

CITY OF SPRINGFIELD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2014

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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 year ended June 30, 2014 (except for the Springfield Contributory Retirement System which is as of and for the year ended December 31, 2013), 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 10, 2014

CITY OF SPRINGFIELD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2014

CONTENTS

PAGE

<i>Current Year Comments</i>	1
Monitoring Compliance with Federal Grant Requirements	2
Trash Fee Collections	2
Fixed Asset Capitalization Policy	3
<i>Prior Year Comments - Unresolved</i>	4
Retirement System Funded Ratio	5
Information Technology Audit	5
<i>Informational Comments</i>	7
Future Government Accounting Standards Board (GASB) Statements for Pensions and OPEB	8

Current Year Comments

MONITORING COMPLIANCE WITH FEDERAL GRANT REQUIREMENTS

Comment

The City expended approximately \$87 million in federal grants during 2014. All non-Federal entities that expend \$500,000 or more of Federal awards in a year are required to obtain an annual audit in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, the OMB Circular Compliance Supplement and Government Auditing Standards.

OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments" requires grantees to maintain documentation of employee time and effort that has been charged to federal awards. If 100% of an employee's salary is charged to a federal award, a grant recipient is required to maintain semi-annual certifications stating that 100% of the employee's time was spent working on grant activities. If less than 100% of an employee's salary is charged to a federal award, a grant recipient is required to maintain monthly personnel activity reports documenting 100% of the employee's time.

We were provided with time and effort reports for all of the individuals that we selected for testing during our audits. However, we noted that many of the reports we selected were signed beyond the dates requested on the forms. We also noted that several of these reports were not signed by the department heads at the time of our audit request. Subsequently, we were provided documents that included the appropriate department head signatures. These documents are required to be maintained throughout the year and should be signed and dated by the employee as well as the department head in accordance with the instructions on the forms.

Recommendation

We recommend that the City implement procedures to ensure timely documentation for time and effort reporting to remain in compliance throughout the year with OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments".

City's Response

The School department has a process in place to review the "check-in list" for time and effort forms on a monthly basis. Any unreturned or unsigned forms are re-printed and sent back out to the schools. If we still do not receive the signed form back our office then notifies the Chief School's Officer of the missing form(s) via a memo with a copy to the Superintendent.

As of the end of the year all time and effort forms have been received for all work completed during that time period.

TRASH FEE COLLECTIONS

Comment

As of June 30, 2014, the City has \$1.5 million recorded on the ledger for outstanding trash fee receivables. This amount represents approximately 35% of current year revenues and approximately one half of this amount relates to years 2013 and prior. The existence of large past-due receivables balances impedes cash flow and, as time passes, increases the risk that these receivables will become uncollectible.

Recommendation

We recommend management enhance its' collection policies and procedures to address the overdue trash fee receivables and to provide direction for future trash fee billings.

City's Response

The City of Springfield utilizes several policies to collect delinquent trash fees. Interest, and a demand fee of \$20 are added to delinquent accounts, and a demand notice is sent out. Each year, before the 3rd quarter tax bills are issued, the trash receivable is reviewed and delinquent bills are added to the tax bill. In FY2014, the trash bill was issued on March 14, 2014 due April 18, 2014. Demand fees were assessed three weeks later on May 5, 2014. The FY2014 receivable which was less than 90 days past due on June 30, 2014 accounts for 57% of the total trash receivable. The FY2013 accounting for 41% of the trash fee receivable was attached to the 3rd quarter FY2015 tax bill.

FIXED ASSET CAPITALIZATION POLICY

Comment

As part of the implementation of GASB #34, the City had an initial accounting completed of all of their fixed assets. At that time, the City established \$25,000 as their threshold in determining which expenditures are capitalized and depreciated. Based on the size of the City's asset base, and the types of assets being purchased and/or constructed, we believe the City should review the capitalization policy and consider the implementation of a higher dollar threshold for certain classes of expenditures.

Recommendation

We recommend that management consider increasing the capitalization threshold as mentioned above to avoid maintaining records for items that may be immaterial to the overall financial position of the City.

City's Response

The City agrees with this finding and plans on raising the threshold in determining which expenditures are capitalized and depreciated to \$50,000 in Fiscal Year 2015.

Prior Year Comments - Unresolved

PRIOR YEAR COMMENTS – UNRESOLVED

The following comments and recommendations were reported in the prior year Management Letter dated December 12, 2013. 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, 2014), the funded ratio for the System decreased to 27.0%. 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

A new funding schedule was adopted by the Springfield Retirement Board in FY 14 in response to the recent actuarial valuation. The Schedule has total appropriations increasing 6% each year through FY18, then 8% each year through FY23, then 7% each year through FY32, then 6.5% each year through FY34 with a final amortization payment in FY35. The new schedule also drops the assumed Investment return from 8.125% to a more conservative 7.875%.

INFORMATION TECHNOLOGY AUDIT

Previous Comment

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 (back-up systems), 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

Continuing Recommendation

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

City's Response

The City has made relevant changes to infrastructure, policies and procedures as outlined in the IT Audit report to address key findings. The City continues to make key enhancements in the areas of business continuity and disaster planning in an effort to limit service outages. This is being accomplished through the construction of resilient communications systems followed by redundant compute infrastructure.

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 #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2015.
- 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 #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 new financial reporting standards as they become effective.