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**Gary Christenson, Mayor**

Tuesday, September 2, 2014

Dear Members of the City Council:

I am submitting for your review the Fiscal Year 2013 Management Letter which includes a report of the audit conducted by Roselli, Clark & Associates. The City's responses are highlighted in blue and follow each recommendation contained within the report.

Overall, the report indicates that in Fiscal Year 2013 we continued the trend of positive economic performance. Specifically, the report references the stringent budget controls and improved financial procedures which allowed us to maintain minimum reserve levels as required by City policy. This in turn led to a double step increase in our bond rating to AA which was the first time this rating was achieved in the City's history.

The report also points out that Malden is in the top 10 communities in all of Massachusetts who report free cash. Additionally, our 10 year new growth average is about \$1 million and we continue to address delinquent taxes which are now contributing significantly to the City's revenues on an annual basis.

Finally, we continue to focus on strengthening our operating efficiency and have initiated corrective action in response to the findings contained in this report and in prior year management letters. We have already met with Department Heads impacted by the report and many of the recommendations were being implemented prior to the report's release.

I would welcome the opportunity to discuss the Management Letter and the City's responses with you. In the meantime, this information will be available on the City's website for dissemination to the community. Thank you.

Sincerely,

**GARY CHRISTENSON**  
Mayor

**CITY OF MALDEN, MASSACHUSETTS**

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2013

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**ROSELLI, CLARK & ASSOCIATES**  
CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park  
Suite 4900  
Woburn, MA 01801

Telephone: (781) 933-0073  
[www.roselliclark.com](http://www.roselliclark.com)

Honorable Mayor and Members of the City Council  
City of Malden, Massachusetts  
200 Pleasant Street  
Malden, Massachusetts 02148

We have audited the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Malden, Massachusetts (the “City”) as of and for the year ended June 30, 2013, which collectively comprise the City’s basic financial statements and have issued our report thereon dated November 26, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control

over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses could exist that have gone undetected.

This report is intended solely for the information and use of management, the Mayor, Members of the City Council and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Roselli, Clark & Associates". The signature is written in a cursive, flowing style.

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
November 26, 2013

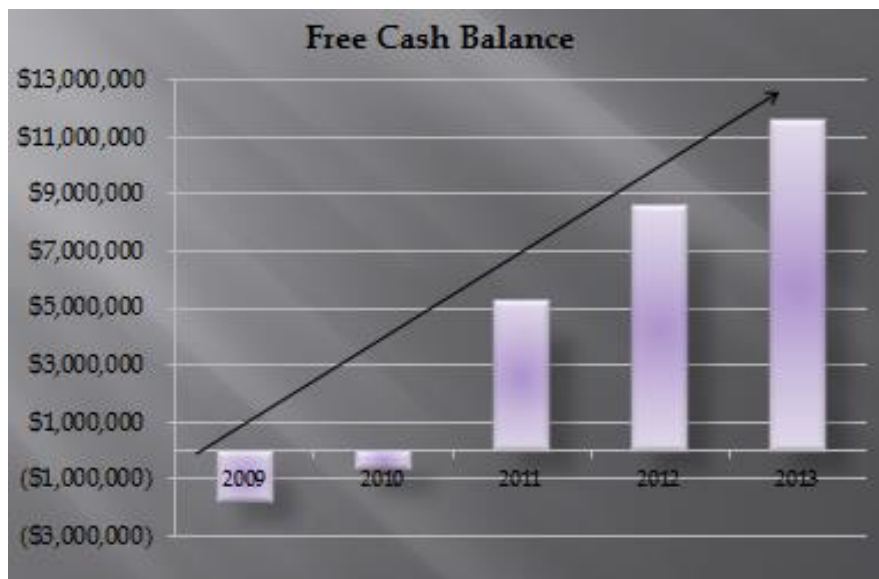
## **I. OVERVIEW**

2013 continued the trend of positive economic performance for the City and the region as a whole. Unemployment rates improved significantly and trended near pre-recession levels while local revenues trended higher and vibrant development positively impacted valuations, permits and new growth. Together with stringent budget controls, these all contributed to the City maintaining the minimum reserve levels required by credit evaluators and City Council policies. This in turn led to a double step increase in the City's bond rating to AA; the first time in the City's history such a level has been attained.

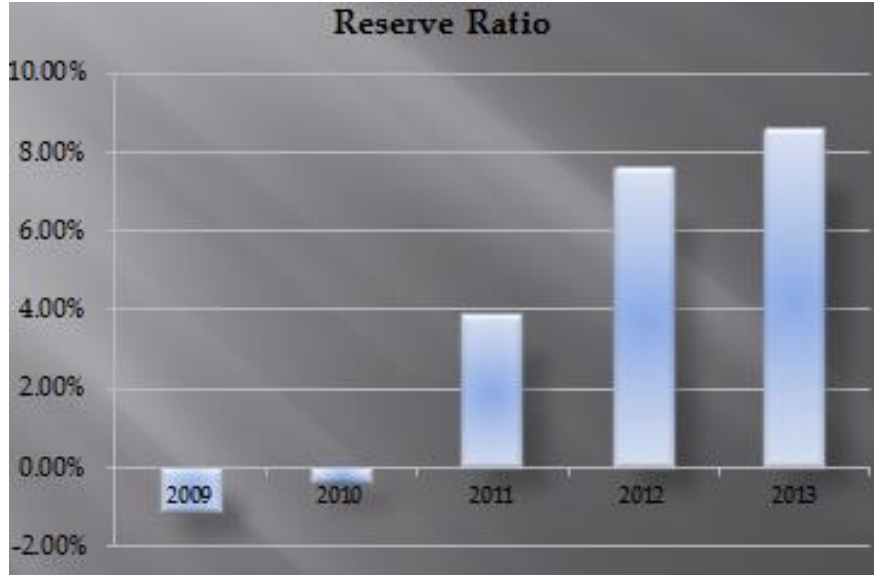
This is a crowning achievement for the City which as little as five years ago was mired in an economic slump characterized by deficits, negative reserve balances, deficient policies and credit downgrades.

We encourage the City to maintain this philosophy and continue to aggressively manage its reserves and improve upon the policies and procedures that are currently being developed.

The following graphs illustrate the City's economic performance since 2009:

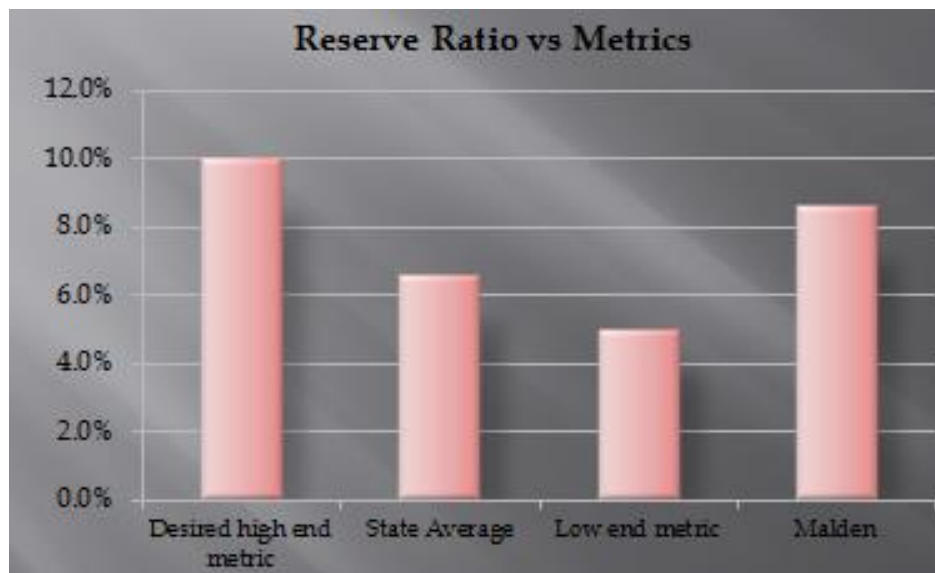


Free cash is an amount calculated by the Department of Revenue as excess revenues over expenditures that have accumulated from year to year. Higher balances are indicative of superior financial performance. The City is in the top 10 communities in all of Massachusetts who report free cash.



The City's reserve ratio is an important component of the City's credit evaluation. It measures the City's financial flexibility. The reserve ratio is calculated as unassigned fund balance plus stabilization divided by general fund expenditures. The credit evaluators informally gain more comfort with ratio calculations in the 10% range. The City is still below this metric, but is trending towards it and is safely well above the negative ratios experienced in 2009 and 2010.

The City's policy with respect to reserve ratio is to maintain at least the State average, which is about 7% and the City has accomplished this goal in each of the last two years.



Other positive financial highlights that contributed to the positive credit evaluation may be summarized as follows:

- The City's Health Insurance Trust Fund has a healthy fund balance designated for insurance benefits of approximately \$4.9 million with cash in excess of \$8.0 million. This is a result of the City's health insurance operations continuing to outperform the GIC.
- The City's Water and Sewer Enterprise Fund continues to be self-supporting. Cash basis fund balance exceeds \$2.3 million as of June 30, 2013. The rate structure appears sufficient to maintain positive fund balances into the near future.
- New growth measured at the end of fiscal year 2013 and disclosed in the 2014 tax recap was about \$1.1 million. This exceeded expectations by \$350,000 and exemplifies the economic resurgence Malden is currently experiencing as development is continuing to gain traction. The City's 10 year new growth average is about \$1 million.
- The City has funded over 70% of its actuarial pension liability. This places Malden near the top in terms of funded ratio as compared to retirement systems across the State. The City is expecting to be fully funded by the year 2030.
- The City continues to address delinquent taxes. A process that was virtually inexistent in the past is now contributing significantly to the City's revenues on an annual basis.

Also, on a positive note, the City continues to make diligent attempts to initiate adequate corrective action with respect to comments in prior year management letters. While issues still exist as will be highlighted in the remainder of the letter, it is evident that the City is moving in a positive direction. We hope the City will devote resources to address the remaining issues in this report with the same vigor, motivation and energy exemplified in these past 4 years as the City continues on its pace to become a first class financially run community.



## **II. INFORMATIONAL ITEMS**

### **A. Other Postemployment Benefits**

Like many of the communities in the Commonwealth, the City has yet to develop funding sources for its Other Postemployment Benefits (OPEB). While a committee consisting of the City Council has been formed, all discussions are still in the discovery stage.

The City's unfunded liability as of the latest actuarial valuation is \$178.6 million, therefore it is important that a plan is developed prior to annual expenses on a pay as you go basis have an adverse impact on the operating budget.

As previously discussed, the City is in the same situation as over 90% of communities in the State, however unlike other communities, Malden is well funded on the pension side of the retirement equation. In fact, Malden is funded higher than all of its peers in the Greater Boston area and this will leverage efforts on the OPEB front in future years.

That being said, it is still important for the City to begin to identify dedicated revenue sources for this obligation.

#### **City's Response:**

The plan is to request that a committee of the City Council be officially formed to create policy and direction around this topic.

### **B. Health Insurance Mandate**

As discussed in the prior year management letter, an appropriate public authority of a political subdivision which has undertaken to provide health insurance coverage to its subscribers under this chapter shall conduct an enrollment audit not less than once every 2 years. The audit shall be completed in order to ensure that members are appropriately eligible for coverage.

*We understand that such an audit is currently under way and results will be pending shortly.*

#### **City's Response:**

As proposed in the prior year management letter, a formal audit was conducted in Fiscal Year 2014. This audit identified ineligible dependents and ex-spouses. The plan is to conduct this type of audit every two years moving forward.

### **C. Bond Rating**

In light of the City's intensive capital improvement initiatives, in the prior year we outlined the importance of obtaining a positive bond rating and to take steps that are within the City's control to increase the chances of a positive result.

*The City endeavored to implement the majority of the steps discussed and was rewarded with a two-step increase in its bond rating to AA. This will save the City significant finance costs in the future and City Financial Management should be congratulated for this accomplishment.*

#### **City's Response:**

We are pleased to have achieved the highest bond rating in the history of the City. In Fiscal Year 2015, the plan is to address policy in the areas of OPEB and Debt Management which will further solidify the City's financial future.

### **D. Deminimus Personal Property Tax Exemptions**

The Assessor's office agreed with our recommendation two years ago to exempt property tax up to a certain amount. (The MGL allows up to \$10,000 in valuation to be exempt.) After a comprehensive analysis it was determined that the most advantageous situation for the City was to exempt personal property up to \$5,000. This would eliminate 469 accounts and shift about \$25,000 to the other tax payers.

*Early in fiscal year 2014, the City Council voted to exempt personal property up to \$5,000.*

#### **City's Response:**

On September 17, 2013, the City Council voted to accept the local option afforded by M.G.L. c. 59. The Council approved the establishment of a minimum value of \$5,000 for personal property accounts to be taxed.

### **E. Other Reports**

In conjunction with the audit of the general purpose financial statements, the following reports were also issued and are incorporated by reference.

1. Single Audit Report.
2. Agreed Upon Procedures of the School End of Year Report.
3. Agreed Upon Procedures - School Lunch Program.
4. Agreed Upon Procedures of Water and Sewer Administration.

### **III. FINDINGS AND RECOMMENDATIONS (Current year comments)**

#### **A. Assessor's Department**

Per our review of the Assessor's Office, we made the following observations regarding the operations of the Department:

1. When forecasting revenues for the budget in May 2013, an incorrect new growth amount was estimated. The issue arose from a commercial property owner submitting information incorrectly to the Assessor on the annual Forms of List. This particular situation related to one of the largest commercial property owners in the City and caused new growth to be short by \$200,000. In light of this error, the City should investigate hiring a personal property valuation auditor to conduct audits on a rotating basis of its larger commercial properties. Other Cities have had success conducting this sort of process.
2. When submitting final new growth to the DOR, it was discovered that a clerical error had been made when completing the schedules. This further reduced the initial growth figures by an additional \$150,000. Clerical errors are inherent in the draft stages of compiling the complicated supporting schedules for the tax recap. While the data was submitted timely to the Department of Revenue, delays by the Department of Revenue due to personnel changes caused delays for the City in remedying this situation. We suggest the communication process is more streamlined in this situation so that the City can react more quickly to these types of errors when they occur.
3. When reviewing the commitment produced for billing the City's taxpayers for the 2013 tax bills, we discovered that the amount committed was approximately \$72,500 less than the legally allowed amount set with the rate. It appears there were errors in the inputting of certain accounts into the Assessors valuation package. *As a result the City lost \$72,500 in revenue that it was legally entitled to collect.* While the responsibility of the accuracy of the tax bills rests with the Assessor's Office, it is typically best practice for the City Collector to be involved in this process as well. In 2014, the new Treasurer/Collector worked with the City Assessor to assure that the bills were accurate and sent properly.

#### **City's Response:**

The issue referenced in item #1 pertains to National Grid and will be addressed by expanding the personal property tax audit program to the utility companies. Issue #2 will be addressed through improved communication with the Department of Revenue (DOR) to ensure that DOR handles their part of the process in a timely manner. Issue #3 should be resolved through increased coordination between the Assessor's Office and the Treasurer's Office.

## **B. Storm reimbursements**

The February blizzard of 2013 was declared an emergency by the Governor and subsequently qualified for reimbursement from the Federal Government under FEMA (storm assistance program). In order to receive reimbursement, the City was required to fill out the necessary reimbursement forms prior to receiving an award from the Federal Government. We discovered the forms had changed since the last disaster and were not filled out correctly by the City's disaster recovery administrators run out of the Board of Health Office. This has caused significant delays in the process of receiving this reimbursement and to date, despite most other Massachusetts communities already having received this reimbursement, the City was unable to use this as a revenue source in the setting of its 2014 tax rate. As a consequence, the tax payers absorbed the entire \$250,000 estimated reimbursement in 2014. The City is hopeful that the reimbursement is finally on route, and will be able to reimburse the tax payers on the 2015 tax recap. We suggest that follow up of this is performed to determine exactly when these funds will be received.

### **City's Response:**

It is acknowledged that the forms were not filled out correctly and the City has since made changes to procedures in the Emergency Management Department so as to prevent any recurrence moving forward. Emergency Management continues to work with MEMA to secure the reimbursement payment in Fiscal Year 2015.

## **C. Student Activities**

The Malden School's Student Activity programs are in serious noncompliance with Massachusetts General Laws MGL. Separate reports on the Student Activities have been issued for the last 10 years, yet little progress has been achieved in maintaining compliance. In the prior year we highlighted our concerns in the Management Letter, but the findings continue. The efforts have been hampered somewhat by the untimely passing of the High School Secretary and turnover at the School Business Office over the past ten years.

The following highlight the major concerns:

1. MGL Chapter 71 Section 47 requires that for those Student Activities who elect this MGL through the School Committee, a savings account must be set up with the City Treasurer where all deposits are made. A checking account may be maintained by the Principal and may not exceed limits as authorized by the School Committee. At times when the checking account is depleted, a request is made to the City Treasurer to replenish the account through the warrant process; and the expenditures are at that time approved by the City Controller.

Currently, all activity is processed through a checking account controlled by the High School Principal. No deposits are processed through the Treasurer's Office and none of the expenditures are processed through the warrant.

Furthermore it is not clear what the process is at any of the Middle/Elementary Schools since these have never been open for review. If these are set up as PTO accounts, then that is appropriate, but presently, nobody seems to know the answer to that question.

2. There is no evidence of authorization of any of the programs by the School Committee.
3. Bank reconciliations are not performed.
4. There are no formal policies and procedures authorized by the School Committee.
5. The cash handling is not covered through a fidelity bond that would insure theft or loss.
6. There is only one authorized signed on the checking account.
7. A number of disbursement issues existed throughout the process.
8. Two accounts; summer enrichment and summer school should be revolving accounts and not student activity accounts.
9. There were a number of other issues including errors in recording deposits and disbursements to QuickBooks, the payment of sales tax despite the activities being exempt, 1099 reporting etc.

The DESE has recently (2014) issued new guidelines for Student Activities. This is due to the significant increase in fraud regarding these accounts. The new City Treasurer should begin working with the school principals to ensure that the guidelines are being followed properly.

**City's Response:**

The City acknowledges the issues to be addressed in the area of Student Activity programs. The Treasurer and School Department have begun working together on putting specific steps in place to provide better controls over these accounts and monies. This issue will be completely addressed in Fiscal Year 2015.

#### **IV. FINDINGS AND RECOMMENDATIONS (Update of prior year comments)**

##### **A. Human Resource Software**

In the prior two years we discussed the possibility of implementing a human resource software package for the Human Resource Department. Currently, this high data intensive department is administered with excel schedules which are prone to errors, inaccuracies and inefficiencies. The Human Resource Department is a very important component of City Government as it administers the personnel needs of over 2,000 individuals. The City recently implemented a new payroll reporting module which we understand also has a human resource tracking function. We understand there is no cost to the City for using this module and therefore urge the City to evaluate if this will accomplish the tasks that are currently being administered in excel.

*This has yet to be evaluated or accomplished.*

##### **City's Response:**

The City acknowledges the importance of efficiently centralizing, tracking and reporting employee-related data such as sick time accruals and employee census data. The City's payroll software package, Harpers, contains functionality that would provide for the tracking of most if not all of the data currently being tracked manually. During Fiscal Year 2014, meetings and trainings were held with Harpers to understand and learn more about the software in this area. The full implementation of this functionality will be a priority for the Human Resources Department in Fiscal Year 2015.

##### **B. Code Enforcement and Other Revenues**

The City has purchased software to help account for all fines, fees and permits. This is scheduled to be implemented for the start of Fiscal 2014. In addition to facilitating the recordkeeping for these functions, the Controller is attempting to include an inventory control aspect to the process which will facilitate the ability to reconcile revenues.

In addition, as part of the City's overall policies and procedures (see further comment below) the issue of when and how fees can be waived will be addressed.

The software was implemented however there are concerns with the accuracy of the data and corresponding output. As a result, revenues are not currently being reconciled to the general ledger. We suggest the City determine how to better use this vital piece of new technology.

##### **City's Response:**

There have been regular meetings with the impacted departments to monitor progress, collaborate information and address the concerns noted. The plan is to have these issues resolved in early Fiscal Year 2015.

**C. Financial Policies and Procedures**

The City has engaged a consultant to assist with the preparation of a financial policies and procedures manual.

*The manual is in draft stage and should be completed prior to the end of calendar 2014 for presentation to the City Council.*

**City's Response:**

The City has been moving forward with drafting a proposed manual and is on track for submission to the City Council prior to the end of calendar year 2014.

**D. Net School Spending**

We reported in the prior year that the City had incurred an aggregate net school spending deficit of \$3.7 million as of June 30, 2012. This was getting dangerously close to the 5% of Foundation requirement before intervention by the State would be necessary. The biggest issue with respect to this was that an agreement between the School and the City regarding Schedule 19 costs could not be reached and the reports were submitted to the State without all required signatures.

Since then, the School and City have worked to develop an agreement regarding Schedule 19 and presently have a formal written understanding on how to handle these costs moving forward. In addition, the net school spending deficit as of June 30 2013 had been reduced to \$1.2 million. The City and School should continue to work together to close this gap.

**City's Response:**

The agreement has been executed by both the City and School Department and forwarded to the state's Department of Elementary and Secondary Education. There will be continued work toward reducing the gap moving forward.

**E. Treasurer and Collector Findings**

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1. Poor investment yields.

*Given the current low interest rate investment climate, it is difficult for the City to rely on investment earnings to positively impact the City's annual operations. However the new City Treasurer/Collector has endeavored to maximize yields wherever possible and is establishing investment policies that will be more effective in a more interest friendly economy. This will avoid the issues of significant lost revenue that occurred in 2010 and 2011.*

**City's Response:**

The Treasurer takes a proactive approach to maximizing yields through the monitoring of rates across various financial institutions. Current interest rates leave little room for positively impacting earnings. However, the City is well positioned for when the markets return to a more interest friendly environment.

2. Need to consolidate bank accounts.

*The new Treasurer/Collector has reviewed all banking relationships and is in the process of eliminating those that are not in the best interest of the City. As part of this process, unnecessary bank accounts are also being eliminated, or being consolidated into less accounts.*

**City's Response:**

There will continue to be an ongoing process of evaluating open bank accounts with an eye toward closing any accounts that no longer serve a purpose or can be consolidated with other accounts for operational efficiency.

3. Elimination of credit balances.

*The elimination of credit balances was a tedious task for the new Treasurer/Collector. The first step was to advertise all old credit balances greater than 3 years old as abandoned. Those credits not claimed will be credited to income in 2014. Estimates suggest this will create about a \$350,000 positive impact to free cash. The remaining credits were analyzed and investigated and checks have been written to the taxpayers for the overpayment. This comment will be satisfactorily resolved as of June 30, 2014.*

**City's Response:**

The older items have not only been addressed as outlined above, but an ongoing process of dealing with credit balances as they occur has been put in place. The Treasurer's Office is current in resolving any credit balances to date.

4. Uninsured and uncollateralized deposits.

*In the prior year we discussed the significant amount of cash held in uninsured and uncollateralized bank accounts and suggested the new Treasurer/Collector evaluate these relationships to determine if the City's deposits are at risk. We determined the new Treasurer/Collector prioritizes safety over yield, and utilizes Veribanc, a service that assesses the solvency of banks, to assist in that process. As such, the movement of deposits into banks rated as 4 stars (the highest rating) is used as a basis to protect the City's deposits from custodial credit risk.*



**City's Response:**

The safety of the City's invested funds is the most important factor in deciding investment options. Collateralized deposits offer safety and are an option to use at any given time. However, it is not the only option. The Treasurer has a policy of investing only in well capitalized and profitable banks that have a history and proven record of sound decision making as determined through bank rating agencies such as Veribanc. These agencies rank banks based on various ratios and are used by the Treasurer to decide which banks are worthy of City deposits.

**5. Payroll processing**

In the past four prior management letters, we have categorized the payroll processing function as either a material weakness or a significant deficiency. Central to this issue was the fact that the payroll division reported directly to the Executive Office instead of the Treasurer's Office, and the payroll was processed in house instead of outsourced.

In 2012 the City began to take steps in the correct direction by outsourcing the payroll function. However, this was met with transitional challenges related to the coding of employees and the bridge between the payroll provider and the City's general ledger.

*During 2013, upon the appointment of a new Treasurer/Collector, the City assigned the payroll function to the Treasurer's Office and with the new Treasurer/Collector's familiarity with the payroll system in previous communities many of the issues that existed were resolved. This has allowed the elimination of the significant deficiency classification.*

**City's Response:**

Since the payroll function has been transferred to the Treasurer's Office, the problems that previously plagued the process have been identified and corrections made. Work will continue with all departments to put in place policies and procedures that enhance all aspects of payroll.

**F. Parking Violations and District/Court Fines**

In the prior year we discussed the deficiencies with the City's parking program and District/Court fines. Revenue sources that once produced approximately \$1,300,000 annually several years ago struggled through 2013 to reach \$600,000 combined.

The issues highlighted included:

1. A dysfunctional billing process for parking fines.
2. Lack of meters in the downtown area.

3. Lack of centralization of the entire parking function (fines through the City and garage fees through the Malden Redevelopment Authority.)
4. Lack of ticketing for moving violations by the Police Department.

*Since these findings were reported, the City has made significant progress in its billing process. By outsourcing the billing function to Kelly and Ryan, the City's parking violations are on target to exceed \$1.1 million in 2014 and are currently on a run rate of \$80,000 to \$90,000 per month. We are happy with the City's solution in the parking fine billing area.*

*Improvements in other areas have been met with some resistance and are still being evaluated. We suggest the City continue to evaluate options to increase revenues in these other areas.*

**City's Response:**

It is anticipated that the City will move forward with a downtown meter program in Fiscal Year 2015, upon the completion of the work on Pleasant Street. In addition, the City Council has before it a proposal to consolidate all parking related functions under a newly formed department. The hope is that this paper will be taken up in Fiscal Year 2015.

**G. MSBA reimbursements**

In our report to management in the prior year, we discussed some of the deficiencies in the MSBA reimbursement process for the High School construction project. These included almost \$1,000,000 in costs determined by the MSBA to be ineligible in 2006 due to lack of support/backup and also discovered that a vendor had been paid twice, also in 2006 as part of this process.

Since these findings were reported, the City engaged our firm to review the MSBA reimbursement process. This resulted in the City receiving most of the costs previously determined to be ineligible in an amount approximating \$900,000. In addition, the City pursued the vendor who had been paid twice and was able to secure payment from the vendor for the duplicate payment. Future projects, should be managed in a more effective manner since any deficiencies normally become a cost to the City.

**City's Response:**

This is acknowledged and the City will look to ensure that future projects are managed in a more effective manner to avoid these deficiencies.

**H. MWRA/MWPAT**

In the prior year, we determined that the City submitted the same vendor invoices for reimbursement on two separate Federal awards, despite the requirement that allowable costs should only be submitted once for Federal reimbursement. This resulted in a double reimbursement from the Federal government.

This resulted in questioned costs of \$970,000 and was reported to the Federal government since it related to Federal funding. The primary reason for this finding was the lack of a reconciliation process between the General Ledger and subsidiary ledgers maintained in the engineering department.

To rectify this, the City remitted a plan of action to the Federal Government including invoices supporting subsequent costs totaling \$970,000 and a description of improvements to the process. This resulted in acknowledgment from the Federal Government recently that the issue was satisfactorily resolved. The City should continue to work diligently with respect to reconciling these very complex accounts.

#### **I. Centralize Information Technology**

As reported in the prior year, the School, City and Police all maintain dedicated Information Technology functions. We recommended that efforts should be made to consolidate these in order to create efficiencies in critical areas. We understand that it would be difficult to consolidate the operations of these specialized areas. However areas such as purchasing, inventory, backup, security and overlapping processes should be evaluated to determine if there are economies of scale or possible redundancies within the three systems.

As of this writing, these efficiency evaluations have yet to be conducted.

##### **City's Response:**

The City acknowledges the importance of centralizing the Informational Technology function and is working towards achieving the collaboration amongst departments in Fiscal Year 2015.

#### **J. Creation of a Strategic Management Position**

In the prior year we suggested that the City could benefit from the creation of a strategic management position. This would highly leverage the City's entire financial function including; the annual budget, revenue enhancement, internal audits, bond rating, capital improvement program, long-term forecasting etc.

The City implemented our recommendation in fiscal 2014 and this has been met with positive results. Revenue enhancements in both parking and motor vehicle penalties of over \$600,000 as well as lowering expenses in the pension and other areas were experienced; the City's bond rating was increased and steps in other critical areas such as internal audits, long-term forecasting, and the capital improvement program are currently being developed. The position is also largely responsible for administration of improvements to management letter comments on a year by year basis.

##### **City's Response:**

There is no doubt that establishing this position has had a measurable financial impact and has helped in all facets of improving the City's finances.

**K. Limited internal audit process**

We discussed the need for the City to begin to review outside departments; both in cash handling and internal control. This could be accomplished through the creation of an internal audit function within the Controller's Office. As of the prior year, reconciliations were not being performed with outside departments and departments for the most part were operating under their own control systems.

With the creation of the strategic management position, the City has begun to explore expanding the role of this position to include internal audit steps. In addition, the City is utilizing the service of our audit firm in areas that need a more comprehensive review. The results of Student Activities, Water Administration and School Lunch cash handling have been included under current year findings in this report.

**City's Response:**

A goal for Fiscal Year 2015 is to expand the duties of the Strategic Planning Analyst to include an internal audit function within the Controller's Office.

**L. Evaluation of Local Fees and Other Sources**

We highlighted the City's need to review local fees to determine if fee structures are reasonable as compared to other communities. The City has not modified fees in a number of years and this could provide the City with additional revenue to assist in balancing of the annual budget.

See above under strategic management position. This is a process that began in fiscal 2014 and will be further explored in fiscal 2015.

**City's Response:**

The City has looked at most internal fees in comparison to other communities and changes have been made where warranted. As a result, our fee structure is fair and in line with similar communities.

**M. Internal Service Fund**

For the last few years, the City has been annually appropriating from the Health Insurance Trust to balance its insurance budget. In doing so, an imbalance was created regarding the employee share. We suggested the City resolve this imbalance and begin to track health insurance by employer/employee share as is required by DOR.

In fiscal 2014, for the fiscal 2015 budget, the City strategically created a plan to balance the employee/employer share by reducing withholding rates. In addition, as part of this analysis, the City calculated the employer and employee share using a comprehensive analysis.

Also, in order to eliminate some of the confusion in the account, the new Treasurer has set up segregated withholding accounts for Dental, Life and other benefits that are not self-insured but were processed through the trust fund.

**City's Response:**

This issue will be evaluated each year as insurance rates are set. The City will 'rebalance' the trust at the time of setting rates and remain proactive in doing so moving forward.