

CITY OF LOWELL, MASSACHUSETTS

REPORTS ON FEDERAL AWARD PROGRAMS

FOR THE YEAR ENDED JUNE 30, 2018

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100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, Massachusetts, as of and for the year ended June 30, 2018, (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2017), and the related notes to the financial statements, which collectively comprise the City of Lowell, Massachusetts' basic financial statements, and have issued our report thereon dated April 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Lowell, Massachusetts' internal control over financial reporting (internal control) to determine the 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 of Lowell, Massachusetts' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Lowell, Massachusetts' internal control.

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 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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses 2018-001 and 2018-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lowell, Massachusetts' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Response to Findings

The City of Lowell's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Lowell's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Powers + Sullivan, LLC

April 22, 2019



100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT
ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the City of Lowell, Massachusetts' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Lowell, Massachusetts' major federal programs for the year ended June 30, 2018. The City of Lowell, Massachusetts' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Lowell, Massachusetts' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Lowell, Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City of Lowell's compliance.

Basis for Qualified Opinion on the Child Nutrition Cluster

As described in the accompanying schedule of findings and questioned costs, The City of Lowell, Massachusetts, did not comply with requirements regarding the Child Nutrition Cluster, see findings 2018-001 and 2018-002 regarding the hiding of current year invoices related to food services and charging inflated and unapproved indirect costs to the program. Compliance with such requirements is necessary, in our opinion, for the City of Lowell, Massachusetts to comply with the requirements applicable to that program.

Qualified Opinion on Child Nutrition Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Lowell, Massachusetts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Child Nutrition Cluster for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of Lowell, Massachusetts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

Other Matters

The City of Lowell, Massachusetts' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Lowell, Massachusetts' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City of Lowell, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Lowell, Massachusetts' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Lowell, Massachusetts' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We did not identify any significant deficiencies.

The City of Lowell's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Lowell's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited 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, Massachusetts, as of and for the year ended June 30, 2018 (except for the Lowell Contributory Retirement System which is as of and for the year ended December 31, 2017), and the related notes to the financial statements, which collectively comprise the City of Lowell, Massachusetts' basic financial statements. We issued our report thereon dated April 22, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Powers + Sullivan, LLC

April 22, 2019

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Amount Passed Through to Sub-Recipients	Expenditures
CHILD NUTRITION CLUSTER:				
U.S. DEPARTMENT OF AGRICULTURE:				
<u>Passed through Massachusetts Department of Elementary & Secondary Education:</u>				
Non-Cash Assistance (Commodities):				
National School Lunch Program.....	10.555	09-160	\$ -	\$ 596,463
Cash Assistance:				
National School Lunch Program.....	10.555	09-160	-	6,416,744
Total National School Lunch Program.....			-	7,013,207
Cash Assistance:				
School Breakfast Program.....	10.553	09-160	-	2,906,612
TOTAL CHILD NUTRITION CLUSTER.....			-	9,919,819
EMPLOYMENT SERVICE CLUSTER				
U.S. DEPARTMENT OF LABOR:				
<u>Passed through Executive Office of Labor and Workforce Development:</u>				
Employment Service/Wagner-Peyser Funded Activities (Fiscal Year 2018).....	17.207	18CLOWVETSUI	-	170,262
Employment Service/Wagner-Peyser Funded Activities (Fiscal Year 2017).....	17.207	17CLOWVETSUI	-	205,192
Total Employment Service/Wagner-Peyser Funded Activities.....			-	375,454
Disabled Veterans Outreach Program (DVOP).....	17.801	18CLOWVETSUI	-	9,802
TOTAL EMPLOYMENT SERVICE CLUSTER.....			-	385,256
WIOA CLUSTER				
U.S. DEPARTMENT OF LABOR:				
<u>Passed through Executive Office of Labor and Workforce Development:</u>				
WIOA Adult Program (Fiscal Year 2018).....	17.258	18CLOWWIA	-	298,696
WIOA Adult Program (Fiscal Year 2017).....	17.258	17CLOWWIA	-	96,192
Total WIOA Adult Program.....			-	394,888
WIOA Youth Activities (Fiscal Year 2018).....	17.259	18CLOWWIA	159,663	194,781
WIOA Youth Activities (Fiscal Year 2017).....	17.259	17CLOWWIA	-	225,828
Total WIOA Youth Activities.....			159,663	420,609
WIOA Dislocated Workers Formula Grant (Fiscal Year 2018).....	17.278	18CLOWWIA	-	549,975
WIOA Dislocated Workers Formula Grant (Fiscal Year 2017).....	17.278	17CLOWWIA	-	152,606
Total WIOA Dislocated Workers Formula Grant.....			-	702,581
TOTAL WIOA CLUSTER.....			159,663	1,518,078
HIGHWAY SAFETY CLUSTER				
U.S. DEPARTMENT OF TRANSPORTATION:				
<u>Passed through Highway Safety Bureau:</u>				
State and Community Highway Safety.....	20.600	2017LOWELLSTEP	-	47,576
National Priority Safety Programs.....	20.616	2017LOWELLEUDL	-	4,396
TOTAL HIGHWAY SAFETY CLUSTER.....			-	51,972
SPECIAL EDUCATION CLUSTER:				
U.S. DEPARTMENT OF EDUCATION:				
<u>Passed through Massachusetts Department of Elementary & Secondary Education:</u>				
Special Education-Grants to States (IDEA, Part B) (Fiscal Year 2018).....	84.027	240-145595-2018-0160	-	3,043,364
Special Education-Grants to States (IDEA, Part B) (Fiscal Year 2017).....	84.027	240-101995-2017-0160	-	1,595,409
Special Education-Grants to States (IDEA, Part B) (Fiscal Year 2018).....	84.027	274-203697-2018-0160	-	39,839
Special Education-Grants to States (IDEA, Part B) (Fiscal Year 2017).....	84.027	274-223-7-0160	-	62,254
Special Education-Grants to States (IDEA, Part B) (Fiscal Year 2018).....	84.027	244-162096-2018-0160	-	42,020
Special Education-Grants to States (IDEA, Part B) (Fiscal Year 2018).....	84.027	245-172557-2018-0160	-	13,560
Total Special Education-Grants to States (IDEA, Part B).....			-	4,796,446
<u>Passed through Massachusetts Department of Elementary & Secondary Education:</u>				
Special Education Preschool Grants (IDEA, Preschool).....	84.173	298-202667-2018-0160	-	2,359
<u>Passed through Department of Early Education and Care:</u>				
Special Education Preschool Grants (IDEA, Preschool).....	84.173	26218LOWELLPUBS	-	85,817
Total Special Education Preschool Grants (IDEA, Preschool).....			-	88,176
TOTAL SPECIAL EDUCATION CLUSTER.....			-	4,884,622

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Amount Passed Through to Sub-Recipients	Expenditures
OTHER PROGRAMS:				
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
<u>Direct Programs:</u>				
Community Development Block Grants/Entitlement Grants.....	14.218	Not Applicable	232,797	1,797,470
Emergency Shelter Grants Program.....	14.231	Not Applicable	-	89,000
Supportive Housing Program.....	14.235	Not Applicable	-	706,382
HOME Investment Partnerships Program.....	14.239	Not Applicable	-	988,543
Housing Opportunities for Persons with AIDS.....	14.241	Not Applicable	883,706	883,706
Lead-Based Paint Hazard Control in Privately-Owned Housing.....	14.900	Not Applicable	-	88,188
TOTAL HOUSING AND URBAN DEVELOPMENT.....			1,116,503	4,553,289
U.S. DEPARTMENT OF THE INTERIOR - NATIONAL PARKS SERVICE				
<u>Direct Programs:</u>				
Cultural Resources Management.....	15.946	Not Applicable	-	55,560
U.S. DEPARTMENT OF JUSTICE:				
<u>Direct Programs:</u>				
Grants to Encourage Arrest Policies & Enforcement of Protection Orders Program.....	16.590	Not Applicable	-	119,923
Criminal and Juvenile Justice and Mental Health Collaboration Program.....	16.745	Not Applicable	-	15,959
Harold Rogers Prescription Drug Monitoring Program.....	16.754	Not Applicable	-	94,334
TOTAL DEPARTMENT OF JUSTICE.....			-	230,216
U.S. ENVIRONMENTAL PROTECTION AGENCY:				
<u>Direct Programs:</u>				
Brownfields Assessment and Cleanup Cooperative Grants.....	66.818	Not Applicable	-	82,806
U.S. DEPARTMENT OF ENERGY:				
<u>Direct Programs:</u>				
Energy Efficiency and Conservation Block Grant Program (EECBG).....	81.128	Not Applicable	-	490
PASS-THROUGH PROGRAMS:				
U.S. DEPARTMENT OF JUSTICE:				
<u>Passed through the Massachusetts Executive Office of Public Safety and Security:</u>				
Edward Byrne Memorial Justice Assistance Grant Program.....	16.738	BJAG1FY17LOWELL	-	334,696
U.S. DEPARTMENT OF LABOR:				
<u>Passed through Executive Office of Labor and Workforce Development:</u>				
Unemployment Insurance (Fiscal Year 2018).....	17.225	18CLOWVETSUI	-	29,661
Unemployment Insurance (Fiscal Year 2017).....	17.225	17CLOWVETSUI	-	39,525
Total Unemployment Insurance.....			-	69,186
Trade Adjustment Assistance.....	17.245	18CLOWTRADE	-	68,070
Workforce Investment Act (WIOA) National Emergency Grants.....	17.277	16CLOWNEGREA	-	22,596
TOTAL LABOR.....			-	159,852
U.S. DEPARTMENT OF EDUCATION:				
<u>Passed through Massachusetts Department of Elementary & Secondary Education:</u>				
Adult Education - Basic Grants to States (Fiscal Year 2018).....	84.002	340-137839-2018-0160	-	365,381
Adult Education - Basic Grants to States (Fiscal Year 2017).....	84.002	340-013-7-0160	-	16,797
Total Adult Education - Basic Grants to States.....			-	382,178
Title I Grants to Local Education Agencies (Fiscal Year 2018).....	84.010	305-139251-2018-0160	-	4,115,395
Title I Grants to Local Education Agencies (Fiscal Year 2017).....	84.010	305-097381-2017-0160	-	1,151,390
Title I Grants to Local Education Agencies (Fiscal Year 2018).....	84.010	539-138998-2018-0160	-	229,180
Title I Grants to Local Education Agencies (Fiscal Year 2018).....	84.010	323-201722-2018-0160	-	120,295
Title I Grants to Local Education Agencies (Fiscal Year 2017).....	84.010	323-017-7-0160	-	74,106
Title I Grants to Local Education Agencies (Fiscal Year 2017).....	84.010	320-191-7-0160	-	12,317
Total Title I Grants to Local Education Agencies.....			-	5,702,683
Career and Technical Education - Basic Grants to States (Fiscal Year 2018).....	84.048	400-139247-2018-0160	-	85,887
Career and Technical Education - Basic Grants to States (Fiscal Year 2017).....	84.048	400-039-7-0160	-	30,005
Total Career and Technical Education - Basic Grants to States.....			-	115,892

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Amount Passed Through to Sub-Recipients	Expenditures
Education for Homeless Children and Youth (Fiscal Year 2018).....	84.196	310-145598-2018-0160	-	30,626
Education for Homeless Children and Youth (Fiscal Year 2017).....	84.196	310-018-7-0160	-	8,860
Total Education for Homeless Children and Youth.....			-	39,486
Fund for the Improvement of Education (Fiscal Year 2018).....	84.215	S21-5E-150-154	-	545,527
Fund for the Improvement of Education (Fiscal Year 2017).....	84.215	U21-5J-150-023	-	209,381
Total Fund for the Improvement of Education.....			-	754,908
Twenty-First Century Community Learning Centers (Fiscal Year 2018).....	84.287	645-144236-2018-0160	-	583,160
Twenty-First Century Community Learning Centers (Fiscal Year 2018).....	84.287	646-144237-2018-0160	-	101,913
Twenty-First Century Community Learning Centers (Fiscal Year 2018).....	84.287	647-070-8-0160	-	431,735
Twenty-First Century Community Learning Centers (Fiscal Year 2017).....	84.287	647-135-7-0160	-	6,033
Total Twenty-First Century Community Learning Centers.....			-	1,122,841
English Language Acquisition Grants (Fiscal Year 2018).....	84.365	180-145596-2018-0160	-	515,552
English Language Acquisition Grants (Fiscal Year 2017).....	84.365	180-120137-2017-0160	-	74,698
English Language Acquisition Grants (Fiscal Year 2018).....	84.365	186-202029-2018-0160	-	26,524
English Language Acquisition Grants (Fiscal Year 2017).....	84.365	186-120136-2017-0160	-	21,855
English Language Acquisition Grants (Fiscal Year 2018).....	84.365	184-138233-2018-0160	-	13,207
Total English Language Acquisition Grants.....			-	651,836
Supporting Effective Instruction State Grants (Fiscal Year 2018).....	84.367	140-140443-2018-0160	-	476,033
Supporting Effective Instruction State Grants (Fiscal Year 2017).....	84.367	140-101191-2017-0160	-	202,973
Total Supporting Effective Instruction State Grants.....			-	679,006
Student Support and Academic Enrichment.....	84.424	309-140444-2018-0160	-	121,349
Hurricane Education Recovery.....	84.938	INTF969T201933081030	-	572,344
<u>Passed through Department of Early Education and Care:</u>				
Preschool Development Grants (Fiscal Year 2018).....	84.419	51918LOWELLPUBL		2,137,644
Preschool Development Grants (Fiscal Year 2017).....	84.419	51817PEGLowellLP	-	1,034,793
Total Preschool Development Grants.....			-	3,172,437
TOTAL DEPARTMENT OF EDUCATION.....			-	13,314,960
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:				
<u>Passed through Massachusetts Office of Refugees and Immigrants:</u>				
Refugee & Entrant Assistance-Discretionary Grants.....	93.576	INTF010018SI00000	-	48,010
U.S. DEPARTMENT OF HOMELAND SECURITY				
<u>Passed through the Massachusetts Emergency Management Agency:</u>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters).....	97.036	DR-1813 PW#00434	-	3,468
<u>Passed through the Massachusetts Executive Office of Public Safety</u>				
Emergency Management Performance Grants.....	97.042	FFY17 EMPG GRANT PYMT#	-	34,046
Assistance to Firefighters Grant.....	97.044	EMW-2015-FV-01444	-	1,227,037
TOTAL DEPARTMENT OF HOMELAND SECURITY.....			-	1,264,551
TOTAL.....			\$ 1,276,166	\$ 36,804,177

(Concluded)

See notes to schedule of expenditures of federal awards.

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Lowell, Massachusetts under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Lowell, Massachusetts, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Lowell, Massachusetts.

Note 2 – Summary of Significant Accounting Policies

The accounting and reporting policies of the City of Lowell, Massachusetts are set forth below:

- a) Basis of Accounting – The accompanying Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting. Accordingly, expenditures are recognized when the liability is incurred. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- b) Cash Assistance – School Breakfast and Lunch Program – Program expenditures represent federal reimbursement for meals provided during the year.
- c) Non-Cash Assistance (Commodities) – School Lunch Program – Program expenditures represent the value of donated foods received during the year.
- d) Disaster grants have been recorded the year the grant was received.
- e) The City of Lowell, Massachusetts does not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of Lowell, Massachusetts.
2. No significant deficiencies relating to the audit of the basic financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. One material weakness relating to the audit of the basic financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
4. No instances of noncompliance material to the financial statements of the City of Lowell, Massachusetts, was disclosed during the audit.
5. No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.
6. One material weakness relating to the audit of the major federal award programs is reported in the Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.
7. The auditor's report on compliance for the major federal award programs for the City of Lowell, Massachusetts, expresses an unmodified opinion on all major federal award programs.
8. Audit findings that are required to be reported in accordance with Uniform Guidance are reported in the schedule of findings and questioned costs.
9. The programs tested as a major grants are the Child Nutrition Cluster, Twenty-First Century Community Learning Centers and Assistance to Firefighters.
10. The threshold for distinguishing Types A and B programs was \$1,104,125.
11. The City of Lowell, Massachusetts was determined to be a low-risk auditee.

B. Findings – Financial Statements Audit**2018-001: Material Weakness – School Budget Over Expenditures**Condition and Criteria

The City's School Department has consistently had issues in meeting their net school spending. As a result, the School Department should have implemented controls over the years to properly monitor and track their budgeted versus actual expenditures to help with the determination of net school spending, but also to assist in allowing the School's finance team to monitor the budget and be able to identify situations that could occur causing the School to miss bill payments or overspend their overall budget.

During 2018 the Assistant Superintendent of Finance left the District at which time invoices were discovered that should have been paid in fiscal 2018. This resulted in the School hiring a consulting firm to complete a forensic review of School finances for the year ended June 30, 2018.

The forensic review report noted \$1,431,206 of food service bills for April, May and June of 2018 that remained unpaid and accrued at June 30, 2018. These bills would have caused the fund to go into a deficit position of \$776,000. There was also approximately \$200,000 of invoices that relate to the School general fund operating budget that were not recorded. This would have caused a budgetary deficit in the education line item of the City's budget.

We have concluded that School management intentionally withheld food service and general fund invoices during 2018 with the intent to charge the expenditures to the 2019 budget.

The cumulative effect of the School Department intentionally hiding invoices ends with the general fund education line and the food service fund being over expended at the end of 2018. The general fund education line is approximately \$214,000 overspent and the food service fund is in a deficit of approximately \$776,000.

The consulting firm's report also mentioned that the School Department has been charging inflated indirect costs to the food service program. A similar situation occurred in 2016 and was highlighted in the City's management letter. The School continues to use inflated indirect cost allocations to charge budget items to the food service program and has not had the indirect plan approved by the Massachusetts Department of Elementary and Secondary Education.

Effect: The City is at risk of inaccurate financial reporting for not identifying errors or irregularities in the food service program. Adjustments have been made to the City's 2018 financial statements to properly record the invoices identified that relate to 2018.

Cause: We believe the above constitutes a material weakness in the School's system of internal controls.

Auditor's Recommendation

We recommend that the City implement procedures to strengthen controls to provide reasonable assurances that expenditures are properly reported in the City's financial records and in the proper period. This would include a process for the School Department to address any future operating deficits by implementing a budgetary plan to reduce expenditures to amounts available to them through the general fund appropriation or other funding sources.

We also recommend that the School work with City finance personnel and develop an indirect cost allocation plan that can be approved by the Massachusetts Department of Elementary and Secondary Education.

Finally, the City may want to reach out to the Commonwealth of Massachusetts Bureau of Accounts who provides oversight on financial issues related to all Mass cities and towns. They could assist the City in determining the best way to handle the education line item and fund balance deficit.

C. Findings and Questioned Costs – Major Federal Award Programs

U.S. DEPARTMENT OF AGRICULTURE

2018-002: Material Weakness – Child Nutrition Cluster

National School Lunch Program CFDA No. 10.555
School Breakfast Program CFDA No. 10.553

Condition and criteria: The City used an indirect cost rate which was higher than the cost rate approved by the cognizant agency, Department of Elementary and Secondary Education (DESE). The approved cost rate was 11.89% for the fiscal year under audit. Further, a higher rate was also used for the 2016-2017 and 2018-2019 school year.

Context: The City has charged additional costs to the food service revolving fund which were not allowable.

Effect: The City is not in compliance with the grant requirements.

Cause: Lack of controls in place to ensure the indirect costs were appropriate and approved by the cognizant agency.

Questioned Costs: \$1,122,685 for the 2017-2018 school year.

Auditors' Recommendation: We recommend that the City implement procedures to ensure compliance with this grant requirement for future years. Further, we recommend the City ensure the unallowable costs are recovered by the food service revolving fund for the year under audit, and the other years indicated in DESE's review

D. Summary Schedule of Prior Audit Findings

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

2017-001: Housing Opportunities for Persons with AIDS CFDA No. 14.241

Condition and criteria: The City Lowell does not receive any communication from, nor do they conduct monitoring visits to their administrative sub-recipient, the City of Lynn, to determine if they are conducting remote and on-site monitoring of project sponsors operating in Essex County.

Auditors' Recommendation: We recommend that the City implement procedures to ensure compliance over all sub-recipients.

Current Status: During December 2018, the City performed monitoring procedures over the City of Lynn using an on-site monitoring checklist. The City issued a letter indicating no findings from the monitoring visit and have acknowledged that these visits need to continue to occur. We consider this matter to be resolved.