



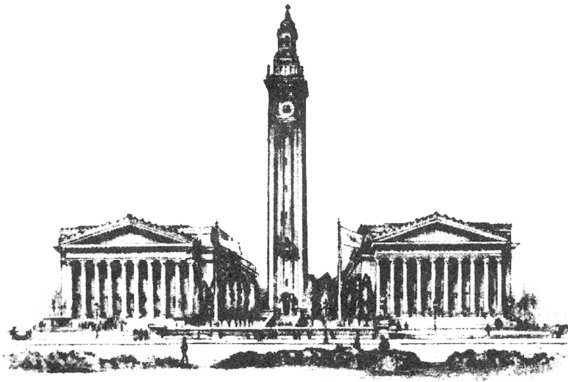
ANNUAL REPORT FOR FISCAL YEAR 2016

*Yong Ju No, CPA
Director of Internal Audit*

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THE CITY OF SPRINGFIELD, MASSACHUSETTS

November 22, 2016

Councilor Timothy J. Rooke, Chairman
Councilor Kenneth E. Shea
Councilor Orlando Ramos

Honorable Members of the Audit Committee:

Enclosed is our 2016 Annual Report. This report highlights the Office of Internal Audit's activities and accomplishments for Fiscal Year 2016. We thank the Mayor, Audit Committee, City Council, and City management for the support given to this Office.

Respectfully submitted,

Yong Ju No, CPA
Director of Internal Audit

cc: Honorable Mayor Domenic J. Sarno
Honorable Members of the City Council
TJ Plante, CAFO
Michael Nelligan, CPA, Powers and Sullivan, PC

Table of Contents

<u>Section</u>	<u>Page</u>
Overview	1
Highlights	1
Results of Fiscal Year 2016 Goals	2
Fiscal Year 2016 Activities	4

OVERVIEW

The Office of Internal Audit (OIA) promotes accountability and integrity in City government and strives to identify ways to improve efficiency of procedures and effectiveness of operations by providing the following services:

- **Audit and Assurance Services** in which reviews of departments, processes, systems, and compliance with City Ordinances, laws, regulations, and other requirements are completed,
- **Consultation and Advisory Services** which provide advice and information on internal controls, risk management, and sound business practices, and
- **Investigations** in response to allegations of fraud and abuse, conflicts of interest, nepotism, and other matters in violation of City Ordinances, laws, regulations, or other guidance.

In Fiscal Year 2016, OIA completed the following types of services:

- 5 Audit and Assurance.
- 4 Consultation and Advisory.

As of June 30, 2016, OIA had the following types of services in progress:

- 3 Audit and Assurance.
- 1 Consultation and Advisory.
- 1 Investigation.

See Fiscal Year 2016 Activities section of this report on page 4 for a summary of these projects. Also, to access the reports issued by OIA, please visit

<http://www.springfieldma.gov/finance/index.php?id=auditors-reports> .

HIGHLIGHTS

Some of our highlights from this past year include:

- **New Staff Auditor.** A new Staff Auditor was hired in December 2015. The new Auditor is a Certified Public Accountant (CPA). All professional staff in the department are CPAs.
- **Risk Based Audit Plan.** A City-wide risk assessment model on which to base the FY17 Audit Plan was developed. The FY17 Audit Plan was presented to the Audit Committee in April 2016.
- **IT Audit.** We worked with outside consultants to complete a review of Springfield Public School's information technology policies and procedures. This review resulted in improved controls over the information technology environment at Springfield Public Schools. We plan on continuing our work over this critical area City wide in FY17.

HIGHLIGHTS (continued)

- **Reduced Professional Fees as follows:**

Performed agreed upon procedures for the Springfield Public Schools Student Activities as required by Massachusetts General Laws. In doing so, OIA estimates that it saved the Springfield Public Schools approximately \$55,000 in external audit fees.

Continued to work with external auditors and other City departments in reducing professional service fees (by approximately \$15,000 for FY16) by allocating eligible portions to grants.

RESULTS OF FISCAL YEAR 2016 GOALS

On January 20, 2015, OIA presented its fiscal year 2016 goals to the Audit Committee. The results of these goals are as follows:

Goals	Initiatives	Result	Comments
Facilitate the implementation of audit recommendations we provide with 1 year of being reported.	<ul style="list-style-type: none"> • Establish a follow up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. 	Met	<p>Audit recommendations are tracked on spreadsheet with specified dates for follow up.</p> <p>Most of the audit recommendations from FY16 will have follow up audit work performed in FY17 in accordance with the FY17 Audit Plan.</p>
Reassess and update the annual risk based audit plan to prioritize audit work used to assess the adequacy and effectiveness of the City’s system of internal controls.	<ul style="list-style-type: none"> • Update the citywide risk assessment model. • Prepare a feasible audit plan for submission to the Mayor and Audit Committee. 	Met	OIA presented the FY17 audit plan to the Mayor and Audit Committee in April 2016.
Provide independent, confidential and reliable investigations of fraud, waste or abuse that are reported via the City’s Fraud Hotline.	<ul style="list-style-type: none"> • Maintain the City’s Fraud Hotline. • Provide investigation results, including recommendations for necessary actions to be taken for all allegations of fraud, waste, or abuse that are found to be substantiated. 	Met	See Fiscal Year 2016 Activities section of this report on page 4 for summary of fraud related projects.

RESULTS OF FISCAL YEAR 2016 GOALS (continued)

Goals	Initiatives	Result	Comments
<p>Increase the productivity of the Office of Internal Audit by 25% by allocating 50% of the audit effort to audits and audit related projects, 20% to maintaining the Fraud Hotline, and 30% to administration, training, and other.</p>	<ul style="list-style-type: none"> • Monitor annual audit plan and budgets. • Implement standardized forms specific to time management and engagement time planning. 	<p>Met</p>	<p>OIA spent approximately 72% of its efforts on audits/audit related projects and maintaining the fraud hotline and approximately 28% on administration, training, and other.</p>
<p>Coordinate audits with the City's external auditors.</p>	<ul style="list-style-type: none"> • Internal Audit to audit certain school activity funds for the School Department. • Coordinate and monitor the completion of the City's Comprehensive Annual Financial Report. 	<p>Met</p>	<p>OIA issued its report on the agreed upon procedures at the Springfield Public Schools Student Activities in March 2016.</p> <p>OIA coordinated and monitored the completion of the City's Comprehensive Annual Financial Report for FY15.</p>
<p>Use technology based audit tools.</p>	<ul style="list-style-type: none"> • Utilize data mining and flowcharting software on all audits. 	<p>Met</p>	<p>Data mining and flow charting software were utilized by OIA where deemed appropriate.</p>
<p>Obtain 40 hours of CPE for professional development annually.</p>	<ul style="list-style-type: none"> • Allocate the necessary financial support out of the annual budget so that each audit staff has the ability to attend conferences, seminars, webinars, and online training programs. 	<p>Met</p>	<p>In addition, the audit staff was actively involved in the professional organizations listed below:</p> <ul style="list-style-type: none"> • The American Institute of Certified Public Accountants • Association of Government Accountants • The Institute of Internal Auditors

FISCAL YEAR 2016 ACTIVITIES

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FISCAL YEAR 2016 ACTIVITIES

Title/Department	Objective(s)	Status	Results/Comments
Audit and Assurance			
City's Investment Quarterly Review	Determine whether the City's investments comply with City Ordinance 42-35 and Massachusetts General Laws.	On-going	No reportable findings from our reviews.
Annual External Financial Audit for Year Ended June 30, 2015	The City's Ordinance requires the Office of Internal Audit to contract with an independent certified public accounting firm to conduct the annual external audit of City's financial statements. The firm also conducts the federally required Single Audit.	Complete	The external auditors issued their report on December 10, 2015.
Operational Audit of Elder Affairs	Evaluate policies and procedures related to cash handling, disbursements, and grant administration.	Complete	Report issued and presented to the Audit Committee in February 2016.
The School Department's Student Activity Funds Agreed Upon Procedures	Comply with Massachusetts General Law.	Complete	Report issued and presented to the Superintendent of School in May 2016.
Information Technology Review at Springfield Public Schools	Evaluate the IT Policies and Procedures at Springfield Public Schools and assess their external network for vulnerabilities. Review will be performed by a consultant.	Complete	Report presented to the School Committee in February 2016.
Citywide Unannounced Cash Counts	Verify accuracy of cash records and identify any weaknesses surrounding the safekeeping of cash.	Complete	No reportable findings. The results will be disclosed in the Citywide Cash Handling Procedures Performance Audit report.
City's Information Technology Follow Up Review	Determine if the FY2014 recommendations from consultant have been implemented.	In-Process	Report expected to be presented to the Audit Committee in November 2016.
Citywide Cash Handling Procedures Performance Audit.	Determine whether controls over cash collection, accounting, and deposit of funds are appropriate.	In-Process	Report expected to be issued and presented to the Audit Committee in November 2016.

FISCAL YEAR 2016 ACTIVITIES (continued)

Title/Department	Objective(s)	Status	Results/Comments
Citywide Purchasing and Accounts Payable Procedures Performance Audit	Determine whether appropriate controls exists within the purchasing/disbursement process to ensure correct, appropriate and timely payments are made for goods/services received.	In-Process	Planning activities commenced in June 2016.
Consultation and Advisory			
Springfield Police Department	Review policies and procedures related to cash seizures from narcotics arrests.	Complete	Report issued and presented to the Audit Committee in February 2016.
Northeast Grounds Performance Bond Review	Review claims worksheet on the Northeast Grounds Performance Bond prior to submission to insurance company.	Complete	Minor adjustments made to the claims worksheet.
Procurement's Process in Preparing Form 1099 in MUNIS	Review preparation of Form 1099 in MUNIS by Procurement.	Complete	Recommended Comptroller prepare the Form 1099.
East Springfield Neighborhood Council	Review disbursements made by the City to East Springfield Neighborhood Council.	Complete	No reportable findings.
Springfield Police Department	Review policies and procedures related to investigative funds ("buy money.")	In-Process	Report issued and presented to the Audit Committee in September 2016.

FISCAL YEAR 2016 ACTIVITIES (continued)

Title/Department	Objective(s)	Status	Results/Comments
Investigation			
Maintain the City's Fraud Hotline	Investigate reports of fraud, waste or abuse.	On-going	<p>15 allegations have been submitted 14 of which have been closed with no further action warranted.</p> <p>An allegation of employee gas theft was received from the Parks Department in May 2016. OIA investigated and submitted our findings to Human Resources. OIA determined that approximately \$22,000 worth of gas was misappropriated. The accused employee was terminated after a hearing, and the City has referred the matter to law enforcement authorities and is seeking restitution. In September 2016, the terminated employee made full restitution to the City. OIA also issued and presented a separate report on our review of the City's Fueling Operations to the Audit Committee in September 2016.</p>