



MIZE & HOUSER  
COMPANY P.A.

Mayor and City Commission  
City of Lawrence, Kansas

In planning and performing our audit of the financial statements of the City of Lawrence, Kansas, as of and for the year ended December 31, 2016, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated May 19, 2017, on the financial statements of the City of Lawrence, Kansas.

We will review the status of these comments during our next audit engagement. We have already discussed the comments and suggestions with various City personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform an additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

1. The schedule of expenditures of federal awards initially prepared for the financial statements had several misstatements that included incorrect CFDA numbers, the omission of multiple federal expenditures and the misclassification of expenditures between grants. To correct these errors in future schedules we recommend that an individual independent of the preparation of the schedule review the supporting documentation received and the schedule for reconciliation, proper CFDA numbers and clerical accuracy.

**Management Response:**

The City relies on the individual departments receiving grant awards to provide the necessary information for reporting. Finance department staff will work more closely with the departments to ensure more accurate information is provided in future years, and have internal staff review the schedule.

2. During the audit, we noted the City lacks a detailed and consistent receipting process. We noted that the various types of receipts were not processed consistently across the different City service areas. A universal receipting process would help to reduce billing and collection issues. We recommend the City implement a more centralized receipt management system in order to have proper controls over receipts and to help ensure the correct collection and recording of receipts.

**Management Response:**

The Finance department became aware of the deficiencies in the accounts receivable system and took immediate steps to study and improve that process. An independent consultant was hired to audit the current procedures and software and make recommendations. A report will be provided to the governing body with the audit recommendations. Finance currently has an open position that we hope we are able to fill with an accounts receivable position. This person will work on accounts receivable and grants receivable.

3. During our review of inventory, we noted the City is currently using the average cost method to value inventory. This method is intended to approximate the lower of cost or market. During our testing we randomly selected inventory items to perform a pricing test. The cost approximated for several items was not within an acceptable amount when comparing the price to the lower of cost or market. We also noted that two items tested from the inventory list were last purchased in excess of five years ago. We recommend the City complete a thorough review of inventory lists to determine if some of the items should be considered obsolete. In addition, we recommend the City implement a procedure that requires internal testing of item costs to verify the current system in place is correctly approximating the lower of cost or market.

**Management Response:**

The Utilities department will conduct a complete review of their inventory to remove obsolete items and will work with Finance to test valuation. We believe this will fully resolve this issue.

4. During our testing of City liabilities, we noted that several accounts were not properly reconciled to supporting documentation. These liability accounts included claims payable, revenue bonds outstanding and interest payable. We recommend the City more thoroughly review general ledger adjustments and the supporting documentation for those adjustments to ensure that all accounts are properly stated.

**Management Response:**

The Finance department has complete records and knowledge of all outstanding debt. This comment is directed at the workpapers provided to the auditors for the 2016 audit. Due to staffing changes and establishing new procedures, there was confusion about who was providing the information and in what format it was to be provided. Finance staff has instituted procedures for a more thorough review of all workpapers and adjustments.

This report is intended for the use of the mayor, city commission and other members of management of the City of Lawrence, Kansas, and should not be used by anyone other than these specified parties.

*Mike Houser: Company PA*

Certified Public Accountants  
Lawrence, Kansas

May 19, 2017