

CITY OF LAWRENCE, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

FISCAL YEAR ENDED JUNE 30, 2012

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FISCAL YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS

| | PAGE |
|---|-------------|
| Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> | 1 |
| 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..... | 3 |
| Schedule of expenditures of federal awards..... | 5 |
| Notes to schedule of expenditures of federal awards | 7 |
| Schedule of findings and questioned costs..... | 8 |



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

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

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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, 2012 (except for the Lawrence Contributory Retirement System which is as of and for the year ended December 31, 2011 which collectively comprise the City of Lawrence, Massachusetts' basic financial statements, and have issued our report thereon dated January 18, 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

In planning and performing our audit, we considered the City of Lawrence, Massachusetts' 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 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 over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 2012-1 to be material weaknesses.

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*.

We noted certain other matters that were reported to management of the City of Lawrence, Massachusetts in a separate letter dated January 18, 2013.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities 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 "Powers & Fullen - LLC". The signature is fluid and cursive, with "Powers & Fullen" on the top line and "- LLC" on the bottom line.

January 18, 2013



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

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

Compliance

We have audited the compliance of the City of Lawrence, Massachusetts, with the types of compliance requirements described in the U.S. Office of Management and Budget (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 fiscal year ended June 30, 2012. The City of Lawrence, Massachusetts' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Lawrence, Massachusetts' management. Our responsibility is to express an opinion on the City of Lawrence, Massachusetts' compliance based on our audit.

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. Our audit does not provide a legal determination of the City of Lawrence, Massachusetts' compliance with those requirements.

In our opinion, Lawrence, Massachusetts complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2012.

Internal Control Over Compliance

The management of the City of Lawrence, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Lawrence's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental 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, 2012, and have issued our report thereon dated January 18, 2013 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management of the City of Lawrence, Massachusetts, federal awarding agencies and pass-through entities 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 "Powers & Fall - LLC". The signature is fluid and cursive, with "Powers & Fall" on the top line and "- LLC" on the bottom line.

January 18, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| <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 | \$ 346,238 |
| School Breakfast Program | 10.553 | 1,290,250 |
| National School Lunch Program | 10.555 | <u>4,905,559</u> |
| TOTAL AGRICULTURE | | <u>6,542,047</u> |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | |
| <u>Direct Programs:</u> | | |
| Community Development Block Grants-Entitlement Grants | 14.218 | 1,472,824 |
| Supportive Housing Program | 14.235 | 29,288 |
| HOME Investment Partnerships Program | 14.239 | 1,530,426 |
| Brownfields Economic Development Initiative | 14.246 | 189,911 |
| Community Development Block Grant - Section 108 Loan Guarantees | 14.248 | 130,980 |
| ARRA - Homelessness Prevention & Rapid Rehousing (HPRP) | 14.257 | 147,399 |
| Lead Based Paint Hazard Control in Privately Owned Housing | 14.900 | <u>1,185,222</u> |
| TOTAL HOUSING AND URBAN DEVELOPMENT | | <u>4,686,050</u> |
| U.S. DEPARTMENT OF JUSTICE: | | |
| <u>Passed through the Massachusetts Executive Office of Public Safety</u> | | |
| Edward Byrne Memorial Justice Assistance Grant | 16.738 | 150,000 |
| <u>Passed through the State Criminal Justice Training Council:</u> | | |
| ARRA - Public Safety Partnership and Community Policing Grants | 16.710 | <u>578,689</u> |
| TOTAL JUSTICE | | <u>728,689</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 | 120,515 |
| <u>Passed through Executive Office of Labor and Workforce Development</u> | | |
| Federal One-Stop Career Center | 17.207 | 166,936 |
| Unemployment Insurance | 17.225 | 125,795 |
| WIA Adult Program | 17.258 | 820,411 |
| WIA Youth Activities | 17.259 | 885,084 |
| WIA Dislocated Workers | 17.260 | 124,500 |
| WIA National Emergency Grants | 17.277 | 1,042,288 |
| WIA Dislocated Worker Formula Grants | 17.278 | 1,255,889 |
| Local Veterans' Employment Representative Program | 17.804 | <u>20,537</u> |
| TOTAL LABOR | | <u>4,561,955</u> |
| U.S DEPARTMENT OF TRANSPORTATION: | | |
| <u>Passed through the Commonwealth of Massachusetts Aeronautics Commission</u> | | |
| ARRA - Airport Improvement Program | 20.106 | <u>81,285</u> |
| U.S. ENVIRONMENTAL PROTECTION AGENCY: | | |
| <u>Direct Programs:</u> | | |
| ARRA - Environmental Workforce Development and Job Training Cooperative Agreements | 66.815 | <u>57,540</u> |

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| <u>Federal Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Expenditures</u> |
|--|------------------------------------|----------------------|
| U.S. DEPARTMENT OF EDUCATION: | | |
| <u>Passed through Massachusetts Department of Elementary & Secondary Education</u> | | |
| Adult Education - Basic Grants to States | 84.002 | 24,251 |
| Title I Grants to Local Education Agencies | 84.010 | 8,057,282 |
| Special Education Grants to States | 84.027 | 3,081,174 |
| Handicapped - State Grants | 84.027A | 78,373 |
| High School Graduation Initiative | 84.360 | 127,758 |
| English Language Acquisition Grants | 84.365 | 647,701 |
| Improving Teacher Quality State Grants | 84.367 | 1,264,921 |
| ARRA - Enhancing Education Through Technology | 84.386 | 108,943 |
| ARRA - Education for Homeless Children and Youth | 84.387 | 13,583 |
| ARRA - Title I Grants to Local Educational Agencies | 84.389 | 2,252,529 |
| ARRA - Special Education Grants to States | 84.391 | 2,531,074 |
| ARRA - Race to the Top | 84.395 | 218,782 |
| Education Jobs Grant | 84.410 | 2,950,152 |
| <u>Passed through State Department of Early Education and Care</u> | | |
| Special Education - Preschool Grants | 84.173 | <u>92,664</u> |
| TOTAL EDUCATION | | |
| | | <u>21,449,187</u> |
| U.S. DEPARTMENT OF HOMELAND SECURITY | | |
| <u>Passed through the Massachusetts Executive Office of Public Safety</u> | | |
| Staffing for Adequate Fire and Emergency Response (SAFER) | 97.083 | <u>2,533,452</u> |
| TOTAL | | |
| | | <u>\$ 40,640,205</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 fiscal 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 |
| ARRA – Special education – Grants to States | 84.391 |

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified 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 auditors' report on compliance for the major federal award programs for the City of Lawrence, Massachusetts, expresses an unqualified 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> |
|---|------------------------|
| Community Development Block Grants - Entitlement Grants | 14.218 |
| HOME Investment Partnerships Program | 14.239 |
| WIA Adult Program | 17.258 |
| WIA Youth Services | 17.259 |
| WIA Dislocated Workers | 17.260 |
| 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 – Special Education Grants to States | 84.392 |
| Education Jobs Grant | 84.410 |
| Staffing for Adequate Fire and Emergency Response (SAFER) | 97.083 |

8. The threshold for distinguishing Types A and B programs was \$1,219,206.
9. The City of Lawrence, Massachusetts, was not determined to be a low-risk auditee.

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

2012-1: 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 2012, 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 Fiscal 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 Fiscal 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 prudent financial management practices and budgetary controls.

Recommendation: We recommend that management establish clear objectives and timelines that will resolve these fiscal matters.

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

None

D. Prior Year Audit Findings and Questioned Costs

None