



City of Gardner

Financial Management Review

Division of Local Services / Technical Assistance Section

September 2008





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 Gardner.

We have based our findings and recommendations on site visits by a team consisting of staff from the Division's Bureau of Accounts (BOA), Bureau of Local Assessment (BLA) and Municipal Data Management & Technical Assistance Bureau (MDM/TAB). During these visits and by telephone, the team interviewed and received information from the mayor, members of the city council, the city auditor, city treasurer, city clerk/tax collector, city assessor, as well as other department heads and staff members, as available.

DLS staff examined such documents as the tax recapitulation sheet, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness, the city charter and ordinances as well as other assorted financial records. Other documents reviewed included the city's latest rating reports from Moody's Investors Service from June 2005. We also reviewed the independent audit for FY2007 completed by George V. McKenna, CPA.

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 operating budget and capital planning processes; (3) the degree of coordination and communication that exists between and among 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 officials.

Overview

The Division of Local Services (DLS) typically conducts financial management reviews in instances where help is sought to resolve a particular problem, or where an overall evaluation of financial operations is desired. In Gardner, the mayor made a request that DLS report on the city's fiscal practices shortly after being elected to office. From the outset, we have sought to understand the duties and responsibilities of Gardner's financial departments and make recommendations consistent with sound principals of municipal finance.

The City of Gardner, with a population of 20,613 (2007 estimate) is located along Route 2, which is the primary transportation artery connecting the Boston metro area to the northern tier of central and western Massachusetts. Encompassing 22.2 square miles, the city is approximately 37 miles north of Worcester and 58 miles northwest of Boston. According to the tax recap sheet submitted to DLS, Gardner's FY2008 budget was approved at \$55.7 million. Of this amount, 47.1 percent came from state aid (\$26.2 million) while 29.8 percent is supported by the property tax levy (\$16.6 million). Additional sources of revenue include local and enterprise fund receipts (\$11.5 million) as well as available funds and free cash (\$1.4 million).

We found during our site visits that economic development issues weighed heavily on the minds of city leaders. While outside the specific scope of our report, the need to improve economic outcomes in the city, and the region in general, has direct implications on financial management in government. The section of Route 2 extending through northern Worcester County and continuing west through Franklin and northern Berkshire Counties, encompasses one of the state's most economically challenged areas. Though the winding rivers and undulating topography are picturesque, the terrain combined with the distance from eastern Massachusetts markets exacerbate the problems associated with limited access to transportation networks, making the movement of goods and people less efficient than in other areas of the state.

With nicknames such as "Chair City" and the "Furniture Capital of New England," Gardner is known for its furniture manufacturing and outlet destinations that attract buyers throughout the northeast. However, the manufacturing component of Gardner's reputation has been in steady retreat, and may soon be gone entirely with the recent closing of the city's last major furniture manufacturing company (Nichols & Stone). Economic data demonstrates an overall decline in manufacturing employment generally, with the number of jobs in that sector falling by 37 percent since 1990 throughout the Leominster-Fitchburg-Gardner statistical region according to state Labor and Workforce Development statistics. In the long run, Gardner has to find ways to open up alternative opportunities for commercial and industrial development in order to mitigate the residential-reliant property tax base, i.e., 86.8 percent of total assessed value in FY2008 was attributable to residential properties.

So long as significant economic challenges persist, good government management will be all the more important in addressing citizens' collective needs, be they the promotion of

business, maximizing educational outcomes or enhancing the overall livability of the community. Furthermore, a stable financial outlook for the city is directly correlated to officials' ability to anticipate community needs and the availability of resources to meet them.

In an effort to help the city improve the services of government, our review identified three areas that warrant the focus of city leaders. They are: (1) improving the structure of and communication within government; (2) promoting financial sustainability; and (3) enhancing workflow efficiency and utilization of technology within financial departments. The recommendations contained in this report, though appearing in a department-specific format, revolve in one way or another around these themes.

First among our findings is the need to reconsider the structure of municipal government as well as the distribution of responsibilities among city departments. The legal framework for financial management in Gardner is established in the city's charter (Chapter 119 of the Acts of 1921, as amended) and ordinances. The mayor generally acts as head of the executive branch of government and the city council acts as the legislative branch. However, unlike a typical executive position, the mayor in Gardner does not appoint department heads in several finance offices (i.e. city auditor, treasurer and clerk/tax collector). Those appointments are made by the city council. Though they appoint most finance department heads, as a body, the city council is not in a posture to monitor or respond to the daily changing financial situation at city hall. At the same time, the mayor, who has a full-time presence, lacks formal authority to manage and direct finance personnel.

Fortunately for Gardner, current staff have tremendous experience in municipal finance, which mitigates some of the potentially negative impacts of the city's structural disadvantages. Still, with advanced tenure among staff comes a natural tendency for mayors, councilors and department heads to take certain skills and functions for granted. In some cases, roles have become outdated. In any event, due to the lack of line authority staff are not compelled to meet on a regular basis to tackle challenges or projects in a coordinated way. In light of these long-standing circumstances, our report encourages the city to move toward a structure and practices better suited to the various functions of government.

Regarding the second area deserving attention – fiscal sustainability – our report comes at a time when the city is struggling to maintain service levels due to a constrained revenue stream and successively tight budgets. The city has made it a practice to spend-down free cash in the same year it is certified in order to fund ongoing expenses. For example, in November 2007, the city appropriated all of its free cash (\$524,355 as of July 1, 2007) to balance the FY2008 budget in order to fill funding gaps in health insurance and other areas. During our interviews we were also made to understand that there are elements of the FY2009 budget that, while currently in balance, may require similar supplemental appropriations. We advise the city that this path is not sustainable. To break this cycle, greater attention is warranted to policies that guide higher level decision making around the budget and to forward looking analyses of the ongoing relationship between revenues and expenditures.

Integrating a series of fiscal policies and practices into a city-wide long-term financial plan needs to be an important component of the government's strategy moving forward. Of course, choosing which services to maintain and what new programs, if any, to include as part of a financial plan are decisions best made by local leaders, not DLS. However, whatever form such a plan takes, it should contain the core elements listed below – many of which are expanded upon in our recommendations:

1. Multi-year outlook (3-5 fiscal years)
2. Inventory of revenue sources with projected increases/decreases
3. Expenditure projections that reflect labor costs, fixed expenses and planned service levels
4. Impact of financial goals/policies are assigned a specific dollar value
5. Capital investment plan
6. Process to monitor current-year revenues and expenditures
7. Presentation format that facilitates meaningful communication to the public

At the time of our site visits, financial planning in Gardner was in its very early stages, with the city auditor having prepared multi-year revenue and expenditure projections. Subsequently, ideas surrounding a long-range fiscal strategy are beginning to take shape. It is our hope that city officials will find our recommendations on this subject, gleaned from the experiences of cities and towns across the Commonwealth, insightful as they move forward.

As our third major area of focus, we found opportunities to improve or streamline procedures in various finance-related departments. Some procedures are currently manual while certain internal controls are redundant. Still other long-standing practices could be reengineered with the goal of reducing time and, possibly, saving money. Furthermore, the movement of some financial information from department-to-department is still manual in some instances and, consequently, labor intensive. Therefore, we recommend process and technology changes that impact both individual and multiple departments and present those changes in a series of specific enhancements throughout the report.

Conclusion – The encouraging news for Gardner is that experienced staff are in place to ensure procedures are carried-out with consistency and accuracy. Indeed, we think that the conduct of day-to-day financial operations, while in need of some improvement, is not the source of present fiscal stress. Enhanced coordination and teamwork, on the other hand, may lead to solutions to issues that have overwhelmed city government in the past. In short, Gardner already has the experience and capacity to navigate challenging fiscal waters – needed is the coordination of staff talent in a focused and dynamic way. We are of the opinion that this can be accomplished through structural, analytical, procedural and technological changes recommended in the following pages.

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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 scrutinized the city's current operations in contrast with best governmental practices recommended by the Department of Revenue (DOR) and observed in other communities. We evaluated 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 DOR.

In Gardner, the mayor serves as the city's chief executive. However, appointments of the city auditor, treasurer and clerk/tax collector are made by city council, which otherwise functions as a legislative body. The city auditor, in addition to his statutory accounting duties, advises the mayor and council on all fiscal matters. The city treasurer oversees all cash management, insurance and computer network functions of city government. The city clerk/tax collector, in addition to maintaining vital records in her capacity as clerk, oversees all tax collection activities. Staff in the water/sewer department also take payments for water, sewer and trash fees. Additional fees and fines are also taken-in by other offices, notably the civil enforcement department, the head of which also serves as director of purchasing. There is a board of assessors appointed by the mayor, the chair of which acts as the full-time department head of the office.

The city council usually receives the mayor's proposed budget in May with the obligation to finalize appropriations by the beginning of the fiscal year (July 1st). As part of their review, council assigns the budget review duties for city departments to the sub-committees that have appropriate jurisdiction. The council's finance committee, comprised of three councilors, reviews the transfer and supplemental requests of municipal departments during the fiscal year. City Ordinance #1434 adopted in 2006 establishes a capital improvement committee and a capital improvement plan has been developed, forecasting infrastructure needs through FY2013. Other financial activities not dictated by the General Laws are governed by relevant provisions contained within the city charter and ordinances.

Conclusion – When circumstances require it, staff work well together. However, generally, roles, procedures and even their computer usage vary from office-to-office. With the current department heads and staff, this arrangement has been adequate. Nevertheless, the city is not taking advantage of opportunities to be more collaborative in managing its finances. As

such, we offer recommendations on structural modifications to government as well as changes to the roles and responsibilities of various departments. Additional opportunities exist to improve communication and perform more rigorous analysis related to financial forecasting and planning, which are also topics addressed below.

Recommendation 1: Improve Coordination of Financial Functions

We recommend that the mayor establish a financial management team and hold meetings on a monthly basis. Financial management team meetings provide an opportunity for discussion of the city's fiscal issues as well as for developing strategies to meet financial challenges. This is particularly true for meeting deadlines on the city's budget calendar. A wider group is better able to give full analysis to proposed procedures or policies, and to formulate strategies to avert potential problems. Meetings enhance lines of communication, and provide a forum to raise and resolve interdepartmental issues. They underscore how each office is dependent on the performance of the others. The financial team is not intended, however, to function as a policy making body, nor as one that would encroach on the duties or decision making responsibilities of the mayor.

Not so obvious and not to be underestimated are intangible benefits. All involved receive the same message or new information at the same time. Each person can have confidence that a regularly scheduled forum exists to raise issues of concern, and that he or she will have equal input into any subject matter discussed. In short, by creating a financial management team role and identity, understanding and cooperation will naturally increase, and morale in city hall can more easily be sustained at a high level.

The team should consist of the mayor, city auditor, city treasurer, city clerk/collector, city assessor and school business administrator. Whereas occasions may arise in which additional analytical or administrative support is necessary, others such as the personnel director, purchasing director, city engineer or the systems manager could be included to the extent the mayor deems appropriate.

We further recommend that the city move toward granting the mayor's office appointment authority over all financial offices. Daily management of finances in a city is a core executive function. With a population of 20,613 (2007 estimate), Gardner is a small city that would be considered a medium to large sized town if it were governed by a selectmen/town meeting form. Its chosen structure as a city, with a strong mayor form of government, offers several benefits, chief among these being the efficiencies and accountability inherent to a centralized hierarchy. In the area of municipal finances, however, Gardner does not benefit from this arrangement. The city auditor, treasurer and clerk/tax collector, while technically answerable to the mayor on a day-to-day basis, are not ultimately accountable to him because he neither reviews their performance nor appoints them.

In both cities and towns, we advocate a structure where all department heads, including finance department heads, are accountable to the chief executive, be that a mayor, manager or board of selectmen. Therefore, we recommend that the city amend the charter to provide for the appointment of these officials by the mayor. The one caveat to the change being recommended here is that appointment authority for the city clerk, because of the nature of the position's duties, can remain with the city council.

Recommendation 2: Shift Roles and Responsibilities

We recommend that the mayor and city council reconsider the roles of the various offices within city government and make appropriate long-term adjustments. In Gardner, we observed a number of long-standing organizational preferences that have endured through the years with little notice or introspection by city leaders. While not necessarily designed to save money, making appropriate modifications would enable government to be more effective and decisive in the provision of city services. To this end, we list below several steps the city can take to help streamline operations. While emphasizing that we think highly of current finance department heads, as transitions among staff take place, the city should look to move toward changing duties. As a part of any structural changes, which we recommend based on our understanding of office *functions*, the *allocation* and possible redistribution of staff between various departments will need to be considered.

Combine positions of treasurer and tax collector – Gardner's combination of a tax collector and city clerk is not a common one. Conversely, because of the parallels in the responsibilities of the treasurer and tax collector, many communities find that having these duties combined in one office generates long-term cost savings in terms of personnel and cash management benefits. Cities and towns have concluded that having receipts collected, counted, posted, deposited and managed in the same office makes organizational sense. At some point, Gardner should reach a similar conclusion. An opportune time to create the combined position may present itself when one officer or the other chooses to retire or otherwise leave city service. To combine the treasurer and collector positions and make such a change permanent will require a charter amendment. However, since the treasurer, clerk and tax collector positions each exist independently in the city charter, it seems practical to appoint the same person as treasurer and tax collector in much the same way that the clerk/tax collector is appointed currently. The clerk would then be a free-standing position.

Consolidate authority for water, sewer, trash, civil enforcement and other collections under a "treasurer/collector" or "city collector" – For residents, establishing a one-stop payment counter for all municipal fees and charges makes sense. Furthermore, the commitment and collection of receipts by the same department, as is the case with water bills, does not provide an adequate system of checks and balances in our opinion. Therefore, we recommend that all city receipts be taken in by one office. We have already recommended the eventual shift to a treasurer/collector. However, in the interim, Gardner might consider accepting the local option statute to establish the tax collector's position as that of a "city collector." As a "tax collector,"

the city clerk/tax collector possesses the authority to collect only real and personal property taxes, excises, betterments, and certain other charges added to, and committed as, taxes. In order to receive other payments to the municipality, a city must take specific action to designate its collector a “city collector” under M.G.L. c. 41, §38A. As a next step, we recommend that the mayor place an order before city council for the acceptance of this local option statute. Furthermore, if the city chooses not to transition to a treasurer/collector, as suggested above, this would be the next best option to make payments more convenient for residents, free-up staff time in other city offices and improve efficiency in the collection of receipts. While making such a change has the potential to create increased foot traffic at the collection counter, we feel that such volume can be mitigated by going to a “lock-box” service for various taxes, excises and fees (see Recommendation 26).

Shift employee benefits and training administration to the personnel director – The treasurer’s office and the personnel office are currently administering different components of the enrollment process for new hires. In an ideal situation, the personnel office would offer “one-stop shopping” for all employees on matters relating to work and benefits. One way to make this happen more effectively in Gardner would be to centralize benefits administration and relieve the burden on the treasurer, especially if the city moves to a combined treasurer/collector as recommended. We further observe that the personnel director is in a natural position to identify and prioritize city-wide employee training needs. To the extent that employees in different departments have similar needs, the personnel director can negotiate with trainers and other vendors for group rates and, hopefully, save money.

Consider combining public works-type functions into a consolidated department – Highway; water and sewer operations; engineering; and maintenance of city/school buildings and grounds are a few of the functions that we would recommend considering as part of such a consolidation. The city might also explore the feasibility of including parks and cemetery maintenance in a consolidated public works department, as well. The prospects for greater accountability in government as well as the potential for increased efficiency, can be improved when departments performing similar or complementary duties are subject to uniform policies and management practices. Furthermore, when two or more departments perform the same duties, inefficiency often results. Using school buildings and grounds as an example, school departments specialize in education while management of facilities and campuses is incidental to their core mission. Simultaneously, various city departments also have facility needs. Therefore, understanding that there are efficiencies to be gained by combining overlapping activities, equipment and workers between city and school is intuitive. Public works departments by nature are familiar with various maintenance processes whether they be procurement related or simply managing a maintenance workload. Consolidating operations in this area may save on costs between the city and schools while shifting the maintenance function in the direction of a more appropriate department. Similar arguments could be made with regard to other activities of city government and our list of functions is not meant to be all inclusive.

Recommendation 3: Avoid Use of One-Time Revenue for Current Year Operations

We recommend that the city limit the use of supplemental appropriations during the current fiscal year. Gardner has made supplemental appropriations a standard budgeting practice. According to tax recap data submitted to DOR, Gardner appropriated over \$1.9 million in free cash between FY2005 and FY2007, nearly all of it *after* the given fiscal year had already begun. Combined free cash and stabilization balances at the beginning of FY2008 totaled \$793,718, or 1.4 percent of the budget, giving the city limited financial flexibility. The city auditor reports that supplemental appropriations from reserves in FY2008, not yet reported to DOR, total \$524,355 (free cash) and \$111,000 (stabilization) while appropriations to the stabilization fund were \$111,093. At the time of our site visits, the extent to which such supplemental appropriations would be needed in FY2009 was not yet clear to city officials.

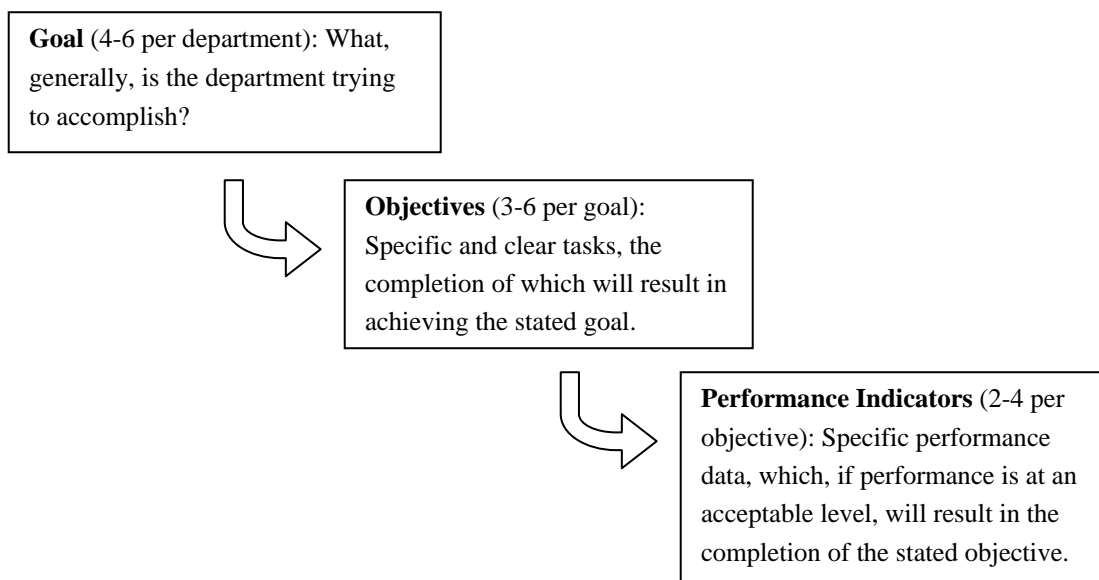
As a result of this practice, the city approves a budget in June with the expectation that additional funding will be available, primarily in the form of certified free cash. This makes the finality of departmental spending plans suspect by extending the appropriations process beyond the beginning of the fiscal year. To build confidence in the budget process, the mayor, city council and all departments should discipline themselves to remain faithful to the budget as passed in June, except in the case of a fiscal emergency. In this way, free cash, once certified, can be a true reserve and its use can be controlled. For instance, a portion can be included as a revenue source for the ensuing years' budget to support operations or to fund capital expenditures. While we recognize that the city may be too far along to change its funding approach for the FY2009 budget, it is our hope that Gardner would make implementing this recommendation a priority for FY2010.

We further recommend that the city avoid building a budget that requires the use of one-time revenue to support ongoing government expenses. Once the practice of current year supplemental appropriations is curtailed, Gardner should strive to place general limits on the appropriation of free cash, stabilization and all other one-time sources. By using non-recurring revenue to fund operations, communities effectively postpone making difficult decisions on service and taxation levels. As a result, the community is continually faced with the same dilemmas each year because ongoing costs are built into the budget's base while the offsetting revenue source is no longer available (because it was spent in the previous year). Therefore, to achieve a structurally sound, sustainable spending plan, we recommend that the city adopt and commit to a policy that discourages the use of non-recurring revenue for recurring spending purposes.

Recommendation 4: Establish Departmental Goals and Institute Employee Evaluations

We recommend that the mayor annually review goals and objectives for city departments. By working with department heads, the mayor can develop a series of specific and reasonable benchmarks for each to accomplish, consistent with the overall mission of government. During the year, opportunities will arise to discuss progress and, if necessary, bring additional focus to bear on areas where shortcomings are identified. By year-end, departmental performance can be assessed and feedback provided, with appropriate adjustments being made for the ensuing year. Having a system of formal goals fosters clarity of purpose and expectations for departments and creates a clear relationship between the budget and service priorities.

Beyond simple goals and objectives, there are more sophisticated approaches that Gardner may consider in the future. These approaches logically link goals, objectives and indicators to a comprehensive management system for the entire government. In the example below, the figure depicts a schematic model of a typical management-by-objectives (MBO) program:



With the assistance of the department heads, various objectives should be developed for each goal, which, if all are attained, will result in achieving that goal. Status and data related to performance indicators should be reviewed by mayor on a regular basis and periodically shared with the city council via management reports. In addition to the tactical advantages of receiving performance data, it is important that the selected indicators are linked to the intermediate and long-term strategy of the organization. Multi-year planning and/or strategic goals could also be required through budget instructions, which could be incorporated into a city-wide financial plan (see Recommendation 5).

We further recommend that the city conduct performance reviews for all city employees. Reviews of staff performance are most effective when deliberately and consistently linked to the mission and goals of their respective departments. We are pleased to note that the mayor has begun the process of annually reviewing performance for department heads. As a next step, we feel that the practice of performance appraisal should extend to departmental staff.

Employee evaluations reinforce responsibilities and clarify job expectations for managers and staff. Reviews present an opportunity to update and ensure that job descriptions reflect what people actually do on a daily basis. The process provides employees with constructive feedback on their job performance, as well as outlines future objectives and goals. Performance evaluations also serve as a mechanism for employees to express their opinions and provide management with insight into the morale of city departments. If implemented in a methodical, even-handed way, regular job performance evaluations can reinforce accountability, bolster employee morale and elevate resident confidence in government. The city should also be aware that instituting performance reviews is subject to collective bargaining for certain employees.

Recommendation 5: Develop Financial Plan

We recommend that the mayor, in consultation with the finance team and other department heads, develop a multi-year financial plan. It is our understanding that the city auditor has already begun preparing multi-year revenue and expenditure forecasts in an effort to bring analytical focus to Gardner's long-range fiscal position. We encourage the city to continue this practice and add to the depth of its analysis.

Moving forward we also feel that a plan is needed. While "forecasting" and "planning" are often used synonymously, we regard a revenue and expenditure forecast as an informative first step in developing a long-range plan. Building upon the forecast, a city-wide financial plan would integrate the adoption of any fiscal policies (such as reserve policies) and analyses of community goals, employee contracts, capital investment and their long-term impact on spending. The purpose of this plan is to call attention to the city's current and anticipated fiscal condition, and to prompt discussion of the alternatives available to manage it.

It is important to keep in mind that forecasting and planning alone do not lead to increased revenue or enhanced savings. On the contrary, most forecasts project budget deficits, not surpluses. What a long-term approach offers the city is an *opportunity* to be proactive rather than reactive in the face of fiscal stress. As a next step, we recommend that the mayor lead a process of collaboration with the financial team, school committee and the city council to develop consensus on the plan's scope and framework before developing the plan itself.

Recommendation 6: Conduct Revenue Projections Earlier

We recommend that the mayor's financial team prepare revenue projections earlier in the budget process and brief the city council finance committee shortly after the release of the Governor's proposed budget in January. Ongoing analysis of revenue is taking place from January through February, and at the same time that departments are formulating appropriation requests. Currently, both revenue estimates and expenditure requests are presented to city council with the mayor's budget submission in mid-May. We propose instead that, for internal purposes, the revenue projections be initiated earlier in the budget process. In this way, the analysis of revenue figures will assist the mayor and departments during budget development. We also suggest that the city council finance committee be briefed on revenue projections, but only after adjustments are made to reflect the Governor's local aid recommendation which is proposed at the end of January as part of his budget submission. With open lines of communication, little disagreement on revenue expectations should arise later, as the budget nears final approval.

Recommendation 7: Establish Formal Reserve and Debt Policies

We recommend that the city adopt a formal policy that defines adequate reserve levels based on the community's needs. Reserves in a municipal context typically include free cash, as well as general and special purpose stabilization fund balances. A formal reserve policy should reflect a consensus between the mayor and city council that defines target reserve levels as part of a broader financial plan.

Gardner routinely appropriates funds from reserves (free cash and stabilization) in order to supplement spending after the beginning of a fiscal year. This practice has led to an extremely low reserve position, as excess revenue and departmental turnbacks, together with appropriations to stabilization, have not replenished the amounts drawn from these accounts. At the beginning of FY2008, the combined total of free cash (\$524,355) and stabilization fund (\$269,363) was 1.4 percent of the budget (\$55.7 million). A new free cash amount has not been certified for FY2009 and stabilization fund balances are essentially unchanged. It is unclear at this point how the city might choose to spend reserves during FY2009. To improve reserve levels, and avoid financial exposure, a formal reserve policy should be adopted.

Healthy free cash reserves should be in the 3-5 percent range of annual general fund revenue. As a rule, free cash should be treated as a one-time source and, therefore, only be put toward one-time expenses or stabilization. However, when municipalities fund operating budgets with free cash, it is sound policy to retain as unexpended an amount of free cash equal to that used in the operating budget. This unexpended amount then serves as a starting point for the next year's free cash calculation. There should also be balances in stabilization to bring the total reserve up to the 5-7 percent level or beyond.

We recommend that the city adopt a formal policy to guide decisions on debt issuance. The importance of having a debt policy will become more relevant as the capital improvement committee – formed in 2006 – continues deliberations on ways to meet infrastructure challenges. The city’s financial advisor (First Southwest) can be of assistance in developing a policy specifically for Gardner which should, among other considerations:

- Specify purposes for which long and short-term borrowing will be permitted, notwithstanding state law.
- Set parameters for amortization of long-term debt (i.e., how long to borrow money above or below a certain amount).
- Set limits on the debt service payments as a percent of general fund operating budget.

Once debt policies are established, the city can use the guidelines and thresholds to fully develop their capital improvement plan and more accurately predict funding sources. Developing a more comprehensive and accurate funding plan will, in turn, improve the precision of the city’s revenue and expenditure forecast (see Recommendation 5).

Recommendation 8: Complete Quarterly Budget Projections

We recommend that the financial team conduct quarterly budget projections for the current fiscal year. Once the fiscal year has begun, it is important to have systems in place to monitor the budget throughout the year. Quarterly projections are a tool used to benchmark year-to-date income and spending against estimated revenues and the approved budget. Performing such analysis is also viewed favorably by bond rating agencies. Once all financial activity for the last month in a quarter is closed (September, December, March), new projections to year-end can be developed based on expenditure and payroll information contained within the financial system along with information obtained from department heads on their intended expenditures. It is the analysis through year-end that differentiates quarterly projections from the monthly expenditure reports generated by the city auditor. To be most effective, a projection analysis should be performed on each city fund, i.e. the general, capital, revolving, grant, trust and special revenue funds. Some narrative analysis of the fiscal picture should also accompany each projection to highlight a specific problem, if any, in a given department that may cause a budget deviance.

Regular budget-to-actual reporting and analysis gives decision makers greater insight into cash flow demands and enhances the number of options available to meet financial challenges. Opportunities are created to adjust spending behavior if revenue is not hitting expectations or if departments are spending more than expected. When revenue trends are strong and expenditures are incurred at a slower pace than anticipated, quarterly projections can, by the end of the 3rd

quarter, bring into focus possibilities for larger than expected positive balances. Understanding the breadth and depth of outstanding balances, in turn, enables decision makers to prioritize and manage 4th quarter spending and increase end-of-year departmental turn backs. This last point can help cities and towns in their efforts to build reserves through the generation of free cash.

Recommendation 9: Develop Written Policies on Personnel and Payroll Records

We recommend that the personnel director and treasurer develop a written policy to separate and restrict access to personnel files. To the knowledge of staff we spoke with, Gardner has no specific policies or rules concerning personnel files. Therefore, irrespective of any other actions recommended in this report, officials should prepare and commit to a policy that sets standards for file maintenance and storage, and that restricts file access. Personnel files for each employee should contain information regarding their relationship with the municipality and should be maintained in a way consistent with state and federal laws, regulations, and city policies. There are three specific types of employee information that can be maintained in the same location, but must be filed in separate folders.

1. Personnel data, including all documents kept by an employer that have been used or may affect qualifications for employment, promotion, transfer, additional compensation, or disciplinary action, as outlined under M.G.L. c. 149, §52C;
2. Personal information, protected under M.G.L. c. 214 §1(b); and
3. Medical records including Workers' Compensation and Family and Medical Leave, protected by the Americans with Disabilities Act.

Recommendation 10: Develop Corrective Action Plan for Independent Auditor's Findings

We recommend that the financial team formulate a corrective action plan to address any weaknesses identified by its independent auditor in the annual management letter. Every year, the city's independent auditor (George V. McKenna, CPA) produces a management letter, which is written communication to city officials separate from the audit report. It generally identifies areas of deficiency, if any, and presents recommendations for improvements in accounting procedures, internal controls and other matters. The most recent audit on file at the Department of Revenue is for FY2007 which is accompanied by a management letter with four separate comments citing, among other things, deficiencies in turnover and risk assessment procedures. Atypically, no responses from city staff are provided. When weaknesses in internal controls and procedures are identified, a corrective action plan should be developed, indicating what steps will be

taken, who will be responsible, and when the action will be completed. Furthermore, these plans should be developed sufficiently in advance to be published as part of the management letter. The mayor should subsequently monitor the implementation of the plan and periodically inform the council's finance committee of progress.

We further recommend that the city council's finance committee meet annually to review the management letter submitted by the independent auditor. To be most effective, the city should require the audit firm's managers to appear before members of the council to answer questions regarding their findings. This approach presents an opportune forum to assess the city's financial position and hold financial team members accountable for their performance.

Recommendation 11: Convert to Quarterly Tax Billing

We recommend that the city consider adopting quarterly tax billing. Quarterly tax billing represents a sound financial practice for any community. It has the general benefit of enhancing interest income and stabilizing cash flow, which is significant for communities in Massachusetts that rely heavily on property tax revenue. To date, Gardner has been able to avoid short-term borrowing, to compensate for low general fund cash levels, by relying on positive balances generated from other sources at any given time. However, this is not an ideal scenario under which to function.

There may be some increased administrative costs in the assessors' and clerk/tax collector's office, but the potential for gains in investment income under quarterly tax billing can be expected to offset these costs. Furthermore, converting to a lock-box service will mitigate some of the demands on collections staff (see Recommendation 26).

Recommendation 12: Implement Bi-Weekly Payroll

We recommend that Gardner negotiate to move all city and school personnel from a weekly to a bi-weekly payroll schedule. Most employers in both the public and private sectors, including the Commonwealth, compensate employees on a bi-weekly basis. Furthermore, Gardner's school department is paying some employees on a bi-weekly pay schedule already. Paying employees bi-weekly would create an advantage on non-paycheck weeks by freeing up staff time, enabling them to focus on other tasks. To move employees to a bi-weekly pay period will require collective bargaining.

Recommendation 13: Reconsider Stipends and Benefits for Part-time Boards

We recommend that the city evaluate the benefits offered to part-time, elected and appointed board members. Under M.G.L. c. 32B § 2(d), if any part-time elected official, or part-

time employee working at least 20 hours per week receives either a salary or stipend, he or she is eligible for health care benefits. If a paid employee also contributes to the retirement system, he or she vests after ten years and is eligible for health care benefits upon retirement. Elected officials vest after six years. In either case, the city pays a share of the cost to cover the employee or retiree. For Gardner, which is struggling against increasing health care expenses, these represent additional costs which can be significant over time. However, city council can vote that part-time elected officials not be eligible for health care benefits during employment, or upon retirement. While officials currently receiving benefits can be “grandfathered”, it is our position that new part-time elected officials be excluded from receiving benefits moving forward.

Technology

Information Technology (IT) is a vital component of contemporary municipal government. Whereas financial processes are data intensive, IT utilization and support is all the more relevant. Budgets, ledgers, cash books and other financial records are typically maintained electronically. Electronic transactions between governments and banking institutions have also become the norm. As a practical matter, heavy reliance on technology necessitates that knowledgeable, system-savvy individuals be involved in the purchase and support of equipment and software. To facilitate this, communities often employ one or more full-time professionals as part of an IT department or contract with an outside service provider.

In Gardner, the IT function is performed by a systems manager, who has been with the city for 18 years and reports to the city treasurer. The systems manager supports approximately 54 workstations and four servers at city hall. He also executes critical functions related to electronic transfers to fund payroll. Content of the city's website is managed by the mayor's secretary. The city maintains service contracts with Guardian Information Technology (network support and consulting), Tyler Technologies (MUNIS financial system) and Vision Appraisal Technology (appraisal). The Geographic Information System (GIS) is run out of the engineering department, which employs a full-time GIS administrator. Symantec Anti-virus Corporate Edition software is in place to protect the city's data network. In addition, data is backed-up nightly on tape and housed at the fire department once per week.

Conclusion – The IT function in Gardner operates with limited resources. Yet, the systems manager and the IT consultant are able to provide support to departments, making costs relatively low compared to that of a stand-alone department. However, looking ahead, Gardner may find that city-wide technology needs exceed current capacity.

The systems manager expressed a desire to better understand the needs of end-users and to engage departments in technology enhancements. We agree that these are worthwhile goals. Furthermore, we observed that Gardner lacks a forum through which departments can communicate and prioritize their technology needs effectively. Our recommendations call for the creation of such a forum (i.e. a technology committee) in order that collaboration can take place on the various technology issues that should be addressed. In addition to the proposals in this section, there are several recommendations elsewhere in this report that will require substantial IT support in order to implement.

Recommendation 14: Create a Technology Committee

We recommend that the mayor convene a technology committee. At one time, a city-wide technology committee did exist (known as the "GTEC"). However, the committee has since faded away. By appointing a new technology committee, and reinvigorating the process

through engaged leadership, 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 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. The city might recruit members from the general population, but the committee could also be a mix of residents and city officials. Absent other ordinance provisions, the mayor should appoint the committee members.

Recommendation 15: Develop a Technology Plan

We recommend that the city develop a multi-year plan for utilizing technology in government. In an environment of tight budgets, the financial burden of increasing IT resources may be cost prohibitive. As an alternative, some communities have found success in developing formal, coordinated technology plans by relying on staff involvement. Therefore, we recommend that the technology committee evaluate the city's current technology status, the performance of hardware and software, and plan for future needs. The components of an effective technology program might typically include:

- An evaluation of troubleshooting capabilities
- An inventory of hardware and software
- Development of a replacement and upgrade schedule
- A long-term financing plan
- An analysis of system capacity to handle current and future demands
- The design and implementation of a back-up policy

Recommendation 16: Survey Staff and Increase Training Opportunities

We recommend that the city conduct a technology survey to measure staff proficiency levels and to identify where procedures can be made more efficient. By reviewing each office's procedures, the IT assessment may identify repetitive tasks that can be automated or streamlined. It may also identify shared data that could be transferred electronically or developed into a shared database available to more than one office. The survey results may help the systems manager or the IT consultant to develop appropriate training or refresher courses that will enable staff to better understand how the computerized systems can be useful to them. Given the

limited staff and resources, developing ways to operate more efficiently can free up valuable staff time. For instance, while almost all official records are maintained on software, electronic ledgers and other files, departments still keep manual records and use typewritten forms rather than transmitting information electronically. To the extent practicable, these practices should end.

We recommend that the personnel director use the survey results to seek out appropriate training opportunities for staff. The city should budget for training with the outside financial software vendors. Vendors should be contacted for training on data transfers so that the assessor and clerk/tax collector can more easily reconcile the transfer of the real estate commitment from Vision software to the MUNIS software. MUNIS personnel could show staff in the treasurer and auditor's offices how to print reports to spool files (see Recommendation 20), and to track sick and vacation time electronically.

Recommendation 17: Shift Budget Line Item

We recommend that the line item for technology expenditures be placed in the mayor's expense budget. For FY2009, the city has appropriated \$95,000 to a line item in the city treasurer's budget (11145-52040 "Central Computer"). All major technology purchases are made from this line item. Whereas technology is a city-wide function, we think the appropriation for the purchase of equipment, software and services should be subject to the mayor's management. Our conclusion is born out of a need for the city to view technology globally in order to effectively allocate limited resources.

Treasurer

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

In Gardner, the city treasurer has been in office since 2000. She is appointed by the city council and oversees an office of two full-time staff. To assist her with her responsibilities surrounding payroll, employee insurance and risk management, she employs an assistant treasurer. The assistant treasurer also processes payroll on a weekly basis. Atypical of operations in most cities and towns, the office performs city-wide technology network support functions through the work of a systems manager, who reports to the city treasurer (see Technology section).

The office, located in city hall, is equipped with desktop computers with Microsoft Office and the MUNIS financial system installed for each staff member. Pursuant to approved payroll and vendor warrants, city obligations are routinely met. Among other office responsibilities, departmental turnovers are regularly received and posted timely; cash is reconciled monthly based on general ledger balances provided by the city auditor; and, the cash book and debt schedule are both maintained in an Excel spreadsheet.

Conclusion - Overall, the city treasurer appears to have systems in place to ensure that the responsibilities of the office are fulfilled and adequate checks and balances exist with other finance offices. The treasurer and her assistant are diligent and, along with staff in the auditor's office, identify and correct errors made by other departments when paying bills and preparing payrolls. Beyond that, our recommendations are few and are designed to enhance departmental efficiency and analysis of city expenditures.

Recommendation 18: Consider Insurance Options

We recommend that, as part of the budget process, the treasurer annually evaluate the city's options regarding employee and retiree health insurance. In Gardner, responsibility for administering and budgeting for group benefits falls to the city treasurer. Currently, the city offers a number of health insurance plans for both active and retired employees and covers 75

percent of premiums for the same, except for surviving spouses who pay 50 percent. In FY2009, the cost for these benefits is budgeted at \$5.6 million. We understand that the city is beginning to consider a number of healthcare alternatives to reduce overall costs. We encourage officials to hold these discussions on an annual basis. As part of these annual evaluations, we think city officials ought to consider the following:

- Review each city-offered plan and make reasonable benefit assumptions when comparing the costs of alternative, competing plans.
- Consider joining with other communities or districts in a joint or regional purchasing consortium.
- Negotiate a larger percentage contribution from employees in more expensive plans.
- Consider the Group Insurance Commission (GIC) option – see below.

The city should be aware that legislation approved last year (Chapter 67 of the Acts of 2007) offers communities the option of joining GIC. We understand that Gardner has been advised by its insurance consultant (Cook & Company) that the GIC option is not advantageous at this time. However, circumstances surrounding health insurance are prone to change. Therefore, the city should review the GIC offerings independently on an annual basis in order to gain an objective, up-to-date analysis.

Because it is a larger pool of subscribers, GIC can offer a greater number of plan options to subscribers, some of which are significantly less expensive than comparable plans offered by either joint purchasing groups or individual municipal employers. To date, 12 municipalities and regional school districts have joined. The city should be aware that the new law currently requires coalition bargaining, in accordance with M.G.L. c.32B, §19, with representatives of local unions before joining GIC. More information on plans, rates and administration can be obtained via the internet at: www.mass.gov/gic/municipalities/municipalityresources.htm.

Recommendation 19: Require Sign-off on Timesheets

We recommend that the city require department heads and employees to sign all time sheets. Currently, departments submit payroll vouchers, timesheets and leave sheets to the auditor, treasurer and personnel director, respectively. While department heads sign and submit vouchers to the auditor's office as a part of the payroll process, there is nothing verifying daily time and attendance of city employees when payroll is submitted to the treasurer's office. Timesheets sent to the treasurer's office are organized by week, not day, and are not signed by either the department head or the employee. As an alternative, we would encourage the city to consider combining hours and leave information by employee on the same timesheet every week.

By eliminating duplication, the city will streamline the process. Additional efficiencies can be gained by moving to bi-weekly payroll (see Recommendation 12).

Recommendation 20: Seek to Reduce Hard Copy Reports

We recommend that the city treasurer seek opportunities to store, and make available, payroll reports electronically, rather than in hard copy form. Every week, the treasurer's office runs payroll. A general ledger distribution journal is produced and transmitted to the city auditor, who posts it and prepares a warrant. Additionally, other reports are prepared including check registers, earnings and deductions reports. While these are important records that help verify proper payments and withholdings, there is no compelling reason for these reports to exist in paper form. Producing an electronic, or "spool" file in MUNIS provides adequate on-screen viewing capability to those who need the information. Whereas maintaining spool files will consume significant computer memory, space can be freed up with frequent back-up onto disk or text file.

We further recommend that the city treasurer consult the Secretary of State's records retention schedule and seek to electronically retain or destroy hard copy files, as appropriate. The Secretary of State's Records Management Unit provides guidelines to help municipalities identify what records can be discarded and when, what records must be retained, and what records can be retained in an electronic format. The treasurer should consult this schedule and consider opportunities to eliminate reports that are no longer required or used. The guidelines can be accessed through the State Secretary's website at (<http://www.sec.state.ma.us/arc/arcrmu/rmurds/rdsmds.htm>).

Auditor

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

Among required submissions to DOR, the auditor is responsible for producing the city's annual Schedule A by October 31 and its year-end Balance Sheet (for Free Cash certification). The auditor works with the assessors and city clerk in the preparation of the city's Tax Recap Sheet. He must also produce and maintain statements and schedules consistent with professional norms as prescribed by the Government Accounting Standards Board (GASB).

In Gardner, the city auditor is a department head, appointed by the city council. He, in turn, appoints one senior account clerk. The auditor has been in the position for nine years and is a Massachusetts certified governmental accountant. He also served the city previously as treasurer. The senior account clerk has been in the auditor's office for eight years and worked with the police department prior to her current position.

On a monthly basis, the city auditor distributes committee-specific budget reports to each of the four city council subcommittees (i.e. reports showing year-to-date spending against appropriations for each department under the committee's jurisdiction). His general ledger is maintained and updated on the MUNIS financial system. Reconciliations of cash are occurring every month with the city treasurer while reconciling receivables with the clerk/tax collector happen more or less on a quarterly basis.

The auditor signs the payroll warrant. The senior account clerk prepares the accounts payable warrants for the auditor to sign after verifying that invoices and vouchers are accurate. City contracts are housed in the office, as required by state law.

Conclusion – The accounting function in Gardner is sound in terms of its structure and professionalism. Reporting to the state is timely and the office fulfills fundamental responsibilities relative to the payroll and vendor warrant processes. However, improvements could be made to internal controls related to the reconciliation of receivables and signature authority. The office is in compliance with the fixed assets reporting requirements of GASB Statement 34 and is annually calculating depreciation on an updated fixed assets inventory. The budget makes provision for funding of an actuarial study of post-employment benefits other than pensions, which is required under GASB Statement 45.

Recommendation 21: Conduct Reconciliations of Receivables on a Monthly Basis

We recommend that the city auditor meet monthly with the city clerk/tax collector to reconcile the receivables control with the general ledger. Currently, the auditor and clerk/tax collector perform this process inconsistently, with both reporting that the clerk/tax collector spot-checks the city auditor's numbers approximately once per quarter. A final reconciliation takes place at year-end in advance of the independent audit. While the clerk/tax collector is diligent in maintaining her receivable accounts, it is important that monthly balances also match those of the city auditor. For his part, the auditor, under M.G.L. c. 41, §57 is the chief financial record keeper of the city and, as such, it is necessary that his books be current. Frequent reconciliations are an important internal control that make it easier to locate and correct any posting or reporting errors and will help ensure that the city's financial records are accurate.

The auditor and the clerk/tax collector should agree on a day each month when they will meet to compare receivable balances. In advance, the clerk/tax collector should internally reconcile her receivable control to her source documents (turnover sheets or deposit slips, warrants for refunds, abatement and exemption certificates). If variances occur, source documents should be revisited. Reconciliations should not be limited to real estate receivables, but should include personal property and motor vehicle balances, as well.

Recommendation 22: Codify Signature Authority in City Auditor's Absence

We recommend that the city adopt a formal ordinance that identifies signature authority for warrants when the city auditor is out-of-the-office. When the auditor is on leave for vacation or any other reason, the business of city government continues. Part of this includes the payment of payroll and vendor warrants. Currently, there is no formal authority for anyone to sign warrants in the absence of the auditor. As a housekeeping matter, we recommend that the mayor propose, and city council approve, an ordinance allowing a designee of the auditor to sign warrants when he is away.

City Clerk / Tax Collector

Gardner is unique in that the functions of a city clerk and those of a tax collector, while existing as separate positions in the city charter, are combined through the appointment of one person to both offices, i.e. the city clerk/tax collector. For the purposes of our financial management review, in this section we have primarily focused on the activities related to tax collections.

A municipality's tax collector possesses the authority to receive all amounts due the community for taxes, excises, betterments and certain other charges. Collections need to be counted, posted to taxpayer accounts, and either turned-over to the treasurer or deposited. Delinquent accounts need to be pursued and then moved efficiently into the treasurer's tax title accounts. To be successful, a tax collector must maintain an up-to-date receivable control that is reconciled internally and then externally with the auditor. 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 tax collector manages the contractual agreement with the deputy collector.

The responsibilities of a city clerk typically include the keeping of vital records such as city births, marriages and deaths. The city clerk also issues marriage, dog, fishing, hunting and other licenses. Taking, recording and maintaining all minutes of city council actions are further crucial functions of the position.

Gardner's city clerk/tax collector has held office for 26 years. She oversees a staff of four employees, which consists of an assistant city clerk, a senior account clerk and two senior clerks. The clerk/tax collector has an office while staff work in an open area on the first floor of city hall. The payment counter is also located in this space. The office is equipped with desktop computers with Microsoft Office installed for each staff member. The clerk/tax collector's office uses the MUNIS financial software to track commitments from the assessor's office and post real estate, personal property and motor vehicle excise payments. Tax payments can be made at city hall at the clerk/tax collector's window, using a drop box during non-business hours, or via US mail. The city also offers online payments (via Unipay). The clerk/tax collector also utilizes the services of a deputy collector (Kelley and Ryan) to pursue delinquent motor vehicle excise accounts.

Conclusion – Overall, the city clerk/tax collector appears to have systems in place to ensure that the responsibilities of the office are fulfilled. Furthermore, the clerk/tax collector and her senior account clerk are experienced and competent. Through maintaining a receivable control, money from property taxes is taken-in on a semi-annual billing basis, posted and deposited daily. Though elsewhere in this report we recommend the city look to reorganize some of the collection functions in a manner consistent with best government practice,

notwithstanding a structural change, there are other areas in which the department can improve operations. Our recommendations are designed to aid the office in compliance with municipal finance norms and enhancing efficiency.

Recommendation 23: Close Clerk's Bank Account; Turnover to Treasurer

We recommend that the clerk/tax collector turnover all city clerk receipts to the city treasurer and close the city clerk's bank account. Currently, clerk-related receipts are deposited to a city clerk bank account, rather than being taken-in as a departmental receipt and turned over to the treasurer. Under M.G.L. c. 44, §53, "All moneys received by any city, town or district officer or department... shall be paid by such officers or department upon their receipt into the city, town or district treasury." Therefore, the city clerk should turnover her receipts to the treasurer, who should deposit the same in a similar manner to deposits of other general fund monies. The clerk's bank account should be closed, and any remaining balance also turned over to the treasurer.

Recommendation 24: Expedite Action on Delinquent Real Estate Accounts

We recommend that the clerk/tax collector expedite action against delinquent real estate accounts. In accordance with sound financial practice, the clerk/tax collector sends a demand notice when a real estate tax bill goes unpaid for 15 days after the due date. Subsequent to issuing a demand, however, she sends a series of letters at three month intervals before proceeding with placing the property in tax title. She reports that this process can take up to two years. As an alternative, we recommend that she begin the process of moving delinquent accounts into tax title within three to six months of the demand notice. By doing so, she perfects the city's lien on the property, making it effective in the event that an alienation (or conveyance) of the property is recorded with the registry of deeds. On the other hand, the lien can be defeated if an alienation occurs before the collector initiates a taking (see page 63 of the Collector's Manual). It is also within the clerk/tax collector's purview to establish a payment schedule with a delinquent tax payer as a means of ensuring cash flow to the city while taking into consideration the financial circumstances that make timely payments problematic.

Recommendation 25: Receive Bank Statements for Deputy Collector Account

We recommend that the clerk/tax collector receive all bank statements detailing activity for the joint account held by the city and the deputy collector. The city uses the services of a deputy collector to obtain delinquent motor vehicle excise payments. According to the clerk/tax collector, payments are deposited into a bank account held jointly between deputy collector and the city. The deputy collector receives the monthly bank statements. Every week, the deputy

collector turns over funds in the account to the clerk/tax collector and the deputy collector's fees are paid at that time.

In Massachusetts, a deputy collector must turn over to the tax collector at least weekly, all amounts he collects or deposits into the community's deputy collector bank account. To ensure adequate checks and balances over city funds, each turnover should be accompanied by a detailed report of all funds deposited. Furthermore, as a city account, the statement of activity should be addressed to the clerk/tax collector. See IGR 90-219, Collection Agencies, Collector Fees and Deputy Tax Collector Procedures, at <http://www.mass.gov/Ador/docs/dls/publ/igr/1990/90-219.PDF> for more information.

Recommendation 26: Consider Using Lock Box Service

We recommend that the clerk/tax collector consider engaging a lock box service. A lock box service, administered by a financial institution, receives tax and/or other committed payments, deposits checks and returns daily receipt reports, typically on disk, to the city during the billing period. The clerk/tax collector's staff uploads the information from the disk to its accounts receivable software to post the payments. A contract between the city and a lock box service would specify the scope of services to be provided and how costs would be calculated. Once implemented, the clerk/tax collector could encourage taxpayers to use the lock box by conducting a public relations campaign. Notice of the availability of lock box payments could be conveyed via a note mailed along with the tax bills and through the local media. If lock box use is actively promoted, over-the-counter and mail payments should decline, automatic posting of payments should increase and staff time should be freed-up.

Recommendation 27: Require Electronic Transmission of Escrow Payments

We recommend that the clerk/tax collector require escrow companies to transmit property tax payment data in a file that can be uploaded electronically into MUNIS. Currently, escrow payments for real estate taxes are being keyed-in by staff in the clerk/tax collector's office. This activity is time consuming. Most companies have transitioned either to electronic payments or provide electronic files for posting to financial systems. If unable to accommodate this request, companies should be directed to enter payment information online via Unipay.

Assessors

The assessors' office is responsible for valuing all real and personal property in the city, assigning tax payments to owners, and generating the commitment authorizing the collector to collect real estate tax and motor vehicle excise payments.

To ensure that residents are taxed equitably and accurately, the office maintains and updates property records with information received from deeds and through the on-site inspection of sale properties and data from properties where a building permit has been issued. Additional information is gathered during an on-going property measure and list program. Assessors act on and track exemption and property tax abatement applications. They estimate new growth and make recommendations to the city council at the annual classification hearing. The assessors calculate the tax rate, recommend the annual overlay and provide levy information for use in the Tax Recap Sheet submitted to DOR. The office is also required by DOR to document an annual interim year adjustment analysis and to prepare for State certification of property values every three years.

In Gardner, the assessing department is primarily governed by City Ordinance #5, which provides for a three member board, appointed by the mayor. According to the ordinance, the board members elect their own chair while the mayor separately appoints one of the otherwise part-time assessors to serve as the full-time department head (or "city assessor"). Currently, the chair of the board is also the department head. The board meets approximately five to six times per year to approve abatements and exemptions, review the department's budget and consider the release of overlay surplus. In addition to the city assessor, there is one full-time clerk and one part-time clerk who perform administrative functions in the office.

The task of completing inspections and data collection for residential, commercial/industrial and personal property is contracted-out to Vision Appraisal Technology. All revaluation work is also performed by Vision. The Vision software package is used to track real estate and personal property accounts, though manual records are also kept. In recent years, the department has managed an annual overlay account of approximately \$200,000 for exemptions and abatements. There are no overlay deficits reported in prior years. At the mayor's behest, the city adopted the provisions of Chapter 653, §40 of the Acts of 1989 (Assessment of New Construction to June 30th) this past spring.

The volume of work in the assessing department involves 5,540 residential real estate parcels, 452 commercial/industrial accounts and 729 vacant and other parcels. In addition, there are 277 personal property accounts. The city bills on a semi-annual basis. There are approximately 20,000 motor vehicle excise accounts yielding \$1.7 million in revenue for FY2007.

Conclusion – Workflow is a concern in the assessing office. Whether resulting from a lack of familiarity with electronic solutions, an allegiance to manual processes or both, staff

seem to spend an inordinate amount of time maintaining records and transmitting financial information. Our recommendations identify several opportunities to improve assessing processes and records maintenance.

Recommendation 28: Discontinue Manual Updates of Property Record Cards

We recommend that the assessing office cease the practice of updating old property record cards. Property record cards are currently maintained in three places. The active cards are kept electronically on the Vision mass appraisal software while two sets of hard copy cards are cataloged by owner's name and street number. The hard copy cards are updated manually every time a change is registered in the Vision system. This activity makes for duplicative and unnecessary work. While the hard copy cards are worth keeping for historical reference, virtually all communities have stopped manually updating them. The Vision system keeps a history log of data entered which is routinely backed-up.

Recommendation 29: Conduct Sales Inspections

We recommend that the city assessor regularly inspect the interior and exterior of all sale properties. It is our understanding that all sales are not inspected. Often, a sale property may have been upgraded without a permit or allowed to deteriorate to an extent that the assessors' files do not accurately reflect the current characteristics or condition of the property. Not being aware of the exact condition of sale properties negatively affects the assessors' ability to value other properties accurately.

Recommendation 30: Expedite Electronic Processing of Motor Vehicle Abatements

We recommend that staff enter abatements into the computer system at the time changes are made. Changes are entered into the billing system monthly. During the intervening period between when abatements are filed and when data is entered, requests pile-up in the assessors office. To the extent that delays in data entry are caused by lack of familiarity with software, training should be requested and received per the city's support agreement.

Recommendation 31: Consider Altering Cyclical Inspection Schedule

We recommend that the board of assessors evaluate the possibility of changing from a three-year cyclical inspection schedule to a six- or nine-year schedule. By re-inspecting properties over a multi-year period, the city is able to verify and update existing data. The

collection and maintenance of current and accurate property inventory data is a critical element in the development of uniform, fair market values. To this end, Gardner currently contracts with Vision to perform cyclical inspections of all real property over a three year period. A six-year program is within the certification guidelines of the Bureau of Local Assessment, which recommends a re-inspection period “not to exceed nine years”. For FY2009, the city has budgeted \$71,650 for valuation updates, a substantial portion of which will be spent on the contract for cyclical inspections. We feel that the city has an opportunity to stabilize, and perhaps reduce, the budgetary impact of this service by contracting over a longer time frame. A six- or nine-year inspection schedule may even allow the city enough time to move inspection activities in-house altogether.

Acknowledgements

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