

***CITY OF LAWRENCE, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2017***

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

In planning and performing our audit of 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 as of and for the year ended June 30, 2017, (except for the Lawrence Contributory Retirement System which is as of and for the year ended December 31, 2016) in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

January 8, 2018

CITY OF LAWRENCE, MASSACHUSETTS

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# ***COMMENTS***

## **TIMELINESS OF CHAPTER 90 REIMBURSEMENT REQUESTS**

### Comment

In the prior year it was noted that the City did not have a process in place to request reimbursement in a timely manner for the MassHighway Chapter 90 program.

The Chapter 90 program requires funds to be spent on approved projects prior to requesting reimbursement from the state. The process of not requesting reimbursement of Chapter 90 project expenditures in a timely fashion develops internal control weaknesses. First, the City experiences decreased cash flows and lost investment earnings while awaiting reimbursement. Second, the City is at risk of jeopardizing its reimbursement from the State if the reimbursement request is delayed. Finally, a deficit balance has a negative impact on the City's certified free cash, leaving fewer funds available for appropriation and immediate use for other City purposes.

### Current Status

The City implemented procedures where Chapter 90 reimbursement requests are now prepared and submitted in a timely manner.

## **CONSIDER ESTABLISHING A COMPENSATED ABSENCES STABILIZATION FUND**

### Comment

Massachusetts General Law Chapter 40, Section 13D, became effective July 3, 2012, and provides a city, town, or school district who adopts this section of the law with the ability to establish a reserve fund for the future payment of accrued liabilities for compensated absences due any employee or fulltime officer upon termination of employment.

At June 30, 2017, the City's estimate of the liability for compensated absences totaled approximately \$17.4 million.

### Current Status

The City has adopted MGL Chapter 40, Section 13D and established a compensated absences reserve fund. In 2017 the City transferred \$100,000 to this fund.

## **DENTAL INSURANCE INTERNAL SERVICE FUND**

### Comment

The City has an established internal service fund used to record the activity associated with providing City employees with dental insurance. The City; however, currently records all accumulated withholdings and corresponding claim payments in a single withholding account within the General Fund. A year-end audit adjustment has been required to reclassify this activity from the General Fund to the Dental Insurance Internal Service Fund.

### Current Status:

Subsequent to year-end the City established a separate internal service fund in the accounting ledgers to record the dental insurance activity.

## **AUTOMATION OF TREASURY FUNCTION**

### Comment:

The Treasurer serves as the City's cash manager. In this role, the Treasurer maintains custody of all municipal funds and possesses responsibility for the deposit, investment and disbursement of these monies. The Treasurer must administer the municipality's resources to ensure the availability of adequate liquid assets to pay obligations as they become due.

In this capacity the Treasurer must monitor all the receipts and disbursements of the City and, each month, reconcile the monthly balances to the general ledger. For the most part this responsibility has been carried out using a combination of spread sheets and manual processes using information extracted from MUNIS.

### Current Status:

The City has received approval to purchase a Treasury Management Module; however, the office is still performing many of its functions manually.

### Continuing Recommendation:

We continue to recommend that the City purchase this module and begin the process of automating and streamlining the functions currently performed manually by the Treasurer's office.

## **FRAUD RISK ASSESSMENT**

### Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the City perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the City's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the City that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the City, its environment, and its processes. The fraud risk assessment process should consider the City's vulnerability to misappropriation of assets.

### Current Status:

No significant progress has been made towards resolving this comment.

### Continuing Recommendation:

We continue to recommend that management implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation.

## **ABANDONED PROPERTY - TAILINGS**

### Comment

The Treasurer's Office does not currently maintain a comprehensive and up to date listing of all items considered to be tailings. We also noted that formal procedures to reconcile the balance of tailings reported in the general ledger to the outstanding balance per the Treasurer did not exist.

### Current Status:

No significant progress has been made towards resolving this comment.

### Continuing Recommendation:

We recommend that the Treasurer analyze the items that are being carried as part of the tailings balance and reconcile the tailings balance to the general ledger. We further recommend that the Treasurer follow the Massachusetts Abandoned Property Laws, as applicable to municipalities, to determine the most appropriate course of action to arrive at a final disposition tailings liability.

## **CAPITAL ASSET ACCOUNTING**

### Comment

With the implementation of GASB # 34 came the responsibility of capital assets for financial reporting purposes, and the City subsequently conducted an initial capital asset inventory. Since that time the City has relied on the year-end audit to account for and classify capital asset additions, deletions, and transfers.

The City should have policies and procedures to in place to accurately and timely account for capital asset additions, deletions, and transfers. In order to maintain a complete capital asset listing the City should develop procedures to facilitate accurate capital asset reporting for financial reporting purposes.

### Current Status:

No significant progress has been made towards resolving this comment.

### Continuing Recommendation

We continue to recommend that the City work to develop and implement policies and procedures to ensure the proper accounting for all capital assets and that they also work towards maintaining a complete and accurate capital asset listing by both function and location. In addition the City should consider replacing the excel spreadsheet currently used to track capital assets with an automated capital asset accounting module. As the City has a significant number of capital assets, utilizing manual excel spreadsheets can become cumbersome and prone to error.

## **IMPROVE CONTROLS OVER STUDENT ACTIVITY FUNDS**

### Comment

Prior management letters recommended that the Schools have an audit of student activity funds performed by an outside independent audit firm in accordance with Massachusetts General Law (MGL), Chapter 71, Section 47. During 2014 the City contracted to have an agreed upon procedures engagement performed on the student activity funds, the report from which was issued subsequent to year end. The report issued in relation to the agreed upon procedures engagement highlighted several areas where the Schools should improve internal controls over student activity funds. Specific recommendations from the report include:

- Develop and formally adopt policies and procedures over the operations of student activity funds. Such policies and procedures should document items including: defining checking account balance limits, procedures over the establishment of new student activity accounts, procedures for issuing large checks, procedures for dissolving inactive accounts, etc.
- Develop and maintain a separate accounting for the tracking of the receipts, disbursements, and balances for student activity funds as a whole, as well as the individual programs operated under student activity funds at each school location. Additionally, once a separate accounting has been implemented at each school location, formal reconciliation procedures should be implemented between the accounting ledgers and the checking and savings bank statements.
- Implement procedures to ensure student activity savings and checking accounts are operated under the imprest account method.



- Develop procedures to ensure an adequate, organized, and consistent level of supporting documentation is maintained for all transactions within the receipt and disbursement transaction cycles.

Current Status:

The School implemented procedures so that the student activity funds are now operated under the imprest account method; however, additional policy and procedural changes to ensure a sound system of internal controls over student activity funds have yet to be made.

Continuing Recommendation

We continue to recommend that the School implement procedures to improve internal controls over student activity funds, as outlined in the agreed upon procedures over student activity funds engagement report.

**PARKING GARAGE OPERATIONS AND INTERNAL CONTROLS**

Comment:

Based on our review of the Parking Garage operations, we noted that internal controls can be enhanced through the implementation of certain additional procedures within the Parking Garage's operations. The areas for improvement are as follows:

- Implement the use of pre-numbered receipts for all issued monthly passes. We noted that Parking Garage makes available for sale monthly passes in which the purchaser gains unlimited access to City parking garages in exchange for a fixed fee. Currently the City provides the purchaser of the monthly pass a receipt when payment is tendered; however, these receipts are not pre-numbered. Utilizing pre-numbered receipts and implementing procedures to ensure any gaps in pre-numbered receipts are accounted for helps ensure that all cash received by the Parking Garage in connection with monthly passes is deposited with the City.
- Implement a system to account for parking validations and voided transactions. Currently the cash register system utilized by the Parking Garage allows the cashier to void a transaction and open the service gate without any cash payment being received. There is currently no system in place to effectively account for the total number of voided transactions and to ensure all voids were for a legitimate purpose. Similarly, the current system does not have the ability to track the total number of times the service gate was opened for a parking validation transaction. Ultimately the ability exists for a cashier to open the service gate without accepting payment, and for it to go unmonitored or accounted for.

Additionally, we noted that the cash register system currently being utilized does not provide an adequate level of controls to ensure all customers are charged the appropriate fee, as well as that all cash collected is deposited with the City. The lack of appropriate controls exists primarily due to the outdated cash register system, as well as the cash register system not being integrated with the gate monitoring system. We recommend that the City strongly consider implementing a new, updated cash register system which is integrated with a service gate monitoring system. This new system should have the ability to effectively track the total number of times the service gate is opened, as well as the ability to match each opening with a corresponding cash register transaction.

Current Status:

During the current year the City implemented a cashless collection system at the parking garage. Additionally, the City hired an outside vendor to conduct an extensive review of parking garage operations; this review has begun and is currently in progress.

Continuing Recommendation

We commend the City for the improvements made to the parking garage operations thus far. We recommend that the City review the results of the operational study as well as the recommendations described above in an effort to improve the level of control at City parking garages which will further reduce the risk of misappropriation or theft.

**SCHOOL LUNCH OPERATIONS**

Comment

We performed a review of financial operations at the School Lunch department and noted that internal controls can be enhanced through the implementation of additional procedures, specifically with regard to how funds are collected at the school cafeterias.

Currently, the employees responsible for closing out the cash drawer at the end of each day views the total daily collections per a system generated report prior to the drawer close-out. In order to achieve a true check and balance the staff member responsible for the end-of-day cash count should not have the ability to view system cash totals. Procedures should be implemented where a separate staff member will print the system generated daily cash totals report, then the two staff members will meet to compare daily totals and resolve any differences.

The point-of-sale (POS) system utilized by the school cafeterias has the ability to void a transaction after being processed. Currently, an employee operating the system can void a transaction without outside approval or oversight. Voiding a transaction without oversight or approval increases the risk of misappropriation or theft. The School should implement procedures so that either a voids report is reviewed at the end of each day by the cafeteria manager, or a void cannot be processed without approval of the cafeteria manager.

Current Status

The School has not yet implemented the above recommendations.

Continuing Recommendation

We continue to recommend that the School Lunch department implement the procedures as detailed above in order to strengthen internal controls over operations.

## DOCUMENTATION OF INTERNAL CONTROLS OVER FEDERAL AWARDS

### Comment

In December 2013, the U.S. Office of Management and Budget (OMB) issued *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) in an effort to (1) streamline guidance for federal awards while easing the administrative burden and (2) to strengthen oversight over the expenditure of federal funds and to reduce the risks of waste, fraud and abuse.

The Uniform Guidance supersedes and streamlines requirements from eight different federal grant circulars (including OMB Circular A-133) into one set of guidance. Local governments are required to implement the new administrative requirements and cost principles for all new federal awards and to additional funding to existing awards made after December 26, 2014 (fiscal year 2016).

In conformance with Uniform Guidance, the non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States (the Green Book) and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The COSO internal control framework is generally accepted as a best practice within the industry including the best practices prescribed by the Government Finance Officers Association (GFOA). COSO is a joint initiative of 5 private sector organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence. The original COSO framework was published in 1992 and has been revised several times for changes in operations, technology, and audit risk. The most recent updates to the COSO Internal Control - Integrated Framework were issued in 2013 and are available at [www.coso.org](http://www.coso.org).

Management is responsible for internal control and to see that the entity is doing what needs to be done to meet its objectives. Governments have limited resources and constraints on how much can be spent on designing, implementing, and conducting systems of internal control. The COSO Framework can help management consider alternative approaches and decide what action it needs to take to meet its objectives. Depending on circumstances, these approaches and decisions can contribute to efficiencies in the design, implementation, and conduct of internal control. With the COSO Framework, management can more successfully diagnose issues and assert effectiveness regarding their internal controls and, for external financial reporting, help avoid material weaknesses or significant deficiencies.

The COSO internal control framework incorporates 5 major components of internal control, which are supported by 17 principles of internal control as follows:

#### 1. CONTROL ENVIRONMENT

- 1) Demonstrates commitment to integrity and ethical values
- 2) Exercises oversight responsibility
- 3) Establishes structure, authority, and responsibility
- 4) Demonstrates commitment to competence
- 5) Enforces accountability

2. RISK ASSESSMENT
  - 6) Specifies suitable objectives
  - 7) Identifies and analyzes risk
  - 8) Assesses fraud risk
  - 9) Identifies and analyzes significant change
3. CONTROL ACTIVITIES
  - 10) Selects and develops control activities
  - 11) Selects and develops general controls over technology
  - 12) Deploys through policies and procedures
4. INFORMATION & COMMUNICATION
  - 13) Uses relevant information
  - 14) Communicates internally
  - 15) Communicates externally
5. MONITORING
  - 16) Conducts ongoing and/or separate evaluations
  - 17) Evaluates and communicates deficiencies

Management should evaluate and assess the government's internal control system to determine whether: each of the five essential elements of a comprehensive framework of internal control is present; whether each element addresses all of the associated principles; and whether all five elements effectively function together.

#### Current Status

The City has not yet formally documented their internal control system using the COSO framework.

#### Continuing Recommendation

We continue to recommend management follow the best practice for establishing and documenting their internal control system using the COSO Internal Control Framework.

# ***INFORMATIONAL COMMENTS***

## GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS FOR OPEB

### Comment

The GASB has issued a Statement #75 , *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.

GASB #75 will substantially change the reporting for other postemployment benefit liabilities and expenses. Changes in other postemployment benefit liability will be immediately recognized as other postemployment benefit expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Employers will report in their financial statements a *net other postemployment benefit liability (asset)* determined annually as of the measurement date. *Net other postemployment benefit liability (asset)* equals the total other postemployment benefit liability for the plan net of the plan net position. The other postemployment benefit liability is the actuarial present value of projected benefits attributed to past service. The plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The City should expect to record significant OPEB liabilities in the future. While this GASB does not go into effect until 2018, we wanted to make the City aware of the impact that this new standard will have on financial statement reporting and disclosures.