

CITY OF SPRINGFIELD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2013



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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, 2013 (except for the Springfield Contributory Retirement System which is as of and for the year ended December 31, 2012), in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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. Our opinions on the financial statements and this report, insofar as they relate to the Springfield Redevelopment Authority and the Springfield Library and Museums Association, are based solely on the report of other auditors.

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

December 12, 2013

CITY OF SPRINGFIELD, MASSACHUSETTS

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Current Year Comments

INFORMATION TECHNOLOGY AUDIT

Current Comment

During the fiscal year, the City engaged an independent company to perform a review of its information technology system. The review focused on:

- Network authentication and authorization framework that restricts technology resource access to approved users;
- Internal network scanning procedures to ascertain the efficacy of device patching procedures and configuration integrity; and
- The depth and breadth of the technology management infrastructure that helps maintain segregation of duties, operational sustainability, assure environment integrity, and preclude data leakage.

In addition, the company completed external network penetration testing to identify vulnerabilities, if any, that expose the City's technology network perimeter to intrusion opportunities.

The report identified several areas for strengthening the City's information technology system. These areas included:

- Disaster Recovery Preparedness;
- Local Backup and Restoration Capabilities; and
- MUNIS Access Controls

Auditor's Recommendation

We concur with the recommendations made in the above mentioned report and recommend that management implement the proposed changes and develop procedures to regularly monitor these systems.

City's Response

The City has reviewed and is taking immediate and progressive steps to remediate those findings. This includes utilizing said findings to develop a comprehensive cross platform plan that will build in redundancy and resiliency to the City's information technology infrastructure as the foundation. Building on that foundation will be the introduction of policies and procedures that will monitor and further modify and streamline processes such as security, business continuity and disaster recover planning.

Prior Year Comments - Unresolved

PRIOR YEAR COMMENTS – UNRESOLVED

The following comments and recommendations were reported in the prior year Management Letter dated December 27, 2012. We have only included the comments we believe remain unresolved.

RETIREMENT SYSTEM FUNDED RATIO

Previous Comment

To comply with Massachusetts General Laws, the Springfield Contributory Retirement System (System) must be fully funded by 2040. As reflected in the most recent actuarial valuation (January 1, 2012), the funded ratio for the System decreased to 29.0%. The funded ratio is the percentage of the accrued liabilities that are covered by assets accumulated to satisfy the liability. The System's ratio ranks among the lowest percentages in the nation. The current funding schedule places the System in a precarious position which could require future borrowing to fully fund the retirement plan.

Continuing Recommendation

We continue to recommend the System adopt a more aggressive funding schedule in order to avoid the need for future borrowing.

City's Response

Management agrees with this recommendation. The Springfield Retirement Board has adopted an aggressive funding schedule with increases of 5% in the appropriation for FY 2014 and FY 2015 and a 6% increase per year until FY 2036 with final payment of the unfunded liability in FY 2037.

Informational Comment

FUTURE GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS FOR PENSIONS AND OPEB

Previous Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Pensions and Other Postemployment Benefits (OPEB). These new standards will substantially impact your financial statements and will also affect the requirements for accumulating the necessary data to meet the reporting requirements.

The new standards that have been issued and their effective dates are as follows:

- The GASB issued Statement #65, Items Previously Reported as Assets and Liabilities, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #67, Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27, which is required to be implemented in fiscal year 2015.

The GASB is expected to issue additional standards following #67 & #68 for Pensions, which will similarly affect accounting and financial reporting for OPEB Plans.

The GASB is encouraging earlier application of these standards. To briefly summarize these new standards –

- GASB #63 and GASB #65 will require reporting each of the financial position elements in a separate section in the statements of financial position. These elements are Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position; where assets + deferred outflows – liabilities – deferred inflows = net position. These new requirements will affect certain aspects of the financial statements currently and they will pave the way for the new reporting requirements of the new Pension and OPEB standards.
- GASB #67 and #68 will substantially change the reporting for pension liabilities and expenses. Changes in pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Current actuarial methods may continue to be used to determine funding amounts. Employers will report in their financial statements a net pension liability (asset) determined annually as of the fiscal year end. Net pension liability (asset) equals the total pension liability for the plan net of the plan net position. Pension liability is the actuarial present value of projected benefits attributed to past service, and plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The City should expect to record significant pension and OPEB liabilities in the future.

Continuing Recommendation

We continue to recommend that management study and evaluate these changes for financial statement reporting and disclosure purposes, and to formulate plans to meet with your actuaries and financial advisers as more information becomes available. You may also want to consider how and when this information should be communicated to your constituents and other financial statement users.

City's Response

Management agrees with this comment and will be prepared to implement these financial reporting standards as they become effective.