



Kevin J. Murphy  
*City Manager*

March 15, 2018

Mayor William Samaras  
And  
Members of the Lowell City Council

Dear Mayor Samaras and Members of the Lowell City Council,

We recently received the 2017 Report on Basic Financial Statements, Reports on Federal Awards, and Management Letter prepared by Powers & Sullivan as part of our annual independent audit. A “management letter” is a list of recommendations from the outside auditor that is compiled at the conclusion of an annual audit. The items typically found in a municipal management letter range from reminders of recent regulation changes to routine practices to more important matters to address. The management letter is not an opinion of the outside auditors on the effectiveness of the city’s internal financial controls, but rather a list of suggestions on opportunities for strengthening internal controls and operational efficiency.

Over the years, the finance team has made tremendous progress in addressing these recommendations and I am pleased to report that, for the sixth year in a row, the management letter contains no “material weaknesses” reported by the outside auditors. These are the most serious financial issues contained in a municipal audit. We continue to work to address any and all areas noted, in particular internal controls over cash, which has been referenced in the audit since 1999.

The significant progress made in our financial management practices has earned the praise of the national ratings agencies like Standard and Poor’s, which recently affirmed the city’s credit rating of AA-. I have provided a copy of a memorandum from the CFO and the corrective action plan.

Sincerely,

Kevin J. Murphy  
City Manager

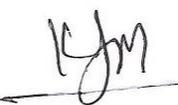
CC: Conor Baldwin, Chief Financial Officer



Conor Baldwin  
Chief Financial Officer

Heather Varney  
Deputy CFO

## MEMORANDUM

**TO:** Kevin J. Murphy, City Manager 

**FROM:** Conor Baldwin, Chief Financial Officer 

**CC:** Bryan Perry, City Auditor  
Rodney Conley, City Treasurer/ Collector  
Heather Varney, Deputy CFO

**DATE:** March 12, 2018

**RE:** FY2017 Audit – Management Letter response from the Finance Department

### Prior Year Comments

#### 1. Cash Reconciliation Procedures

##### DEPARTMENT:

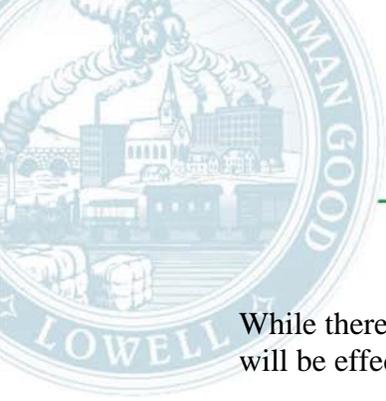
Office of the Treasurer/ Collector

##### CURRENT STATUS:

During 2017, the City's Treasurer resigned and the City has appointed an interim Treasurer who is working to determine the best way to account for and reconcile the City's cash accounts. The City's interim Treasurer reconciled cash with immaterial unknown variances as of June 30, 2017, and is working on updating the policies and procedures surrounding the cash reconciliation process. The City has also implemented the use of the general ledger cash module which is expected to facilitate the reconciliation process and should allow for both a more efficient and effective cash reconciliation process. The City expects that these procedures will be implemented in 2018 and that this comment will be cleared in 2018.

##### MANAGEMENT RESPONSE:

As mentioned by the outside auditor, there was a transition at the Treasurer position in FY18. The new Treasurer has worked with staff to continue implementation of the new cash management module in MUNIS. This program will make reconciliation a much smoother and verifiable process. Key financial staff, including the Treasurer and City Auditor, meets weekly to review progress in both implementation and reconciliation.



Conor Baldwin  
*Chief Financial Officer*

Heather Varney  
*Deputy CFO*

While there has been an adjustment period, the Treasurer is confident this new module will be effective.

In addition, the Treasurer's Office has begun to evaluate procedures relative to all aspects of cash management. With input from municipal accounting professionals, the Treasurer will refine the processes to improve not only cash reconciliation but cash management as a whole. The City anticipates solidifying a long-term banking agreement will also help in this endeavor by allowing the City to continuously implement enhanced accounting features that integrate banking with MUNIS. While the City has made strides in the past year in addressing cash reconciliation, a complete reassessment of cash management in its entirety will be the best method to solve the long-term cash reconciliation issue as well as strengthen cash controls overall.

## 2. Tax Foreclosures

### DEPARTMENT(S):

Auditing/ Collector/ Planning and Development (DPD)

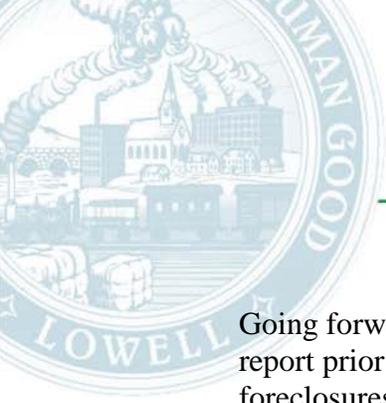
### CURRENT STATUS:

The balance on the general ledger still does not agree to the detailed balance maintained by the Collector at June 30, and a correcting entry was required. Activity to the foreclosure account should be recorded as it occurs throughout the year.

### MANAGEMENT RESPONSE:

On Thursday, February 8, 2018, the Auditor met with the Treasurer/Collector regarding the ongoing management letter comment regarding tax foreclosures. After review, the two departments have agreed that the comment was justified in that there has not been any communication from the Department of Planning and Development (DPD) to the finance department in order to ensure that the city's financials are updated to reflect the reasonably expected collectibles for outstanding Tax Foreclosures. The two departments also discussed this matter with the City's outside audit firm, Powers & Sullivan. All parties agreed that these balances must be adjusted annually based on the city's volume of Tax Foreclosures.

DPD does regularly maintain a listing of Foreclosed Properties. This listing includes the property address, assessed value, city equity, date acquired, and disposition status. This list has been provided annually to Powers & Sullivan to provide updates figures on how much equity remains in foreclosure. However, this information had not been furnished to the Auditor's Office since FY2015 to ensure the city's balance sheet is in agreement.



Conor Baldwin  
Chief Financial Officer

Heather Varney  
Deputy CFO

Going forward, DPD has been instructed to provide to Auditing an updated receivables report prior to year-end. The Auditing office will then update the balances for tax foreclosures A/R (0010-188000) and the deferred revenue tax foreclosures GL accounts (0010-262300) accordingly. These balances have already been updated to properly show their respective balances for the start of the fiscal year.

The City expects that this issue has been fully resolved.

### 3. **School Grant Management**

DEPARTMENT(S):

School Department

CURRENT STATUS:

Approximately \$508,000 of federal funds that were not spent during the 2016 grant year was returned to the Department of Secondary Education. During 2017, approximately \$807,000 of grant proceeds was returned.

MANAGEMENT RESPONSE:

The comment regarding over \$800,000 dollars in grants being returned to the Department of Elementary and Secondary Education has been sent the School Committee and Superintendent.

### 4. **Parking Ticket Receivable**

DEPARTMENT(S):

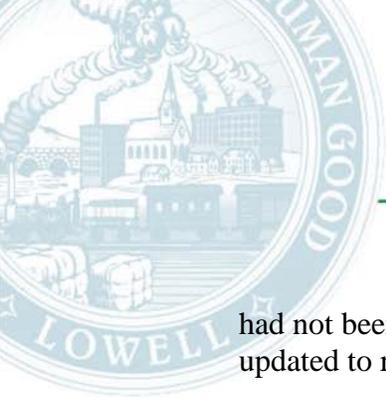
Treasurer/ Collector's Office, Parking Department and Auditing

CURRENT STATUS:

The detailed balance as maintained by the third party vendor was not generated and reconciled to the general ledger during 2017. An adjustment was required to properly state the balance as of June 30, 2017.

MANAGEMENT RESPONSE:

On Thursday, February 8, 2018, the Auditor met with the Treasurer, the Assistant Collector and the Parking Director regarding the ongoing Management Letter comment, Parking Ticket Receivable. The group agreed that the comment was justified in that there



Conor Baldwin  
Chief Financial Officer

had not been any communication between offices to ensure that the city's financials are updated to reflect the reasonably expected collectibles for outstanding parking tickets.

Heather Varney  
Deputy CFO

The Collector's office is able to work with the vendor, Kelly & Ryan, in order to ascertain the pending balances by year for parking tickets issued. Upon review of this report and discussion with our outside audit firm, it was decided that a fair representation of what should be considered "reasonable" for balance sheet purposes would be the past ten (10) years of unpaid tickets. This would cover an individual's renewal cycle two times over with MA Registry of Motor Vehicles (RMV), which is notified of any unpaid parking tickets from the city. The unpaid ticket should be subsequently collected by the RMV at the time of any transaction within that time period.

Going forward, the Collector's office will provide to Auditing an updated receivables report monthly. The Auditing office will then update the balances for the Parking Tickets A/R (4450-133801) and the Deferred Revenue Parking Tickets (4450-265405) accordingly. Currently, the city's balance sheet reflects the corrected figures as of January 31, 2018. We will continue to adjust this figure monthly.

## 5. Section 108 Loan Fund

### DEPARTMENT(S):

Auditing/ Planning and Development (DPD)

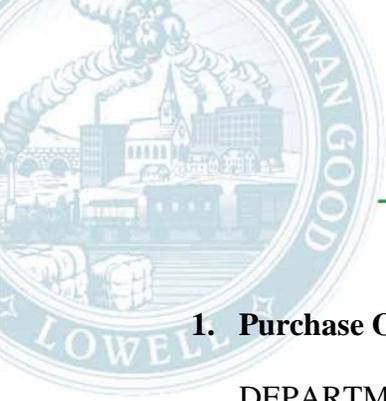
### CURRENT STATUS:

The loan balances were properly adjusted during 2017. 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:

Each year adjustments are required to appropriately report the Section 108 loans in the financial statements. The Finance Team is researching a permanent solution to the issue.

## CURRENT YEAR COMMENTS



Conor Baldwin  
*Chief Financial Officer*

Heather Varney  
*Deputy CFO*

## 1. Purchase Order Dates

### DEPARTMENT(S):

All City Departments

### CURRENT STATUS:

Powers & Sullivan found that in FY17 purchase orders were entered after the City received invoices for goods and services. The Finance Team is working on updating the policies and procedures pertaining to the submission of requisitions by all departments. The City expects that these procedures will be implemented in 2018 and that this comment will improve in 2018.

### MANAGEMENT RESPONSE:

The procurement system is intended to provide management with control over the use of City funds to purchase goods and services. Purchase orders set clear expectations with vendors, help manage orders across departments, help manage available account balances, are legally binding and play a large role in audit trails. At the February 14, 2018 Leadership meeting, the CFO discussed the FY17 Audit findings with the department heads, stressing the importance of the issue regarding purchase order dates. After the meeting, the Chief Procurement Officer circulated the Reserve System Ordinance which details the procurement finance regulations that the city must follow. The Finance Team has been working in conjunction with the City Auditor to remedy this issue in the future by communicating the proper process and procedures are upheld.

## 2. Late Invoices

### DEPARTMENT(S):

Engineering, Wastewater & School Department

### CURRENT STATUS:

Several invoices were paid after June 30, 2017 for FY17 and therefore not recorded in the proper period.

### MANAGEMENT RESPONSE:

The Finance Team is currently working on a policy addressing the timeliness of invoice payment. The lack of a policy can produce inaccurate financial reporting and can mask overspending and deficit balances if invoices are held until the next fiscal year. The comprehensive policy will address procedures and controls that will provide clarity and



Conor Baldwin  
Chief Financial Officer

Heather Varney  
Deputy CFO

guidance to employees regarding timeframes for payments, recordkeeping and monitoring of payments. An important indicator for data monitoring would be the date of the invoice, which will help determine when payments should be made; this is currently entered into the financial management system by Auditing. Departments will be responsible for regularly monitoring unpaid invoices and ensuring payments are made in accordance with the City's new policy. The Finance Team will consider cash management implications when determining the maximum number of days to pay invoices.

### 3. Treasurer's Cash Drawer Policy

#### DEPARTMENT(S):

City Treasurer / Collector's Office

#### CURRENT STATUS:

Discrepancies of collector staff cash drawer daily balances indicate that irregularities are occurring at a level that is known that the occurrence will not be reviewed.

#### MANAGEMENT RESPONSE:

Prior to the new management letter, the Treasurer and Assistant Collector had already entered into discussions to strengthen internal controls relative to cash handling. As a large gateway City, Lowell handles more cash than most communities. While this can result in the occasional miscount, the frequency in which these have occurred is not acceptable. As a result, the Treasurer's Office implemented stronger controls in January of 2018. The controls were meant to introduce safeguards and redundancies into the process to lessen the chance for error. These policies include:

- Write the amount received while inscribing the word "cash" on the bill. This makes for an easier reconcile at the end of the work day.
- Use the computer or adding machine to calculate
  - All denominations should be separated and organized.
  - Count each denomination separately and enter into adding machine or calculator separately.
  - Create a tape for all transaction over \$500 showing the amount of each denomination received.
- Bill counting machines are now used for reconciling and any payment either over \$500 or with a single denomination over 20 bills.
- Banding money throughout the day providing better organized cash drawers.

These procedures will be monitored on an ongoing basis to ensure success.