

CITY OF LAWRENCE, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

YEAR ENDED JUNE 30, 2013

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REPORTS ON FEDERAL AWARD PROGRAMS
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Independent Auditor's Report

To the Honorable Mayor and City Council
City of Lawrence, Massachusetts

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lawrence, Massachusetts, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Lawrence, Massachusetts', basic financial statements, and have issued our report thereon dated December 10, 2013. Our report includes a reference to other auditors who audited the financial statements of City of Lawrence, Massachusetts, Contributory Retirement System, as described in our report on the City of Lawrence, Massachusetts' financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lawrence, Massachusetts' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 of Lawrence, Massachusetts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lawrence, Massachusetts' internal control.

Our consideration of internal control over was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2013-1 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lawrence, Massachusetts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Lawrence, Massachusetts' Response to Findings

The City of Lawrence, Massachusetts', response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Lawrence, Massachusetts' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Powers & Fullerton - LLC". The signature is fluid and cursive, with "Powers & Fullerton" on the top line and "- LLC" on the bottom line.

December 10, 2013



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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Independent Auditor's Report

To the Honorable Mayor and City Council
City of Lawrence, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited The City of Lawrence, Massachusetts' compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Lawrence, Massachusetts' major federal programs for the year ended June 30, 2013. The City of Lawrence, Massachusetts' major federal programs are identified in the summary of auditors' results section in the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Lawrence, Massachusetts' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lawrence, Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Lawrence, Massachusetts' compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Lawrence, Massachusetts' complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City of Lawrence, Massachusetts' is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Lawrence, Massachusetts' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Lawrence, Massachusetts' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lawrence, Massachusetts, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Lawrence, Massachusetts' basic financial statements as a whole. We issued our report thereon dated December 10, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information

directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Powers & Fullen, LLC". The signature is fluid and cursive, with "Powers & Fullen" on the first line and "LLC" on the second line to the right.

December 10, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE:		
<u>Passed through Massachusetts Department of Elementary & Secondary Education</u>		
Non-Cash Assistance (Commodities): National School Lunch Program	10.555	\$ 323,400
School Breakfast Program	10.553	1,369,894
National School Lunch Program	10.555	<u>5,154,388</u>
TOTAL AGRICULTURE		<u>6,847,682</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Direct Programs:</u>		
Community Development Block Grants-Entitlement Grants	14.218	1,657,695
Supportive Housing Program	14.235	55,578
HOME Investment Partnerships Program	14.239	439,029
Community Development Block Grant - Section 108 Loan Guarantees	14.248	105,093
Lead Based Paint Hazard Control in Privately Owned Housing	14.900	<u>977,911</u>
TOTAL HOUSING AND URBAN DEVELOPMENT		<u>3,235,306</u>
U.S. DEPARTMENT OF JUSTICE:		
<u>Passed through the State Criminal Justice Training Council:</u>		
ARRA - Public Safety Partnership and Community Policing Grants	16.710	<u>312,643</u>
U.S. DEPARTMENT OF LABOR:		
<u>Passed through the Commonwealth Corporation:</u>		
ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	39,793
<u>Passed through Executive Office of Labor and Workforce Development</u>		
Federal One-Stop Career Center	17.207	153,311
Unemployment Insurance	17.225	250,814
Trade Adjustment Assistance	17.245	69,872
WIA Adult Program	17.258	819,591
WIA Youth Activities	17.259	895,149
WIA Dislocated Workers	17.260	1,500
WIA National Emergency Grants	17.277	890,110
WIA Dislocated Worker Formula Grants	17.278	1,118,647
Local Veterans' Employment Representative Program	17.804	<u>20,365</u>
TOTAL LABOR		<u>4,259,151</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY:		
<u>Direct Programs:</u>		
Environmental Workforce Development and Job Training Cooperative Agreements	66.815	227,920
ARRA - Brownfields Assessment and Cleanup Cooperative Grants	66.818	<u>47,686</u>
TOTAL ENVIRONMENTAL PROTECTION		<u>275,606</u>
U.S. DEPARTMENT OF EDUCATION:		
<u>Passed through Massachusetts Department of Elementary & Secondary Education</u>		
Title I Grants to Local Education Agencies	84.010	9,001,915
Special Education Grants to States	84.027	3,049,285
Fund for the Improvement of Education	84.215	1,526
Twenty-First Century Community Learning Centers	84.287	<u>85,985</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
High School Graduation Initiative	84.360	152,475
English Language Acquisition Grants	84.365	754,432
Improving Teacher Quality State Grants	84.367	1,307,567
ARRA - Title I Grants to Local Educational Agencies	84.389	135,990
ARRA - Race to the Top	84.395	2,143,319
ARRA - Race to the Top Early Learning Challenge	84.412	38,087
 <u>Passed through State Department of Early Education and Care</u>		
Special Education - Preschool Grants	84.173	<u>58,293</u>
 <u>TOTAL EDUCATION</u>		<u>16,728,874</u>
 <u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>		
<u>Passed through the Massachusetts Executive Office of</u>		
<u>Pubic Safety</u>		
Emergency Management Performance Grant	97.042	49,481
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	<u>3,159,930</u>
 <u>Passed through the Massachusetts</u>		
<u>Emergency Management Agency:</u>		
Public Assistance Grant	97.036	<u>182,560</u>
 <u>TOTAL HOMELAND SECURITY</u>		<u>3,391,971</u>
 <u>TOTAL</u>	<u>\$</u>	<u>35,051,233</u>

(concluded)

Note 1 - Definition of Reporting Entity

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of the City of Lawrence, Massachusetts. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies is included on the schedule.

Note 2 - Significant Accounting Policies

The accounting and reporting policies of the City of Lawrence, Massachusetts are set forth below:

- (a) Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented on the cash basis of accounting. Accordingly, grant revenues are recognized when received and expenditures when paid.
- (b) Cash Assistance - School Lunch Program - Program expenditures represent federal reimbursement for meals provided during the year.
- (c) Non-Cash Assistance (Commodities) – School Lunch Program – Program expenditures represent the value of donated foods received during the year.

Note 3 - Program Clusters

In accordance with Subpart A §_.105 of OMB Circular No. A-133, Audits of States, Local Governments and Non Profit Organizations, certain programs have been clustered in determining major programs. The following represents the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	
School Breakfast Program	10.553
National School Lunch Program	10.555
Workforce Investment Act Cluster	
Adult Program	17.258
Youth Activities	17.259
Dislocated Workers	17.260
Special Education Cluster	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173
Title 1 Cluster	
Title I Grants to Local Education Agencies	84.010
ARRA - Title I Grants to Local Educational Agencies	84.389

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of Lawrence, Massachusetts.
2. One material weakness relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the basic financial statements of the City of Lawrence, Massachusetts, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the City of Lawrence, Massachusetts, expresses an unmodified opinion.
6. There were no audit findings relative to the major federal award programs.
7. The programs tested as major grants include:

<u>Program Title</u>	<u>CFDA Number</u>
School Breakfast Program	10.553
National School Lunch Program	10.555
Community Development Block Grants - Entitlement Grants	14.218
WIA Adult Program	17.258
WIA Youth Services	17.259
WIA Dislocated Workers	17.260
WIA National Emergency Grants	17.277
WIA Dislocated Worker Formula Grants	17.278
Title I Grants to Local Educational Agencies	84.010
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
ARRA – Title I Grants to Local Educational Agencies	84.389
ARRA - Race to the Top	84.395

8. The threshold for distinguishing Types A and B programs was \$1,051,537.
9. The City of Lawrence, Massachusetts, was not determined to be a low-risk auditee.

B. Findings-Financial Statements Audit**MATERIAL WEAKNESS**

2013-1: Structural Budgetary Control

Condition and Criteria:

On December 31, 2009, the Governor of the Commonwealth of Massachusetts proposed legislation "An Act Providing For The Financial Stability of The City of Lawrence." (Act). The Act resulted in a Fiscal Overseer appointed by the Secretary of Administration and Finance (Secretary) who was vested with comprehensive authority over all of the City's finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. The Act established the City of Lawrence Fiscal Stability Fund, into what were deposited deficit borrowings sufficient to maintain and operate the City for fiscal years beginning July 1, 2009, and July 1, 2010. The Act also established the City of Lawrence Capital Reserve Fund which, beginning in Fiscal 2012, and amount equal to 1.5% of the previous year's property tax commitment is to be deposited annually. The Act provides that if the Fiscal Overseer concludes at any time after January 31, 2011 that the City is unable to achieve a balanced budget and fiscal stability, the Secretary may terminate the existence of the Fiscal Overseer and appoint a Finance Control Board (Board). Under the Act, the Board would not only have all of the powers of the Fiscal Overseer, but also the power to exercise any function or power of any municipal officer or employee, whether elected or otherwise, including certain powers to approve or disapprove contracts and have control over all personnel matters. Through Fiscal 2013, the Overseer has not appointed a Finance Control Board. This decision has been influenced by the following positive actions and results:

- Spending restrictions put in place via executive order whereby any commitments greater than \$1,000 require the Mayor's approval.
- Certified positive free cash ranging between \$4.7 million and \$6.6 million for the years ended June 30 2010, 2011 and 2012.
- Improved bond ratings from both Moody's Investor Service and Standard & Poor's.
- The significant collection of past due taxes and the implementation of aggressive lien filings.
- The establishment of a capital improvement committee.
- The submission and approval of a balanced budget for the years ended June 30, 2011, 2012 and 2013 using realistic revenue estimates exclusive of one-time revenue sources.

Effect: Even with the improvements noted above, the City, at this time, is still subject to a Fiscal Overseer and can possibly be subrogated to a control board. This indicates that it is not able to manage its operations competently at the current time and, accordingly, we consider this condition to be a material weakness

Cause: Lack of sustained prudent financial management practices and budgetary controls.

Recommendation: We recommend that management continue its efforts to resolve these fiscal matters.

Response: The City will continue its efforts to manage its finances in a manner that improves its fiscal stability.

C. Findings and Questioned Costs-Major Federal Award Program Audit

None

D. Prior Year Audit Findings and Questioned Costs

None