

***CITY OF LOWELL, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2011***



100 Quannapowitt Parkway  
Suite 101  
Wakefield, MA 01880  
T. 781-914-1700  
F. 781-914-1701  
[www.powersandsullivan.com](http://www.powersandsullivan.com)

To the Honorable Mayor and City Council  
City of Lowell, 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 Lowell as of and for the fiscal year ended June 30, 2011, 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 of Lowell'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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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 consider the following deficiency in the City of Lowell's internal control to be a material weakness.

We noted that reconciliation procedures over significant cash accounts were inadequate or were not performed during fiscal year 2011.

We also became aware of several matters that are opportunities for strengthening internal controls and enhancing operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

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

The City of Lowell's written responses to the material weaknesses and other matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Powers &amp; Sullivan, LLC".

December 21, 2011

**CITY OF LOWELL, MASSACHUSETTS**

**MANAGEMENT LETTER**

**JUNE 30, 2011**

**TABLE OF CONTENTS**

**PAGE**

<b>Material Weakness</b> .....	1
Material Weakness in Internal Controls Over Cash .....	2
<b>Prior Year Comments</b> .....	3
Treasurer/Collector’s Office – Old Outstanding Checks.....	4
Individual Fund Reconciliations .....	4
Fixed Assets .....	5
Fraud Risk Assessment.....	5
Old Outstanding Receivables .....	6
Deposit and Investment Policy .....	7
Review Functions of Bank Accounts .....	7
Retirement Cash Account Reconciliation .....	8
Government Accounting Standards Board (GASB) Statement #54 .....	8
<b>Current Year Comments</b> .....	9
Tailings Account .....	10

# ***Material Weakness***

## **MATERIAL WEAKNESS IN INTERNAL CONTROLS OVER CASH**

### Comment

In previous management letters we addressed the fact that Treasurer's Office personnel does not have policies and procedures in place to facilitate the reconciliation of cash balances both to obtain a Treasurers book balance and to reconcile that book balance to the general ledger.

We had also noted the following deficiencies in internal controls related to cash:

- The Vendor, Payroll and Main Depository Accounts were not reconciled for any month of the fiscal year.
- Outstanding check lists were not reviewed, or cleaned up during the previous few fiscal years.
- Many account reconciliations include reconciling items that are between 1 and 3 years old which have not been researched to determine the nature and final disposition of them.

Because of the circumstances noted above, a complete reconciliation to arrive at Treasurer's book balance, as well as between the Treasurer's balance and the general ledger was unable to be performed by Treasury personnel during fiscal years 2006 through 2011.

Without monthly reconciliations there is significant risk that errors or irregularities in amounts that would be material to the financial statements may occur and not be detected within a timely manner by City employees in the normal course of performing their assigned functions. Furthermore, the detection of potential fraud is significantly reduced with regular reconciliation procedures.

### Recommendation

- We recommended that the Treasurer, through the monthly reconciliation process, clearly identify and resolve in a timely fashion all reconciling items between the bank and book balances. The actual monthly reconciliation of all accounts should be completed no later than the end of the following month.
- We recommended that Treasurer's cash be reconciled to the general ledger cash activity and balances each month.
- We recommended that old reconciling amounts be investigated and not be allowed to carry over from month to month.
- We also recommended that City management evaluate the competency of the Treasurer's Office staff and overall internal control structure.

### Current Status

During fiscal year 2011, the City hired an outside consultant to reconcile cash as of June 30, 2011. Subsequent to June 30, monthly reconciliations have been occurring and management anticipates this comment to be resolved during fiscal year 2012.

### Management Response

During 2011, the City hired an outside consultant to fully reconcile cash as of June 30, 2011. This consultant has also reconciled July thru December of 2011 and our new Treasurer, now familiarized with the newly created cash book, is moving forward assuring that cash reconciliations remain accurate and up to date.

## ***Prior Year Comments***

## **OLD OUTSTANDING CHECKS**

### Comment

In previous management letters we noted that the bank reconciliation's for the vendor and payroll accounts reported outstanding checks greater than three months old as reconciling items.

### Current Status

The City has utilized an outside consultant to assist in the overall reconciliation of cash, as noted in the material weakness section of this letter; the Treasurer's Office must now implement procedures to address the old outstanding checks currently outstanding and implement a process to address outstanding checks on a go forward basis in a timely manner.

### Continuing Recommendation

We continue to recommend the Treasurer/Collector's Office investigate the existing outstanding checks greater than three months old and that procedures be implemented to investigate such outstanding checks on a monthly basis.

### Management Response

Progress is being made on the oldest of the outstanding checks. We have also changed an internal practice of holding issued checks without mailing them. This will reduce the number of eventual outstanding checks and tailings will be properly handled now that cash is reconciled.

## **INDIVIDUAL FUND CASH RECONCILIATIONS**

### Comment

In previous management letters we noted that certain bank accounts associated with specific general ledger accounts are not individually reconciled each month. An example of this would be a trust fund that has a specific bank account assigned to it to record cash activity (i.e. not part of pooled cash). In situations like this, the bank account should be equal to the trust fund balance reported on the general ledger.

### Current Status

No action to resolve this comment was taken during fiscal year 2011.

### Continuing Recommendation

We continue to recommend that additional procedures be implemented to reconcile cash by fund. By adding this procedure to the reconciliation process, cash transfers will occur in a timely manner and the potential for reporting an inaccurate cash balance for a City activity will be minimized.

### Management Response

Management concurs with the recommendation, and as we resolve our material weakness we will move onto those individual fund reconciliations

## **FIXED ASSETS**

### Comment

In previous management letters we noted that the City has worked to compile a detailed listing of all assets owned. Maintaining this list requires the recognition of additions, deletions, disposals and transfers of fixed assets. At this time the City has implemented procedures to account for yearly fixed asset additions however, procedures still need to be implemented to properly account for deletions, disposals or transfers. In order to maintain a complete and accurate fixed asset listing the City needs to work on developing procedures to facilitate accurate fixed asset reporting.

### Current Status

No action to resolve this comment was taken during fiscal year 2011.

### Continuing Recommendation

We continue to recommend that management develop and implement procedures to track deletions, disposals and transfers of fixed assets.

### Management Response

We are still in the process of developing procedures to track the deletions, disposals and transfer of fixed assets.

## **FRAUD RISK ASSESSMENT**

### Comment

In previous management letters we discussed the importance of preparing and implementing a comprehensive fraud risk policy that among other things addresses the risk of fraud to the City. To address this risk, we recommended 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.

### Current Status

Management is in the process of conducting site visits on all departments that handle cash in order to determine if proper internal controls are in place. Management acknowledges that this is a continuing process. At this time this comment is considered resolved.

### Management Response

Management has reviewed and taken the necessary steps in the process of identifying, analyzing, and managing the risk of asset misappropriation and fraud within each Department. We have implemented a cash management policy and instituted new departmental cash receipts process. The City Auditor tests Departmental controls quarterly and reports to the Council on the same. This is an on-going program and will be kept as rolling program. We also intend on having our outside auditors independently test 2 or 3 Departments yearly for compliance.

## **OLD OUTSTANDING RECEIVABLES**

### Comment

In previous management letters we noted that the Collector's Office is carrying many types of receivable balances that are greater than five years old. For receivables that cannot be liened the likelihood of collection at this time is significantly diminished.

Although the balances are deferred the old balances cause the reconciliation process to be more difficult.

### Current Status

Progress has been made in this area, however there are still a large number of old receivable balances that the City should review and determine if they should be written off and also many old accounts that have credit balances that could indicate a refund is due.

### Continuing Recommendation

We continue to recommend that the Collector's Office work with the necessary officials to determine which receivable balances should be considered uncollectible, are not eligible to be liened and should ultimately be written off. Also, the City should develop a policy for reviewing accounts with credit balances and issuing refunds in a timely manner.

### Management Response

The City continues to make progress in this area. In FY 2009, Motor Vehicle receivable was cleaned up, and we continue to work on the outstanding real estate and personal property accounts. In FY 2010, collection efforts focused on delinquent water and personal property and in 2011 the tax title properties have been the focus.

## **DEPOSIT AND INVESTMENT POLICY**

### Comment

In previous management letters we noted that GASB Statement #40 requires financial statement disclosure of key policies affecting the management of cash deposits and other long term investments of the City. Current disclosures indicate that there are no specific policies in place to ensure that deposits and investments are managed prudently or that such items are not subject to extraordinary risk.

### Current Status

The City adopted a policy that was approved by the City Council during fiscal year 2011.

### Management Response

Management has formalized the policies that have been in place on an informal basis. These were formally voted by City Council with the budget in June of 2010.

## **REVIEW FUNCTIONS OF BANK ACCOUNTS**

### Comment

In previous management letters we noted that the City maintains over 70 bank accounts. Many of the accounts were established for narrow purposes and have few transactions (if any) and small balances. The Treasurer's Office is currently struggling with cash controls and reconciliations and reducing the number of outstanding bank accounts is another step in the right direction of gaining control over the City's cash balances.

### Current Status

Many bank accounts were closed during the fiscal year. Management acknowledges the fact that this is an ongoing process to continually monitor how many bank accounts the City has and whether they are necessary to maintain. At this time this comment is considered resolved.

### Management Response

Management agrees with this comment, and will review all bank accounts in FY 2012.

## **RETIREMENT CASH ACCOUNT RECONCILIATION**

### Comment

In previous management letters we noted that the Retirement Systems (System) checking account was not completely reconciled. There was an unknown variance of approximately \$30,000 that surfaced during calendar year 2009.

### Current Status

As of December 31, 2010, progress has been made, however an unknown variance of \$5,000 between the general ledger and the bank balance still exists.

### Continuing Recommendation

We continue to recommend the Retirement System implement procedures that will allow for a complete reconciliation of their checking account and determine the nature of the unknown variance.

### Management Response

As of December 31, 2010, progress has been made, but a \$5,000 variance has been identified. During Fiscal Year 2011-12 the City hired an outside consultant to reconcile cash as of June 30, 2011. This consultant has also reconciled July thru December of 2011 and the newly hired Treasurer, now familiarized with the new cash book, is moving forward assuring that cash reconciliations remain accurate and up to date.

## **GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENT #54**

### Comment

In February 2009, the GASB issued Statement #54, *Fund Balance Reporting and Government Fund Type Definitions*, which is required to be implemented in fiscal year 2011. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

### Current Status

The City made the required changes to their basic financial statements and is in compliance with GASB Statement #54. This comment is considered resolved.

# ***CURRENT YEAR COMMENTS***

## **TAILINGS ACCOUNT**

### Comment

We noted that the tailings balance in the general ledger has remained unchanged for the past few fiscal years, and many of the checks date back to 1980. Currently, there are no formal procedures have been implemented to monitor the tailings balance, clean up the old checks, and to remove stale checks from the City's outstanding check lists to put new items into tailings.

The lack of procedures regarding tailings has the implication of making the reconciliation process more difficult as the outstanding check lists contain many old checks that convolute the process. Also, if the City follows the Massachusetts Abandoned Property Laws, there may be amounts that can be released from the tailings account that will ultimately increase the free cash of the City.

### Recommendation

We recommend that the Treasurer follow the Massachusetts Abandoned Property Laws to determine if any of the balance can be removed from the tailings liability account.

We also recommend that the Treasurer's Office implement procedures to allow for the timely addition of new checks, removal of old checks and reconciliation procedures with the general ledger on at least a quarterly basis.

### Management Response

Now that cash is reconciled, our intention is to move old outstanding checks to tailings each May.