

CITY OF LAWRENCE, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

FISCAL YEAR ENDED JUNE 30, 2011

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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

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, 2011, (except for the Lawrence Contributory Retirement System which is as of and for the year ended December 31, 2010) which collectively comprise the City of Lawrence, Massachusetts' basic financial statements, and have issued our report thereon dated February 8, 2012. 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 2011-1 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 February 8, 2012.

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 & Full - LLC". The signature is fluid and cursive, with "Powers & Full" on the top line and "- LLC" on the bottom line.

February 8, 2012



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

To the Honorable Mayor and City Council
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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, 2011. 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, 2011.

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, the business-type activities, each major fund, and aggregate remaining fund information of the City of Lawrence, Massachusetts, as of the year ended June 30, 2011, and have issued our report thereon dated February 8, 2012. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Lawrence, Massachusetts' basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 & Fall - LLC". The signature is fluid and cursive, with "Powers & Fall" on the top line and "- LLC" on the bottom line.

February 8, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<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	108,072
School Breakfast Program	10.553	1,307,282
National School Lunch Program	10.555	<u>4,675,101</u>
TOTAL AGRICULTURE		<u>6,090,455</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
<u>Direct Programs:</u>		
Community Development Block Grants-Entitlement Grants	14.218	1,899,937
Supportive Housing Program	14.235	51,309
HOME Investment Partnerships Program	14.239	2,099,078
Community Development Block Grant - Brownfields Economic Development Initiative	14.246	79,142
Community Development Block Grant - Section 108 Loan Guarantees	14.248	150,322
ARRA - Homelessness Prevention & Rapid Rehousing (HPRP)	14.257	319,370
Lead Based Paint Hazard Control in Privately Owned Housing	14.900	<u>436,698</u>
TOTAL HOUSING AND URBAN DEVELOPMENT		<u>5,035,856</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	596,500
Edward Byrne Memorial Justice Assistance Grant	16.738	<u>58,894</u>
TOTAL JUSTICE		<u>655,394</u>
U.S. DEPARTMENT OF LABOR:		
<u>Passed through the Commonwealth Corporation:</u>		
WIA Adult Program	17.258	24,275
WIA Youth Activities	17.259	59,883
WIA Dislocated Workers	17.260	44,761
ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	82,692
<u>Passed through Executive Office of Labor and Workforce Development</u>		
Federal One-Stop Career Center	17.207	133,032
Unemployment Insurance	17.225	135,218
Trade Adjustment Assistance	17.245	31,290
WIA Adult Program	17.258	982,488
ARRA - WIA Adult Program	17.258	383,309
WIA Youth Activities	17.259	1,309,834
ARRA - WIA Youth Activities	17.259	53,302
WIA Dislocated Workers	17.260	356,205
ARRA - WIA Dislocated Workers	17.260	1,130,449
WIA National Emergency Grants	17.277	35,077
WIA Dislocated Worker Formula Grants	17.278	746,150
Local Veterans' Employment Representative Program	17.804	<u>17,187</u>
TOTAL LABOR		<u>5,525,152</u>
U.S DEPARTMENT OF TRANSPORTATION:		
<u>Passed though the Commonwealth of Massachusetts</u>		
<u>Aeronautics Commission</u>		
ARRA - Airport Improvement Program	20.106	<u>869,770</u>
NATIONAL SCIENCE FOUNDATION:		
<u>Passed through State Department of Education:</u>		
NFS Focus on Mathematics	47.076	<u>13,958</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY:		
<u>Direct Programs:</u>		
ARRA - Brownfields Assessment and Cleanup Cooperative Grants	66.818	<u>171,513</u>

(continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<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	25,644
Title I Grants to Local Education Agencies	84.010	8,798,180
Special Education Grants to States	84.027	3,389,709
Safe and Drug-Free Schools and Communities-State Grants	84.186	18,187
Education Technology-State Grants	84.318	102,257
English Language Acquisition Grants	84.365	574,894
Mathematics and Science Partnerships	84.366	732
Improving Teacher Quality State Grants	84.367	1,409,632
School Improvement Grants	84.377	136,320
ARRA - Education for Homeless Children and Youth	84.387	11,742
ARRA - Title I Grants to Local Educational Agencies	84.389	3,059,462
ARRA - Special Education Grants to States	84.391	1,666,763
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394	727,596
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services	84.397	189,669
Education Jobs Grant	84.410	2,175,640
<u>Passed through State Department of Early Education and Care</u>		
Special Education - Preschool Grants	84.173	73,508
ARRA - Special Education - Preschool Grants	84.392	<u>145,422</u>
TOTAL EDUCATION		<u>22,505,357</u>
TOTAL	\$	<u>40,867,455</u>

(concluded)

See notes to Schedule of Expenditures of Federal Awards

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
Title I Cluster	
Title I Grants to Local Educational Agencies	84.010
ARRA - Title I Grants to Local Educational Agencies	84.389
Special Education Cluster	
Special Education - Grants to States	84.027
Special Education - Preschool Grants	84.173
ARRA - Special Education Grants to States	84.391
ARRA – Special Education - Preschool Grants	84.392

State Fiscal Stabilization Fund Cluster

ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services	84.397

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
ARRA - Homelessness Prevention & Rapid Rehousing (HPRP)	14.257
WIA Adult Program	17.258
ARRA - WIA Adult Program	17.258
WIA Youth Services	17.259
ARRA - WIA Youth Services	17.259
WIA Dislocated Workers	17.260
ARRA - 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
Improving Teacher Quality State Grants	84.367
ARRA - Title I Grants to Local Educational Agencies	84.389
ARRA - Special Education - Grants to States	84.391
ARRA - Special Education - Preschool Grants	84.392
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services	84.397

8. The threshold for distinguishing Types A and B programs was \$1,226,024.
9. The City of Lawrence, Massachusetts, was not determined to be a low-risk auditee.

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

2011-1: 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). Under this Act, there will be the establishment of a Fiscal Overseer appointed by the Secretary of Administration and Finance (Secretary) vested with comprehensive authority over all of the City’s finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. The Act establishes a City of Lawrence Fiscal Stability Fund, into which will be deposited up to \$35 million of borrowing, to maintain and operate the City for fiscal years beginning July 1, 2009, and July 1, 2010. Amounts may be disbursed from this fund under conditions approved by the Commissioner of Revenue.

The Act also 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.

Effect: The overall effect of this deficiency deteriorates management’s ability to competently manage the City’s operations. The need to rely on the Commonwealth of Massachusetts resources and possibly be subrogating to a control board indicates that the City is not able to manage its operations competently at the current time.

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

Recommendation:

The Massachusetts Department of Revenue, Division of Local Services (DOR), did an extensive review of the City’s financial operation in February 2008. This report included a number of recommendations designed to eliminate the continuation of the City’s budgetary and operating deficiencies. The majority of these recommendations have not been implemented. Implementation of these recommendations would enhance the internal controls over several areas of the City’s operations and help mitigate, if not eliminate, the need for reliance on the Commonwealth. 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

**UNITED STATES DEPARTMENT OF EDUCATION
MASSACHUSETTS DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION**

Special Education - Grants to States

CFDA No. 84.027

Special Education – Preschool Grants

CFDA No. 84.173

ARRA - Special Education Grants to States

CFDA No. 84.391

2010-1: *Condition and Criteria:* The City, through the School Department, was required to submit the final reports for each grant by October 31, 2009 but did not submit them until November 30, 2009 and November 17, 2009 respectively.

Status: The City has submitted all final reports related to the Special Education Cluster prior to the applicable deadlines.