

CITY OF LAWRENCE, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2019



100 Quannapowitt Parkway

Suite 101

Wakefield, MA 01880

T. 781-914-1700

F. 781-914-1701

www.powersandsullivan.com

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, 2019, (except for the Lawrence Contributory Retirement System which is as of and for the year ended December 31, 2018) 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.

December 2, 2019

CITY OF LAWRENCE, MASSACHUSETTS

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JUNE 30, 2019

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COMMENTS

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:

A fraud risk assessment for many of the City's departments and activities has been developed. It is considered to be an evolving document and is updated constantly. As such, this comment is considered to be resolved.

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.

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 Department has implemented procedures so that the person responsible for closing out the cafeteria cash drawer at the end of each day does not view the system generated collection totals report. Instead, a

secondary employee now reviews and reconciles the system generated collection total reports to the cash drawer count.

The School Department is currently reviewing the point-of-sale (POS) system's ability to void transactions and is working towards developing procedures to either remove this function or add a secondary approval process to enhance the overall internal control environment.

Continuing Recommendation

We continue to recommend that the School Lunch department develop and implement procedures to strengthen internal controls over the ability of cashiers to void cash collection transactions.

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.

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 formally documented an internal control system using the COSO framework.