scenarios such as changes in local aid, the impact of additional debt service, or the signing of labor contracts or other multi-year agreements.

We understand that the CFO does produce a detailed, single-year expenditure and revenue forecast as part of his budget development process. Extending his forecast over a longer time horizon will illustrate the multi-year impact of certain budget decisions and help to encourage long-term thinking.

Recommendation 6: Review Longevity Policy

We recommend that the mayor review the city's policies on longevity pay for all employees. Many cities and towns have adopted longevity pay policies that reward employees for their length of service in order to retain qualified experienced workers. This bonus payment is typically above and beyond the normal step increases in the payroll schedule and usually a matter of union contract negotiations. However, the longevity stipends in Lynn, which increase with length of service, are generally more generous than in other municipalities. In one case cited to us, an employee's longevity bonus amounted to 17 percent of his annual salary. We recommend the mayor and personnel director compare Lynn's longevity stipends with other cities and make them the subject of prospective negotiations with the city's unions.

Recommendation 7: Implement Employee Performance Reviews

We recommend that the city establish a program of employee performance reviews. Employee evaluations will reinforce responsibilities and clarify job expectations for managers and staff with the message that their performance will be measured annually. A clear line of authority should be established where the mayor evaluates the CFO, who evaluates the financial department heads, who in turn evaluate the employees under their supervision. If implemented in a methodical even-handed way, regular job performance evaluations can reinforce accountability, bolster employee morale and elevate resident confidence in government.

As a by-product, job descriptions can be reviewed and updated for all city employees, lines of communication can be created, and the basis for a responsive personnel policy can take shape. The city should be warned that this recommendation does have collective bargaining implications.

Recommendation 8: Develop a Manual of Uniform Financial Procedures

We recommend that the financial department heads and the IT director work to develop procedural manuals for all routine financial tasks. A procedural manual can be a valuable “how to” resource for staff who are new to a position, as well as current employees. Manuals frequently take the form of a loose-leaf notebook that contains step-by-step instructions on how to accomplish routine and important office tasks. To illustrate computer-related procedures, a printed image depicting the actual computer screen display for each step should be included. By walking through and documenting screen displays, staff will become more comfortable with regular procedures and knowledgeable of those less frequently used, or previously unknown. The manuals can serve as a ready reference for use in keeping an office in operation when staff is short, and are also a valuable training tool for new staff. In addition, as a result of developing procedure manuals, the CFO, IT director and department heads may be able to work with staff to devise easier, more efficient and responsive ways of accomplishing requisite office tasks. We further suggest that the procedure manuals for any MUNIS related task be revised every time the city receives a software upgrade.

Recommendation 9: Move to Direct Deposit and a Bi-weekly Pay Schedule

We recommend that the city move toward direct deposit of payroll on a bi-weekly schedule for all employees. For the city, this would reduce the cost of issuing checks, prevent the need to reissue checks when lost, and simplify the reconciliation of the payroll bank accounts

because there would be no outstanding checks. The employee benefits when the money is deposited in the bank account overnight and is available immediately. Cost savings are also possible if all employees were moved to a bi-weekly pay period. As a start, the number of checks issued annually would be cut in half. Efficiencies in the use of staff time would also be gained. Currently, teachers in all communities are paid every two weeks, with options for summer pay. Both of these proposals will have to be bargained with the city's unions.

Recommendation 10: Record Sick and Vacation Time with the Payroll Service

We recommend that Lynn utilize the ADP payroll service company to track employee sick and vacation time accruals and usage. Currently, both the comptroller's and personnel offices maintain separate files tracking employee sick and vacation time, which are updated from employee time sheets into an Excel spreadsheet. Rather than maintaining a separate system, sick and vacation time could be recorded and reported through the city's payroll service, ADP. Payroll systems are generally set up to easily track sick and vacation time accruals, and print the information on pay stubs. Lynn should utilize this feature of their pre-existing payroll service rather than maintain a duplicative system with the same information which requires additional time-consuming data entry.

In the meantime, we recommend that the treasurer/CFO develop an electronic timesheet for use by all departments. Presently employee timesheets are submitted in a variety of formats. We recommend instead that a uniform format, flexible enough to accommodate all departments, be developed as an Excel spreadsheet. Once completed the form can be emailed, faxed or delivered to the treasurer. To address the requirement for department head signatures on timesheets, we refer the city to the Massachusetts Uniform Electronic Transactions Act, which allows for the electronic transfer of authorizing signatures in municipalities.

Information Technology

Computers and technology play a vital role in municipal financial management today. Computers are used by the assessor to maintain property values, prepare 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. Data from vendor invoices and employees' time sheets is entered into the computer system so that the comptroller can generate the vendor and payroll warrants; 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, revenue and expenditure reports, annual budgets, and balance sheets are all maintained in electronic files. The electronic transfer of data reduces staff time by eliminating the need to rekey data in multiple departments; the electronic storage of records reduces space needs in city hall. E-mail is used regularly to communicate and to provide internal access to information. A city website provides e-mail links to city offices, access to city documents and forms, and a link to pay taxes on-line. Computers play a key role in virtually every element of the city's finances. As a practical matter, financial and operational systems' heavy reliance on technology necessitates that knowledgeable, system-savvy individuals be involved in the purchase and support of equipment and software.

The responsibility for the management of Lynn's technology resources is the Information Technology Division, which also handles the city's mail. Staff now includes the director and one support person whose primary duty is mail processing and who lacks sufficient training to assist with most technology issues; a full-time computer support specialist was laid off due to recent budget cuts. The city contracts out for network support and website maintenance and design. Even with the consultants' support, the staff of one is lower than departments we have observed in all but one of our recent financial management reviews of Massachusetts cities. As shown in Table Two, none of the other eight cities have less staff devoted to technology than Lynn. By comparison, the neighboring City of Salem, with less than half the population of Lynn, has three full-time staff devoted to their IT needs. We understand that the range of responsibilities may vary in the IT departments surveyed, but still feel that Lynn lags in its ability to provide technology support to staff.

Every workstation in city hall has a computer complete with Windows, Microsoft Office, e-mail and internet access. The assessor, collector, comptroller and treasurer all use MUNIS software and rely heavily on Excel spreadsheets. The assessor's office uses Patriot Properties mass appraisal software to maintain property tax records and generate the tax commitments. All

Table Two
IT Personnel and Population, Selected Massachusetts Cities

| <u>City</u> | <u>IT Personnel</u> | <u>2007 Population</u> |
|-------------|---------------------|------------------------|
| Fall River | 3 | 90,905 |
| Fitchburg | 2 | 40,243 |
| Gardner | 3 | 20,613 |
| Holyoke | 2 | 39,737 |
| Lawrence | 3 | 70,066 |
| Lowell | 10 | 103,512 |
| Lynn | 1 | 87,122 |
| New Bedford | 7 | 91,849 |
| Salem | 3 | 41,421 |

the computers in city hall share a network; city offices in remote locations² are connected to city hall by virtual private networks (VPNs) and provide their own user support. The Inspectional Services Division (ISD) has geographic information systems (GIS) software with assessing, ward and precinct, and zoning layers but it is not currently shared with other departments. The city hall server is backed up to tapes daily on a two-week rotation. A monthly backup tape is stored in the vault of a local bank. In addition, the city has policies on the appropriate use of internet and e-mail signed by employees

Lynn has used the MUNIS financial software system since 1994 to maintain its financial records. The city gets frequent updates so that it has the most up-to-date version, but little or no training is typically provided when the software is upgraded. One advantage of MUNIS is the ability to share data across a network. As a result, all departments with access to MUNIS can inquire about the status of their budgets. More importantly, information entered at the department level need not be rekeyed in the comptroller's and treasurer's offices. Despite this feature, we observed the assistant treasurer and the senior accountant entering an inordinate amount of data received from departments. The users claim this is a MUNIS issue while the IT director maintains it is a user problem. In fact, we heard many more complaints from staff about the financial software application in Lynn during the course of this review than in any other city or town. Among them were problems around report generation, the issuance of new vendor identifiers in the purchase order module and the assignment of batch numbers in the warrant

² These include the Library and the Fire, Inspectional Services, Police and Public Works departments.

process. The assessing director is very proficient in MUNIS and helps with troubleshooting in other departments but he lacks sufficient time to resolve all the software issues and perform his primary responsibilities.

Payroll is another routine task that requires sharing data across multiple departments. Lynn contracts with ADP payroll service to process employees' checks. The treasurer's office keys employees' hours for city hall offices into the software while remote city departments enter their own payroll data. In addition, the payroll is adjusted so that eligible employees receive their longevity pay which is awarded to some on their birthday. All time sheets are forwarded to the personnel office after processing, where data on accrued sick and vacation time is compiled in Excel; the comptroller's office performs the same task independently. Otherwise, the personnel office has no electronic access to any payroll information.

Conclusion—Lynn's information technology assets and issues are not receiving adequate resources or priority. Several department heads voiced their concern that technology matters were being given short shrift. Certainly, the neglect of the IT function is a result of city budget problems but the city risks being penny wise and pound foolish. Our primary recommendation is the formation of an IT committee which includes the mayor's chief of staff to raise awareness of IT needs. We also recommend the city evaluate the cost of increasing the consultant's role in network management against the cost of hiring another city IT person. Other opportunities exist for departments to electronically share information and reduce the demands on the treasury and comptroller staffs; part of this may require some investment in software training. Finally, we suggest that Lynn more widely implement and disseminate its GIS capability, especially to the assessor's office.

We understand that these recommendations can be viewed as adding to the workload of an already undermanned department of one. Our response is that the work to be done underscores the importance of the IT function. The expectation that one person, no matter what his skill level, can meet the needs of a municipal government serving 90,000 people is unrealistic.

Recommendation 11: Create a Technology Committee

We recommend that the mayor convene a technology committee in city government to enhance accountability, efficiency, internal control and long-term planning. At one time, a city-wide technology committee did exist but has since faded away. By appointing a new technology committee, and reinvigorating the process through engaged leadership such as the mayor's chief of staff, the city can establish a meaningful and objective contributor of information, analysis and insight for decision-makers as officials grapple with computer and software issues. Its members can help produce a periodic report of the city's technology status. It would serve as a useful tool to evaluate the performance of hardware and software, to identify and prioritize the need for upgrades

and training, and to recommend the adoption of new technologies. The recommendations made or accepted from the report could then be incorporated into a long-term capital-planning program.

A technology committee might comprise three-to-five members who have appropriate knowledge or work experience. We recommend that, in addition to the IT director and the mayor's chief of staff, the committee should include the assessor and personnel from the Inspectional Services Department (ISD) because of their working knowledge of MUNIS and GIS, respectively.

Recommendation 12: Expand IT Capability

We recommend that the city increase the level of IT support whether it increases the use of contractor services or hires another city IT professional. The IT director lacks sufficient time to provide system maintenance and network support, and still devote adequate time to user support. Given the size and complexity of municipal computer resources, Lynn could employ a contractor to oversee specialized technology functions. Reporting to the IT director, the consultant would monitor activity to ensure systems are operating efficiently, provide input on new hardware needs, and oversee the systems' security (e.g., virus protection, firewalls, and backups). Alternatively, the city could hire another technology professional to provide systems or user support. Lynn is fortunate that the assessor and assistant treasurer are willing and able to help others resolve MUNIS and Excel issues, but the need for assistance far outstrips the time they are available. With greater support the IT director would have more time to resolve user issues.

Recommendation 13: Establish a Technology Inventory and Central Log

We recommend that the IT director develop a central inventory of the hardware and software systems, local networks and shared files and a log of all user support issues and requests. Developing a central technology-related repository will provide useful information and guidance as new systems and applications are acquired and problems arise. They will also aid in the development of a replacement plan. A log of user support issues and requests can be helpful in identifying common areas where staff need more training or software improvements are required. The log could also be used to document the workload of the office. This central database and log should be maintained by the IT director. Most effective in other communities has been the implementation of a web-based portal through which all technology requests must pass. The IT director can then review, prioritize and

respond to users with solutions, or inform them when their problem will be addressed. The software becomes a valuable time management and record keeping tool.

Recommendation 14: Form a MUNIS Users Group

We recommend that the IT director form a MUNIS users group which includes the director of assessing and at least one user from each of the financial offices (assessors, collector, purchasing and treasurer). The committee could identify common problems that exist across departments. For example, the comptroller's office difficulty in assigning warrant numbers to batches of invoices may be related to the problems the purchasing office experiences in creating new vendor identification numbers. The committee may also be able to identify areas, such as report generation, where additional MUNIS training may be helpful.

Recommendation 15: Expand Remote Access to the Financial and Payroll Software

We recommend that all departments be granted remote access and data entry capabilities offered by the MUNIS software and the ADP payroll service. With training, each office would be able to enter its own payroll information, inquire about the status of its budget and be responsible for entering all financial information (e.g., departmental receipts and vendor payments) at the departmental level. This would enable the treasurer's and comptroller's offices to review the electronic submission against backup documentation before accepting/posting the entries to the treasurer's receipt and accounts payable systems. Once established, even though hardcopy information is exchanged, the electronic transmission of financial data will greatly reduce the amount of manual entries the offices are performing, thereby freeing up staff to perform other management and analysis activities. Currently, all city hall offices are responsible for entering their invoices and receipts into MUNIS, but the treasurer's staff enter their payroll data; departments headquartered outside city hall (ISD, police, fire and libraries) enter their own payroll information into ADP, but the treasury staff enter their invoices and receipts into MUNIS. Whether these remote access problems are systems problems or user problems, they need to be resolved.

Recommendation 16: Create a Training Program for City Hall Staff

We recommend that the city set up a training program for city hall staff. City hall staff is comprised of people at various levels of computer capability. The IT director, in coordination

with the technology committee, should take the initiative to identify computer proficiency levels among staff, and then develop a program to enhance employee knowledge about the hardware and software they use. Using information gathered from the support request logs recommended above should help in this process. Short-term goals might explore how technology can reduce paper records and redundancies through interviews with various office staff. In the long run, the city might look to develop an on-going training program to encourage computer usage, maintain proficiency among users, and develop a process to receive staff input when major technology decisions that affect them are made. The key to a successful training program is communication between and among decision makers, department managers and staff to understand where deficiencies may exist and efficiencies may be gained.

Recommendation 17: Expand GIS Use

We recommend that the town expand the use of its Geographical Information System (GIS). Currently, the town's GIS system data base is only available to ISD. However, at full utilization, a GIS system typically incorporates overlay information of value to the assessors, the city clerk, the public works department, water and sewer operations and any other office that works with real property, infrastructure or natural characteristics of the city. GIS is a powerful tool that provides town governments in general, and assessors in particular, a convenient and effective way to extract property data and statistics. A GIS system can be used to electronically display the physical layout of parcels and structures on property record cards. It can also expedite the production of abutters' lists when needed. Having an automated GIS system can also provide additional information to the public via on-line databases, which may further reduce foot-traffic in the office. Therefore, we recommend the city explore expanding its utilization of GIS.

Chief Financial Officer/Treasurer

The current CFO/treasurer assumed his CFO role in late 2002 and has served as the city treasurer since 2001. He has three full-time staff for the treasury functions: an assistant treasurer, a payroll supervisor and a head clerk. As treasurer³, he is the community's cash manager and, as such, has custody of all municipal monies. Under current practices, city receipts are deposited into appropriate bank accounts and balances are monitored 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. He maintains a cash book in an Excel spreadsheet, which tracks the cash position in the city's 25 checking and investment accounts. It records turnovers⁴ from departments, and disbursements through vendor and payroll warrants. The treasurer reconciles his cash book, internally against bank statements and externally against the comptroller's general ledger, on a monthly basis. He maintains check registers and various other logs to track balances for grants, trusts and revolving funds as well as other special revenue funds. The treasurer maintains tax title accounts, conducts sales of land and prepares documents to petition for foreclosure. Finally, he also maintains an up-to-date debt schedule.

The treasurer and his staff are capable and experienced and have clearly defined duties and areas of responsibility. The treasurer oversees all office activities but relies heavily on his staff so that he has the time to perform his CFO duties. The assistant treasurer acts as the office manager in his absence. While there is a clear delineation of duties among the office staff, there is also sufficient cross-training so that they can fill in for each other as needed.

Daily, the office receives electronic transfers of funds from the city collector's bank account and accepts turnovers of cash and checks from all other city departments that collect money. In addition to the cash and checks, departments submit three copies of a turnover packet with a summary of the receipts, a total of cash and checks, and a photocopy of all of the enclosed checks. Upon receipt, the treasury staff date-stamp the copies; one is returned to the department for their records, the treasurer keeps one, and the third is forwarded to the comptroller. We typically advise cities that it is the responsibility of each department to deliver a copy of their turnover directly to the comptroller so that the treasurer and comptroller are reconciling accounts from independent sources to ensure the integrity of financial checks and balances. In Lynn, however, the department's copy for the comptroller is forwarded by the treasurer's staff in a pneumatic tube which connects their offices one floor apart, compromising the system of checks and balances.

³ His duties as CFO are discussed above in the Overall Financial Management section.

⁴ Lynn officials and staff routinely refer to turnovers as "turnbacks".

While the treasurer maintains the overall cash book, the assistant treasurer reconciles the activity in the two major checking accounts, one for the payroll warrant and another for the vendor warrant. A clerk internally reconciles the activity in the city's 23 other checking and investment accounts daily. The treasurer transfers funds between accounts via electronic banking as needed; the assistant treasurer is authorized to transfer funds if required. Reconciliations of money received from the collector take place weekly; all funds are reconciled with the comptroller monthly.

In Lynn, the treasurer's office is also mostly responsible for payroll and benefits administration. A payroll supervisor enters the detail from city hall employee time sheets submitted by departments into the ADP payroll software to generate the warrant and payroll checks; offices outside city hall enter their own time sheets into ADP. The accrual and use of sick and vacation time by employees is recorded on a second separate paper time sheet and entered into Excel spreadsheets by the Personnel Department. The biggest complaint about the ADP software is that it does not keep an electronic record of sick and vacation time. The city regularly issues so-called "express checks" when a department neglects to submit time for an employee. The city payroll is issued weekly. As regards benefits administration, this office is responsible for enrollment, correspondence and payments to the various vendors that provide benefits for city employees.

Little time is spent on debt management because the city's borrowing is low compared to other cities and towns. While cash flow is tight, especially in the last half of the fiscal year, the treasurer has managed to avoid any short term borrowing. Lynn's debt service of \$12.8 million in FY2007 comprised only 5.1 percent of its operating budget compared to a Massachusetts city average of 9.5 percent, the 41st lowest of the 53 Massachusetts cities. The treasurer and comptroller reconcile their debt records monthly.

Conclusion: The treasurer's office runs relatively smoothly. The staff is cross-trained and they routinely assist one another to make sure that tasks get accomplished on time. We did notice several time consuming tasks that could either be done less frequently or eliminated to create more time to focus on core functions. One long-standing practice could be changed to reduce the amount of paper being used and stored in city hall. The office generally observes its role in the checks and balances process, but we did note several instances where controls could be improved. Finally, we recommend a couple of changes to the department's responsibilities and record-keeping duties with regard to payroll and benefits administration.

Recommendation 18: Internally Reconcile Accounts Weekly

We recommend that the treasurer internally reconcile his bank and investment accounts not more often than weekly. Currently one of the treasurer's clerks spends three hours every day to reconcile the activity in 23 bank and investment accounts. While frequent reconciliations reflect an important check and balance and are a fundamental responsibility for the office, daily reconciliations are unnecessary and time consuming. Ideally, reconciliations, both internally and externally with the comptroller, should be completed monthly, as is the case here. However, moving from daily to weekly internal reconciliations should provide sufficient controls and free staff for other tasks.

Recommendation 19: Reduce the Use of "Express" Checks

We recommend that the treasurer seek to reduce the need for issuing manual checks. The treasurer produces several manual payroll, or "express", checks each week for departments who neglect to key people's time and attendance into the payroll software. Instead, we suggest that the treasurer communicate to departments the importance of submitting complete payroll information on time. When checks are processed in the normal manner for the weekly payroll warrant the proper amount of payment is recorded electronically in the financial software, the payroll check receives the proper warrant approval, and staff time to generate the manual check is saved.

Recommendation 20: Design a Standard Departmental Turnover Sheet

We recommend that the treasurer work with the comptroller to redesign departmental turnover sheets. Most communities are 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 template and e-mailed 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. A third, blank column allows for the manual entry of turnover amounts. If entered electronically, the total can be automatically calculated at the bottom. Working with the comptroller, the treasurer should consider this format and the efficiency it brings to the exchange of financial information.

Recommendation 21: Departments to Deliver Turnovers to Comptroller

We recommend that departments provide copies of their departmental turnover sheets directly to the comptroller. 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 comptroller. In Lynn, departments provide two turnover sheets to the treasurer, one for the treasurer and a second that is forwarded to the comptroller's office through "the chute", a kind of dumbwaiter that connects the two offices. To better preserve checks and balances, the comptroller's office should insist on receiving an independent copy of the departmental turnover at the time of transfer to the treasurer. This could be easily accomplished if the departmental staff, instead of the treasurer's staff, puts the turnover sheet in the chute. This may appear to be a trivial change, but it protects against the manipulation of turnovers.

We also observed that all departments make photocopies of the checks they receive for each of the turnover packets. We believe this is an unnecessary waste of paper. Departments pointed out that it was useful to retain copies of the checks for their own records as it saved research time in the event a check bounced. In our opinion, however, the treasurer and comptroller have no need for a copy of the checks.

Recommendation 22: 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 birthday. 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.

Comptroller

The primary responsibility of the comptroller's office is to maintain the city's general ledger and to perform the accounting functions. Typical accounting functions include reviewing invoices; preparing warrants; producing trial balances, revenue and expenditure reports; maintaining information on debt; and reconciling cash and receivables with the treasurer and collector.

The current comptroller has been in this position for 17 years and at one time served simultaneously as the city's chief financial officer. The office is budgeted for three additional positions: an assistant comptroller, a senior accountant, and a systems accountant.

Throughout the year, the comptroller's staff prepares internal and external reports to monitor the city's financial position. On the revenue side, he enters, or posts, tax collections and departmental revenues as they are reported to him on departmental turnover sheets that are forwarded from the treasurer's office. In addition to the MUNIS records, the assistant accountant maintains a more detailed Excel spreadsheet of revenues. The staff reconciles the comptroller's records of cash with the Treasurer's office monthly. They also reconcile receivables with the Collector monthly and debt with the treasurer quarterly.

The comptroller prepares payroll and vendor warrants authorizing the treasurer to pay the city's bills. City departments forward their time sheets to the comptroller's office weekly in order to verify that the treasurer's entries into the ADP software are correct. There is a crosswalk to convert the payroll data from the ADP payables format into the general ledger format in MUNIS. The assistant controller uses the timesheets to track the accrual of sick and vacation time for city employees in an Excel spreadsheet to meet the office's responsibility to report on this liability. The comptroller would prefer to move payroll processing from ADP to MUNIS so that time accruals are tracked automatically instead of as an additional step. The Personnel Office maintains a separate spreadsheet with the same accrual information.

The vendor warrant is prepared monthly and runs smoothly. Of course, most of the usual verification that a comptroller performs has already been completed as part of the rigorous purchase order system. No purchase order is issued unless the comptroller has already verified that it is for a lawful purpose and that the department has sufficient appropriation balances available for spending. As required, the office is also the recipient of all grants and contracts so that it can properly document the source of municipal revenues and to verify that city expenditures are for their specified purposes as well.

Among the external reports, the comptroller's office prepares the Schedule A, a year-end statement of actual revenues, expenditures and various fund balances, and produces the balance sheet (and supporting documentation) for DOR that is used to certify free cash. The city's Schedule A generally is filed by the October 31 deadline.

Conclusion—The comptroller’s staff is knowledgeable and experienced and, therefore our recommendations are minor. Typically, we expect the comptroller to verify and validate numbers that someone else has entered into the financial software. Yet in Lynn we observed the assistant comptroller doing an inordinate amount of data entry of departmental turnovers. In another instance, accounting for accrued sick and vacation time, another office is performing the same task independently. In addition, the comptroller is integral to the system of checks and balances that safeguard city monies. As such, he should take a leadership role to insist that city departments bring him their turnover sheets directly.

Recommendation 23: Cease Data Entry of Departmental Turnovers

We recommend that the assistant comptroller cease performing data entry of departmental turnovers. As pointed out above, the departments outside of city hall enter their own payroll data into ADP but do not enter their revenues into MUNIS. The comptroller should work with the IT director to resolve this issue so that his staff can spend more time verifying, rather than entering, numbers.

Recommendation 24: Cease Data Entry of Sick and Vacation Time

We recommend that the personnel office be primarily responsible for tracking accrued sick and vacation times. The current practice of two offices entering and maintaining the same data is unnecessary. The comptroller should receive the electronic data on accrued sick and vacation time from the personnel office and validate the entries from the independently submitted time sheets.

Recommendation 25: Accept Turnovers Only from Departments

We recommend that the comptroller insist that departments deliver copies of their turnovers to the treasurer directly to his office. To more properly observe the traditional checks and balances of municipal finance, the comptroller should be reconciling accounts with information completely independent of the treasurer. While we observed no improprieties, financial controls would be strengthened if the treasurer was not handling the data used to verify his entries.

Recommendation 26: Review Payroll Warrant Timely

We recommend that the comptroller review and sign the payroll warrant so that payroll checks can be issued on time. Per Massachusetts law, no municipal checks are to be issued without

a properly approved warrant. It is the city comptroller's responsibility under MGL Ch. 41§52 to review and approve payroll warrants. In Lynn, payroll checks are released to department managers on Thursdays and otherwise disbursed by the treasurer prior to receiving a signed copy of the payroll warrant, which often does not arrive in his office until the following week. This is a violation of MGL Ch. 41§41A which authorizes the city treasurer to disburse payroll checks only after the approval of the warrant.

Recommendation 27: Issue the Vendor Warrant Bi-Weekly

We recommend that the comptroller prepare and sign the vendor warrant every 2 weeks instead of once a month. In this way the comptroller can impose a firm deadline for departments to submit their bills for payment. It has the added benefit of spreading the workload of preparing the vendor warrant across the month. Bills would continue to be paid on time and late payment fees avoided.

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 Lynn tax collector was appointed to his first, three-year term 32 years ago. Staff now includes an assistant collector and two clerks. All are full-time and cross-trained to cover the essential functions of the office. A third clerk recently retired and will not be replaced for budgetary reasons. In an unusual arrangement, the deputy collector (the collector's brother) conducts his work for the city from a desk in the collector's office and has his own phone line. In return, the deputy assists the clerks handling the counter and phones when the office is busy. The arrangement is provided for in a formal contract.

The office reviews the real and personal property commitments received from the assessors before sending them to an outside vendor who prints, stuffs and mails approximately 23,000 real estate tax and about 1,400 personal property tax bills each quarter. The deputy collector receives motor vehicle billing information directly from Registry of Motor Vehicles and issues the city's more than 70,000 excise tax bills through the fiscal year.

The collector has a lockbox service with Century Bank which it uses for certain bills most of the time. Otherwise, payments are received by mail or over the counter. Payments are counted and posted to taxpayer accounts in MUNIS as they are 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 the daily MUNIS report of payments posted from bills. After the daily internal reconciliation and deposit, the collector sends a letter authorizing the bank to transfer the money to the treasurer's account electronically. The collector and treasurer reconcile their totals once a week. Roughly half of all collections are received from tax escrow services, 35-40 percent are processed by the lockbox, and the balance are received over the counter. The deposit of cash and checks received at the office counter are made daily by the collector or deputy collector; only \$100 in cash remains in the office overnight so that the clerks can make change the following day. Each of the two clerks has her own cash drawer, although the collector, assistant collector

and deputy collector may access the drawers to assist customers when the office is busy or the clerks are otherwise engaged.

Delinquent real estate accounts are pursued in a timely manner. Demands are issued and the office typically sends a second demand letter if it receives no response. It began this practice to avoid costs when the filing fee at the Registry of Deeds for tax takings was increased from \$25 to \$75. Still delinquent accounts are typically moved into tax title in June and transferred to the treasurer. In accordance with state law, the office responds to requests for municipal lien certificates promptly. Refunds of taxpayer overpayments are made monthly.

A collector typically meets regularly with the accountant, city auditor or comptroller to reconcile their receivable records and with the treasurer to reconcile collections. In Lynn, the collector reconciles receivables with the comptroller monthly and collections with the treasurer weekly, but, according to the treasurer, they often resolve some significant discrepancies.

Conclusion - The collector's office performs most of the statutory duties of the office well. Yet, we noted several areas that could stand improvement. The collector's staff was among the most vociferous complainers about MUNIS and would benefit from additional training. The relationship with the deputy collector is unique, yet we saw no signs of impropriety. However, we do suggest that the deputy deposit his receipts directly to the collector's bank account and that he no longer make the daily deposits of general city receipts to further remove any opportunity for malfeasance. The reconciliation process represents one area that might benefit from the more rigorous review of practices and procedures we suggested earlier. We also observed that, while not lax, the security of the office could be strengthened. Our recommendations address these issues.

Recommendation 28: Change Deputy Collector's Deposit Responsibilities

We recommend that the deputy collector deposit delinquent payments directly to a collector's bank account. Like most collectors, Lynn 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 his own bank account and issues a check to the collector daily. For his fees, the deputy submits an invoice and receives payment through the warrant process. While this arrangement is allowed under the law, there would be less opportunity for discrepancies or irregularities if the deputy were to deposit directly into an account under the city's control.

The deputy collector also routinely delivers general city receipts to the bank for deposit. While a convenience for the collector, the law requires the collector's daily bank deposit to be made by a bonded city employee of the collector's office.

Recommendation 29: Add an Additional Collections Drawer

We recommend that the collector add another collections drawer for the office counter. The two clerks primarily responsible for accepting taxpayer payments at the counter each has her own cash drawer for accepting payments and making change. This prevents the funds from being commingled and thus makes it easier to identify errors and prevent fraud. However, the collector, assistant collector and deputy collector will also take payments in and make change from the clerk's drawers in their absence. Adding a third cash drawer would improve the checks and balances by further segregating the payments among the staff.

Recommendation 30: Improve Office Security

We recommend that the town seek to increase the security of the collector's office. The lack of office security poses a risk to the staff and the town's cash. Currently there is no lock on the swinging half door between the collector's customer lobby and the inner offices. We recommend that the collector request that the lock be fixed on this swinging door. Otherwise, the office is relatively secure. The other entrance is through the locked door to the collector's personal office; the cash drawers are kept in a safe when the counter is not staffed and no more than \$100 cash is kept in the office overnight.

Assessors

The assessors' office is responsible for valuing all the city's real and personal property, assigning tax payments to owners, and generating the commitments authorizing the collector to collect real estate tax, personal property tax and motor vehicle excise payments. In Lynn there is a three-member appointed board of assessors who determine property values, new growth and the overlay. The full-time director of assessing who oversees all the administrative and clerical functions of the assessing office is appointed by the chief financial officer. The other two assessors, appointed by the city council, are also full-time department employees who conduct property inspections and deal with the taxpaying public. In addition, there are four clerical employees and a field appraiser, all full-time. Two additional field appraisers recently retired and will not be replaced because of budgetary pressures.

To ensure that residents are taxed equitably and accurately, an assessing 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 estimate new growth and conduct classification hearings. The assessors recommend the annual overlay and provide levy information for use in the Tax Recap Sheet submitted to DOR for setting the tax rate. The office is required by DOR to document an annual property value adjustment analysis and to prepare for state certification of property values every three years; FY2008 was the latest recertification year.

The volume of work in the Lynn assessing department involves approximately 19,892 residential real estate parcels, 944 commercial/industrial parcels, and 338 parcels of mixed use. There are an additional 1,414 personal property accounts. All are billed on a quarterly basis. Over the course of one year, motor vehicle commitments total more than 70,000 accounts. On average, the assessors office mails 800 abatement and personal exemption forms each year to those who applied in the previous year; 489 abatement applications were approved in FY2009.

The director of assessing has been in Lynn since 1998 and is city hall's default MUNIS troubleshooter. He is responsible for oversight of all assessing activities. He meets with the other assessors regularly in advance of major assessing decisions such as setting the overlay reserve and new growth, and acting on abatement requests. These meetings typically involve informal discussions in the director's office during normal business hours and are not usually posted in advance or open to the public. One of the board members is responsible for commercial, industrial and personal property valuations and has picked up the bulk of building permit inspections since the retirement of the two field appraisers. The other assessor's major responsibility is the analysis of condominiums. They measure each property they inspect, as

does the field appraiser, so that each visit counts towards the city's cyclical reinspection program. The assessors accompany other city inspectors and the field appraiser whenever possible.

While most assessing office functions are performed in-house, Lynn has needed to hire Patriot Properties for a measure and list to complete its cyclical reinspection even when the staff included three field appraisers. Patriot also provides the appraisal software for the assessing office computers to store property data and aid in property valuation analyses. In addition, the consultant assists with the annual revaluations of commercial and industrial properties, apartment buildings and personal property. The assessors are very satisfied with the quality of the consulting services and the performance of the software. They would, however, welcome access to GIS.

The clerical staff has also divided the office responsibilities among them. The head clerk is the office manager, supervises the other three clerks and processes the department's payroll. Another principal clerk is responsible for maintaining the integrity of the property database with information from inspections and deeds. In a typical month she enters data from more than 300 deeds and 30 to 60 condominium transfers. In the current market, most of these are the result of foreclosures. One of the two senior clerks is almost entirely devoted to assisting taxpayers at the office counter and fulfilling information requests. She also processes the majority of approved abatements. The other senior clerk handles most of the telephone inquiries and provides backup at the counter when it is busy. She is responsible for a supplemental motor vehicle excise commitment for approximately 200 dealer and repair vehicles. The supplemental commitment is extremely time-consuming as it is generated manually, not electronically. Between them, the staff update information received from forms of list, income and expense statements and sales questionnaires.

The staff identified two serious concerns about the future of the office. First, the board members are concerned about the office's capacity to keep up with the volume of inspections in the wake of the retirements of two field appraisers. In addition, the director of assessing is concerned about the number of arms-length sales to perform adequate sales analyses. For example, there are more than 5,000 two and three family homes in Lynn but there were only 15 valid sales so far this year. In a typical year there are more than 500 sales, but thus far this year there have been only 200 sales and many of these were foreclosures.

Conclusion – Overall, the assessing office performs well. For the most part, the staff is very experienced and the division of labor is well established and works well. Our own recommendations are relatively minor. We suggest the assessors hold a posted open monthly meeting to record formal votes on assessing matters. We also support the director's desire to get access to GIS.

Recommendation 31: Hold Formal Board Meetings

We recommend that the assessors meet once a month, or as needed, to conduct formal votes on assessing decisions in an open session. The three assessors typically meet in the director's office informally in advance of major decisions such as setting the overlay amount and new growth. To satisfy the strict requirement for public meetings and promote transparency in government, the assessors should meet formally in a publicly posted meeting to take formal votes on these issues as well as to act on abatements and exemptions. They could accomplish this simply by posting their regular meetings in advance and opening them to the public.

Recommendation 32: Implement a Geographic Information System (GIS)

We recommend that the city invest in implementing Geographic Information System (GIS) technology in the assessing office. GIS is a powerful tool that provides town governments in general, and assessors in particular, a convenient and effective way to extract property data and statistics. A GIS system can be used to electronically display the physical layout of parcels and structures on property record cards. It can also expedite the production of abutters' lists when needed. Having an automated GIS system can also provide additional information to the public via on-line databases, which may further reduce foot-traffic in the office.

Tax maps maintained as part of GIS are more easily updated, organized and shared across various departments. GIS improves the quality of valuations since it not only accesses specific parcel queries immediately but also makes available related information previously kept in separate databases. By querying GIS, the assessor can identify all properties with similar use codes, sizes, locations or other features that affect value in a specified area.

Personnel

The Personnel Office is involved in recruiting and hiring new city employees, is responsible for the initial intake for new employees, and separation of current employees for disciplinary reasons, by layoff and upon retirement; the city school department performs its own personnel functions. The office maintains a central file for all employment related paperwork including the maintenance of employee time sheets. The personnel director is responsible for contract supervision and negotiations with the city's seven unions, and is involved in the grievance process.

The office is headed by a personnel director who has served since April, 2005. He is now assisted by two staff persons, an administrative assistant and a labor specialist officer/head clerk. A third staff person, a workers' compensation specialist was recently laid off and her duties will be assumed by others in the office.

The city has been unable to reach an agreement with the police union which has been working without a contract since July, 2007. Contract discussions have begun with the firefighters union which has been without a contract since July, 2008. The other five city union contracts expire in June, 2009. After long cordial negotiations failed to reach a voluntary agreement, the police negotiation was turned over to the Joint Labor Management Committee (JLMC). The JLMC exercises broad oversight responsibility for all collective bargaining negotiations between municipal police officers or firefighters and municipalities in the Commonwealth. Through mediation and other voluntary forms of dispute resolution, the JLMC assists labor and management in reaching negotiated settlements to the disputes that arise over the terms of collective bargaining agreements. If the dispute persists for an unreasonably long period, the Committee is empowered by state law to impose various forms of arbitration.

With regard to hiring, the office assists department heads with job descriptions and advertises new positions. It is also the initial point of entry when the decision is made to hire a new employee. New hires proceed from the personnel office to the retirement board and the treasurer's office for enrollment in the retirement system and benefit programs, respectively.

They are also responsible for unemployment compensation processing and reporting. The staff processed the 40 city employees recently laid off, including the workers' compensation specialist in their own office. They prepared the layoff notices and processed the paperwork to separate these employees from civil service and the retirement system.

The office maintains a single secure file of each employee's personnel information. They provide copies of the city's policies on personnel matters, sexual harassment, workers' compensation and non-discrimination. Signed copies are maintained in the personnel files. It oversees the drug screening process, including a retesting policy for cases of reasonable suspicion.

Nearly all records are paper records. The office has a personnel package from Interactive Control Systems, an Access-based program. However, there is no vendor support and help from the city's IT department is very limited because of their unfamiliarity with the product. The office does not have access to the ADP payroll software and is the custodian of the weekly paper timesheets from departments.

Conclusion—The personnel office is hindered in its ability to perform its functions by a lack of investment in technology. For example, the office is unable to provide at any point in time an accurate account of the number of city employees. Personnel files are secured and locked, but we observed that they are not segregated in conformity with state and federal laws.

Recommendation 33: Automate Recordkeeping for Sick Leave and Vacation Time/Provide Access to ADP

We recommend that the city automate record keeping for accrued employee sick leave and vacation time in the ADP software. Employee sick and vacation time, vested and accrued, must be annually reported to reflect the obligation of the city under contracts to compensate employees, upon retirement, for all or a portion of their sick and vacation time earned, but not taken. For many communities, this represents a future, and oftentimes unfunded, liability which can only be determined and planned for with proper procedures for the collection and maintenance of employee payroll information. The staff currently enter this data from copies of departmental timesheets. Recordkeeping lags, however, because not all offices are prompt in bringing their records to the personnel office. If this task were performed in the ADP payroll software, the process would be greatly simplified. We have seen in other communities that the ADP software has the capacity to perform this task. Therefore, we recommend that the personnel director initiate a meeting with ADP, the IT director and treasurer to explore how the ADP software can be used to track sick leave and vacation time.

Recommendation 34: Organize Personnel Files/Set Policies

We recommend that the city comply with state and federal law as it consolidates personnel files. There are three types of employee information that must be separately maintained in city hall. Under M.G.L. c. 149, § 52C, a personnel file would include all documents kept by an employer that have been used or may affect that employee's qualifications for employment, promotion, transfer, additional compensation or disciplinary action. Not included would be "personal information" protected under M.G.L. c. 214 § 1(b) and medical

records protected by the American Disabilities Act and HIPPA. If stored in the same, secure location, i.e., file cabinet, personnel, personal, and medical information must be maintained in at least three separate file folders. While not required, it is recommended that a fourth separate folder be included to segregate the federal I-9 form. It is also the responsibility of the city to authorize (restrict), through a written policy, access to employee files.

Recommendation 35: Implement Use of Personnel Action Forms

We recommend that any change to an employee's personnel file relative to a status or payroll change be documented through a personnel action form. A payroll clerk in the treasurer's office is currently responsible for entering all changes to an employee's work status or withholdings into ADP without management level approval. While it is acceptable for the clerk to continue entering such information into the system, without written authorization from a management-level individual, an unfair burden of responsibility is placed on administrative personnel. Therefore, we advise that the city develop a uniform personnel action form as a record of an employee's status at hiring and for any subsequent changes. We further suggest that the form include signature lines for the department head and, when appropriate, the personnel director, and that it be placed in the employee's personnel record. No person, including the payroll clerk, would be permitted to enter changes to employee records without a duly authorized personnel action form.

Recommendation 36: Assume Responsibility for Benefits Administration

We recommend that the city consolidate all personnel policy coordination and benefits administration in the personnel office. Under the current division of labor, new hires proceed from the personnel office to the treasurer's office for enrollment in benefit programs. We suggest that the responsibility for benefit enrollment be shifted from the treasurer's office to the personnel office where it more naturally belongs. In addition, the treasurer's clerk who performed this function was laid off in the recent staff reduction and the treasurer has fewer resources to perform this function.

Recommendation 37: Maintain Copies of Garnishment Letters in Personnel Office

We recommend that the treasurer forward all garnishment letters to the personnel office for inclusion in the employee's centralized personnel file. Like all employers, Lynn is required

to garnish wages from employees as the result of IRS and Massachusetts Department of Revenue directives and court orders. Once the treasurer's office processes the garnishment as directed by a letter from the appropriate authority, the letter should be forwarded to the personnel file and kept secure with the employee's other personal personnel information.

Purchasing Office

The purchasing office consists of five staff positions including the purchasing director, assistant purchasing agent and three buyers. This office is responsible for assisting all city departments, including the schools, with purchases of supplies and services, with the bid process on purchases over \$25,000, and generally with efforts to remain in compliance with Massachusetts General Laws. In the course of one year, the office handles approximately 10,000 purchases, roughly 65 to 70 percent for the school department.

Lynn requires approval of a purchase order (PO) in advance of all purchases of goods and services, except in the case of emergencies. Departments prepare PO requisitions in the MUNIS purchase order module, which are transmitted to the purchasing office for review. Purchasing office staff review the requisition, and if it complies with procurement and bidding laws, sends the PO request to the mayor's office for approval. No PO is approved unless the department has sufficient funds, and once approved no changes are allowed without the approval of the purchasing director. Once a requisition is approved, the funds are encumbered and four copies of the PO are created. One copy stays in the purchasing office, two are sent to the department and one to the comptroller. After the goods or services are received, a department attaches the invoice to the PO and sends them to the treasurer for payment.

In order to spread the city's dollar further the office seeks competitive bids for large purchases, buys items from the state procurement list, and participates in a purchasing group, the North Shore Public Purchasing Group (NSPPG). The NSPPG is composed of nearly 20 public entities who seek to gain greater purchasing power by bundling their purchases. Under the agreement, Lynn purchases #2 and #4 fuel oil for all participating members. Other members are responsible for the cooperative bids on other items, including gas, diesel, road salt and other supplies.

Conclusion—Through 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, and many requisitions require mayoral approval before a PO is approved. However, this greater control comes at the cost of substantially increased staff workloads. While we applaud the mayor for his attention to detail in the purchasing process, once a departmental budget is approved, the department head has the authority to spend his budget for any legal purpose so long as it remains within the appropriation. The purchasing office already reviews each requisition for its legal purpose and compliance with procurement laws, and the comptroller reviews each purchase against its appropriation. In our opinion, regular reports on procurement should satisfy the mayor's desire to ensure that there are sufficient controls over the purchasing process.

Recommendation 38: Streamline Process and Report to Mayor

We recommend that the purchase order process be streamlined by ending the mayor's review of each requisition. The strict controls over expenditure in Lynn would not be diminished terribly by removing the mayor from the approval process, especially since he very rarely disapproves of a purchase. We admire the mayor's desire to be informed of purchasing activity but suggest this might be better accomplished if the purchasing manager prepared a monthly report for the mayor detailing purchasing activity by department.

Recommendation 39: Institute a Purchase Order Threshold

We recommend the city institute a purchase order (PO) threshold for all city and school departments. 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 comptroller, 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., \$500, \$1,000, etc.) under which a PO is not necessary and provisions for emergencies.

Therefore, we suggest that the purchasing director conduct an analysis of POs issued through his office during the course of a fiscal year. This analysis should indicate where a reasonable threshold might be set. For instance, if 70 percent of all POs are for expenditures of \$500 or less, this amount might be set as a threshold.

Recommendation 40: Adopt an Emergency Purchase Procedure

We recommend the city adopt a procedure for approving emergency purchases. Most cities and towns with purchase order systems allow emergency expenditures outside the purchase order system. Typically, the department head unilaterally determines that an emergency exists and the purchase is authorized through the submission of a form. Although a well intentioned process, it does provide a means to bypass the normal procurement rules. Therefore, to maintain tight control, we further recommend that the purchasing director be required to sign off on emergency purchases of over \$1,000.

Acknowledgements

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In preparing this review, DLS interviewed the following persons:

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 Andrea Scalise, Deputy Chief of Staff

Assessing

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 George Brennan, Assessor
 Michael Fisher, Assessor
 Karen Bartlett, Head Clerk/Office Manager
 Diane Rousseau, Principal Clerk
 Beth Ferrara, Senior Clerk
 Marcia Smalls, Senior Clerk
 Michael Clancy, Field Appraiser

Treasurer

Richard J. Fortucci, Chief Financial
 Officer/Treasurer
 Lynne E. Quinn, City Assistant Treasurer,
 Arlene J. Wallace, Payroll Supervisor
 Kathy Robichaud, Tax Titles
 Dorothy LeBlanc, Bookkeeper

City Collector

Fred Cronin, City Collector of Taxes
 Louise Ross, Assistant City Collector
 Shannon O'Shea, Head Clerk
 Christine Paradise, Bookkeeper

Information Technology Department

Peter Efstratios, Network Support Specialist

City Comptroller

John Pace, City Comptroller
 Natalie Baker, Assistant City Comptroller
 Pam Hinkle, Senior Accountant
 John Pietrowski, Systems Accountant

Personnel Department

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 Maria R. Chambers, Administrative
 Assistant
 Roxanne Mitchell, Labor Service
 Coordinator, Head Clerk

Purchasing Office

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 Paula Flynn, Assistant Purchasing
 Agent/Office Manager
 Kathy Matthews, Head Buyer
 Stacie Miller, Head Buyer
 Rene Sinapius, Head Buyer

Other Offices

Jay Fenton, Parking Director
 Jean McManus, Head Clerk, City Clerk
 Kathy Collins, Senior Clerk, Inspectional
 Services Division
 Dennis Carmody, Deputy Fire Chief, Fire
 Department

And:

Ralph Cronin, Deputy Collector of Taxes