

CITY OF SPRINGFIELD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2011



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To the Honorable Mayor, the City Council, and Management
City of Springfield, Massachusetts:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Springfield, Massachusetts, as of and for the fiscal year ended June 30, 2011 (except for the Springfield Contributory Retirement System which is as of and for the year ended December 31, 2010), in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of several matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

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

The City's written responses to the matters identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management of the City of Springfield, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties

Powers & Sullivan, LLC

January 18, 2012

CITY OF SPRINGFIELD, MASSACHUSETTS

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Current Year Comments

STATEMENT NO. 45 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Comment

In July of 2004, the Governmental Accounting Standards Board (the GASB) issued Statement No. 45 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement improves the relevance and usefulness of financial reporting by (a) requiring a systematic, accrual-basis measurement and recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with a total membership of fewer than 200. The projection of benefits should include all benefits covered by the current substantive plan (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided. The parameters require that the selection of actuarial assumptions, including the healthcare cost trend rate for postemployment healthcare plans, be guided by applicable actuarial standards. Failure to obtain an actuarial valuation will result in a qualification to the independent auditors' opinion on the basic financial statements.

Recommendation

We recommend that management take a proactive approach to planning for this bi-annual valuation that will continue to be required every two years.

City's Response

The City is aware of this reporting requirement and will obtain the necessary actuarial valuation in a timely manner.

Prior Year Comments - Unresolved

PRIOR YEAR COMMENTS – UNRESOLVED

The following comments and recommendations were reported in the prior year Management Letter dated March 18, 2011. We have only included the comments we believe remain unresolved.

TREASURY DEPARTMENT CASH MANAGEMENT ACTIVITIES

Updated Previous Comment

In addition to other Treasury Department comments included in this letter, during our 2011, 2010, and 2009 audits we noted that the daily cash management procedures are not automated and rely on manual transactions to be made each day to move funds between operating and investment accounts. We noted significant un-invested balances remaining in checking accounts during the year. We did compare interest rates being earned on the checking accounts to what was available from overnight investments and noted that there was not a significant opportunity being lost during this past three fiscal years.

Continuing Recommendation

We recommend that the Treasurer consider meeting with its primary banks to determine whether a cash management system is available to automate the investing of idle funds on a daily basis.

City's Updated Response

The City agrees with the recommendation and is actively looking to improve its short term cash management policies. Accordingly, the City, pursuant to Massachusetts General Law, has continued to move excess money into bank accounts paying a higher yield. Additionally, with a new request for proposal for banking services being issued this fiscal year, the City will include a request for an automated process for investing any idle funds.

FORMALIZE CAPITAL ASSET ACCOUNTING

Updated Previous Comment

The City is maintaining its capital assets on an excel spreadsheet and has not fully implemented new software specifically designed for capital asset maintenance. With the number and value of the assets being so significant, using a spreadsheet solution increases the possibility that the financial statements could be misstated due to an error. The City has not implemented procedures to account for and audit fixed asset activities on a timely basis. In order to maintain a complete and accurate fixed asset listing the City needs to work on developing procedures to facilitate accurate fixed asset reporting City-wide.

Continuing Recommendation

The condition remains unchanged in FY2011. We recommend that management develop and implement procedures to track additions, deletions, disposals and transfers of fixed assets so that the proper adjustments can be made to the general ledger on a timely basis. The City needs to migrate from accounting for its capital assets on excel and implement a solution designed for capital assets.

Updated City Response

The City of Springfield has purchased the fixed asset accounting software package Asset Aide which is specifically designed for capital asset maintenance. The City has also entered into a contract with Powers and Sullivan to properly implement this asset accounting software package. This software package will allow the City to eliminate the use of Excel spreadsheets and ensure that fixed asset activity is accounted for on a timely and accurate basis. Assets will be added at the point of purchase using the City's Chart of Accounts to flag all fixed asset activity.

TREASURER'S OFFICE OPERATIONS

Updated Previous Comment

This finding related to the lack of resolution of items identified during the reconciliation of the bank accounts. Old outstanding checks dating back decades were not transferred to tailings and other reconciling items were never corrected on the bank reconciliations or on the City's ledgers.

Continuing Recommendation

We found the finding to still be valid. In addition, we continue to believe the current process of how the bank accounts are reconciled is inadequate for management to be able to review them. The reconciliation does not always specifically describe the reason for the reconciling item, the format is difficult to follow and some accounts are not being reconciled at all.

We recommend a new reconciliation process be formalized that utilizes the capabilities of the new management and accounting software being installed. Any outstanding reconciling items other than the normal deposits in transit, current outstanding checks and other timing differences must be adjusted before implementation.

Updated City Response

The City agrees with the auditor's recommendation and is continuing to utilize the MUNIS treasury management module to reconcile its bank accounts. In addition, the Treasurer is continuing to work with the Comptroller's Department to research and resolve outstanding issues identified on the bank reconciliations.

INFORMATION TECHNOLOGY AUDITOR

Updated Previous Comment

We believe that an IT auditor could play a vital role in ensuring that appropriate financial and operational controls are included in the City's IT systems, such as MUNIS. The IT auditor could provide a valuable internal control function by periodically testing systems controls to determine that they are effective and have not been circumvented.

Continuing Recommendation

We recommend that the City consider establishing an IT auditor position within the internal audit division or outsource this function to a qualified independent consultant. The role and responsibilities of the IT auditor should be formally defined and communicated to IT management as well as other affected user departments. The IT auditor should meet regularly with IT department representatives, user personnel, and relevant contractors during

developmental projects to ensure that proper financial controls and audit trails are included in each new or modified system. These meetings would allow the IT auditor to ensure that applicable, cost beneficial controls are included in each system. The meetings would also help the IT auditor develop auditing approaches by increasing his or her understanding of the controls being adopted. We recommend that the IT auditor establish a formal, ongoing program of tests to be conducted.

Updated City Response

The City's Acting Director of Internal Audit plans to initially outsource this function as funding becomes available. The Acting Director of Internal Audit will work directly with the IT Auditor in developing and performing an audit plan and in communications with IT management. City management has established an IT Steering Committee to perform strategic planning for all IT operations. This matter has been prioritized by the Committee to address areas of risk that potentially could be detrimental to the City.

UNCLAIMED CHECKS

Updated Previous Comment

The City has a substantial number of unclaimed checks (tailings) within the bank accounts maintained by the Treasurer. A large portion of these checks are more than several years old and we are not aware of any established procedures that have attempted to resolve the reason for these checks to remain outstanding. The lack of controls and procedures places the City at risk that funds could be misappropriated.

Within Chapter 46, Section 108 of the Acts of 2003 "An Act Providing Relief and Flexibility to Municipal Officials" is a section that improved the law regulating abandoned property. This section was written with the intention to make it easier for Treasurer's to process uncashed checks which have been deemed abandoned to either return the funds to the owner or to the City's general fund.

Continuing Recommendation

We recommend that the Treasurer's office implement Chapter 46, Section 108 of the Acts of 2003 for tailings. As part of the implementation plan, the Treasurer should continually monitor and investigate all outstanding checks greater than three months old. These balances must be periodically reconciled to the general ledger.

Updated City Response

The City continues to research the tailings account and continues to apply any overpayments to outstanding balances due the City, where applicable. The City then plans on following the tailings procedures outlined in Massachusetts General Law, Chapter 46, Section 108, of the Acts of 2003.