



Conor Baldwin
Chief Financial Officer

MEMORANDUM

EMD

TO: Eileen M. Donoghue, City Manager

FROM: Conor Baldwin, Chief Financial Officer

CC: Tina Masiello, City Auditor

DATE: April 8, 2020

RE: FY2019 Audit – Management Letter response from Finance Department

The City Auditor, Superintendent of Schools, and I—on behalf of the finance department—have signed off on release of the final versions of Lowell’s outside audit of the FY2019 financials. The final versions of those documents: the FY2019 Basic Financial Statements, Reports on the FY2019 Federal Awards Programs, and the FY2019 Management Letter constitute the work product of our annual engagement with the outside audit firm, Powers & Sullivan. Each year, the city—through the City Auditor’s office—engages the services of a contracted outside audit firm to conduct testing of the city’s financial activity for the year, prepare the city’s basic financial statements, and provide commentary on the strength of the city’s internal controls over fiscal activities. The result of this year’s work is enclosed under the City Auditor’s portion of the Agenda. In keeping with the City Council’s key priority area of strong financial management, this memorandum is intended to serve as a supplemental, informational item from the finance department intended to respond to comments made by the audit firm and demonstrate the action plan for strengthening internal controls in the coming year.

Perhaps most notable in this year’s management letter is the number of prior year comments which have been resolved, particularly the comment regarding cash reconciliation procedures. This issue has appeared on management comments for the City of Lowell dating at least as far back as 2007. In several subsequent years (from 2008-2012), it was cited as a *material weakness*, the most severe comment from an outside audit. A great deal of credit is owed to the City Treasurer and her staff for their diligence in resolving this long standing issue and improving the internal controls over cash handling procedures. Other items include the resolution to many of the comments from the prior year regarding the school department’s financial management.

Also notable within the financial statements is that, at the close of FY2019, the City’s governmental funds reported combined ending fund balance of \$42.6 million, an increase of \$10.9 million in comparison with the prior year (FY2018). While this positive news is encouraging, other liabilities on the City’s statements such as other post-employment benefits (“OPEB”) continue to grow as well. The net OPEB liability as of 6/30/2019 was \$697.1 million.

The following pages represent the finance department’s response and corrective action plan for each of the comments listed on the FY2018 Management Letter as new and/or unresolved.



Conor Baldwin
Chief Financial Officer

Prior Year Comments – **Resolved**

*(For details of the management comment, please refer to the
FY2018 management letter)*

1. School Budget Over Expenditure
- 2. Cash Reconciliation Procedures**
3. School Grant Management
4. Late Invoices
5. Compensated Absences for the School Department
6. Documentation of Internal Controls



Conor Baldwin
Chief Financial Officer

Prior Year Comments – Unresolved

1. SECTION 108 LOAN FUND

DEPARTMENT(S):

Department of Planning and Development ('DPD')

CURRENT 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/ 2019.

We continue to recommend that management determine the nature of the cash balances in these funds and determine the proper disposition of these balances.

MANAGEMENT RESPONSE:

The city's finance department and the City Auditor will continue to work with the Deputy Director of Planning and Development to identify the original source and intended use of these funds. It is anticipated that, after additional research, and ultimate disposition of the remaining funds will be determined. The city will either expend the funds on an eligible purpose or transfer the remaining balance to the general fund to close to free cash.

2. Purchase Order Dates

DEPARTMENT(S):

All Departments (Including Schools)

CURRENT STATUS:

We noted that there are still purchase orders with dates prior 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.



Conor Baldwin
Chief Financial Officer

MANAGEMENT RESPONSE:

The finance department takes this issue very seriously. Adherence to the city's existing financial policies and procedures is a critical component of good fiscal management. The city has a strong local, legal framework for procuring goods and services, found in the Code of Ordinances (Chapter §28-32), which requires Department Heads to wait for a purchase order award before procuring any goods or services.

Management will disseminate reminders to all department leadership and underscore the importance of following proper procedures. The finance department and, specifically the Purchasing Department, will also work with departmental project managers and finance staff to train them in the appropriate best practices. The city's MUNIS accounting system provides excellent workflow procedures to guarantee the process is followed to a certain extent, but it cannot eliminate human error.

Revised policy reminders and training schedules will be released in FY2020 to appropriate staff and the city anticipates this comment on the management letter will be resolved next year.



Conor Baldwin
Chief Financial Officer

CURRENT YEAR COMMENTS

1. Tax Foreclosures

DEPARTMENT(S):

City Treasurer/ City Auditor/ Law Department

MANAGEMENT RESPONSE:

This matter will be researched/ analyzed by each department and, depending on the current use of each asset, will be categorized appropriately by the City Auditor.

2. General Ledger Journal Entries

DEPARTMENT(S):

Finance/ City Auditor

MANAGEMENT RESPONSE:

The City Auditor has begun to respond by filing journal entries numerically and including all supporting documentation in an organizing filing system. We expect this issue to be resolved in the next audit.

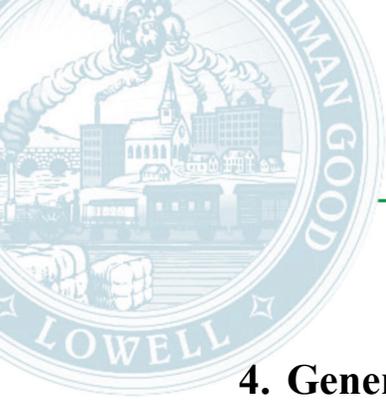
3. Budget Reconciliation

DEPARTMENT(S):

Finance/ City Auditor

MANAGEMENT RESPONSE:

The City Auditor and CFO are currently developing a more comprehensive system of recording and documenting all votes to reconcile the ledger and the tax rate recapitulation sheet each year after the tax rate is set by the DOR. We expect this issue to be resolved in the next audit.



Conor Baldwin
Chief Financial Officer

4. General Ledger Maintenance

DEPARTMENT(S):

Finance/ City Auditor

MANAGEMENT RESPONSE:

The City Auditor is actively involved in a comprehensive review of the general ledger and is planning to make recommendations, both short-term and long-term, for improvements to the existing funds and accounts in MUNIS. Once complete, this will be reviewed by Finance/ Auditing and an implementation schedule will be recommended.