

***CITY OF LOWELL, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2019***



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

In planning and performing our audit of the financial statements of the City of Lowell, Massachusetts, as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Lowell, Massachusetts' internal control over financial reporting (internal control) as a basis for designing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control 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.

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 a 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 did not identify any deficiencies in internal control that we consider 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. We did not identify any deficiencies in internal control that we consider to be a significant deficiency.

During our audit we became aware of several matters that we believe are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter also summarizes our comments and suggestions regarding 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 Lowell, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

*Powers + Sullivan, LLC*

February 14, 2020

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## ***Prior Year Comments - Resolved***

The following comments were resolved during the current year. Please see the June 30, 2018, Management Letter for the complete original comment.

School Budget Over Expenditures

Cash Reconciliation Procedures

School Grant Management

Late Invoices

Compensated Absences for the School Department

Documentation of Internal Controls

## ***Prior Year Comments - Unresolved***

## **Section 108 Loan Fund**

### Prior Year Comment

In previous management letters we noted that, as part of the Federal Section 108 loan program, the City received federal funds in the form of loans from the Department of Housing and Urban Development (HUD) to then loan out to eligible companies for urban development. The City receives loan payments of principal and interest from the eligible companies and then pays HUD the required loan payments due. The activity related to this Section 108 loan program is accounted for in fund 2267 and the balance of the loans outstanding is recorded in fund 1134. Although fund 2267 correctly reports the debt service payments and revenues received under this program in the current year, fund 1134 has not been adjusted to reflect the actual loan balance at year end. Each year adjustments are required to appropriately report the Section 108 loans in the financial statements.

Additionally, fund 1134 has a cash balance of \$79,000 that has not changed for multiple years and the City is maintaining fund 1135 as Section 108 also and is reporting a cash balance of \$126,000 that has not changed for multiple years.

We recommended that procedures be implemented to assure that when debt payments on Section 108 loans are made that the liability balance maintained in fund 1134 be adjusted accordingly. We also recommended that management determine the nature of the cash balances in funds 1134 and 1135 and determine the proper disposition of these balances.

### Status

Procedures were implemented to ensure when the debt payments are made the liability balance is adjusted accordingly. No determination of the nature of the cash balances maintained within these funds was determined during 2018. We continue to recommend that management determine the nature of the cash balances in these funds and determine the proper disposition of these balances.

## **Purchase Order Dates**

### Prior Year Comment

In previous management letters we noted during expenditure testing several purchase orders were dated later than the corresponding invoice dates. Creating purchase orders after the invoice is received bypasses the City's purchasing policies and defeats the internal control that a purchase order system is intended to provide. Purchase orders allow the City to ensure that budgetary funds are available and that the purchase has been properly approved before funds are expended.

We recommended the City implement a process to ensure that purchase orders are initiated prior to the procurement of goods and services.

### Status

We noted that there are still purchase orders with dates subsequent to the invoice date. We continue to recommend that a policy regarding the approval of purchase orders prior to the purchase of goods or services by any Department be implemented.

## ***Current Year Comments***

## **Tax Foreclosures**

### Current Year Comment

In accordance with the Massachusetts General Laws, the City has taken ownership, through the foreclosure process, of various properties as a result of prior owners not being current with real estate and other applicable municipal charges. The City maintains an accounting of activity relative to the items included in the foreclosure account. A review of the list of foreclosed properties indicates some are currently being utilized by the City for a municipal function.

### Recommendation

We recommend any foreclosed property deemed to have a municipal use be reclassified from the foreclosure list and into the City's capital asset listing.

## **General Ledger Journal Entries**

### Current Year Comment

Journal entries are generally used to record year-end accruals, to reclassify transactions and to record non-cash transactions. During our audit, we reviewed several of the general ledger journal entries and found that the supporting documentation was not always readily available. However, supporting documentation was eventually compiled and provided.

It is important to maintain supporting documentation for the journal entries in the event that turnover occurs in a key financial position or an individual is out of work for an extended period. The supporting documentation might be needed to make an internal decision and may be needed by an outside agency to assure the validity of such journal entries, such as federal, state or independent auditors. Having supporting documentation readily available and filed numerically with copies of the journal entries will protect the City in the event that such a situation arises.

### Recommendation

We recommend the City ensure all journal entries be filed numerically with supporting documentation in the City's journal entry binder.

## **Budget Reconciliation**

### Current Year Comment

The City's accounting system is utilized to maintain budgetary control. The City was unable to provide a complete and accurate reconciliation of the original and final budget recorded in the general ledger to the tax rate recapitulation and City Council votes. This can put the City at risk of overspending appropriations.

### Recommendation

We recommend the City implement a process to verify the budgetary compliance by reconciling from the City Council votes to the amounts reported on the tax rate recapitulation sheet, to the amounts recorded in the Town's general ledger.

## **General Ledger Maintenance**

### Current Year Comment

The City maintains hundreds of individual funds within the general ledger. At times, the activities accounted for in a specific fund is completed and the fund is labeled as closed and subsequently used again for another purpose.

While the re-use of closed funds is an acceptable practice, we noted through review of the general ledger closed funds that the budgetary fund balance accounts have not been closed out. Although they net to zero and don't impact the financial reporting of the City, retaining unnecessary accounts and funds in the general ledger can lead to confusion and inaccuracy in posting transactions or creating journal entries.

### Recommendation

We recommend that the City Auditor's Office review the closed funds and make the appropriate adjustments to zero out all budgetary fund balance accounts.