



ANNUAL REPORT FOR FISCAL YEAR 2021

Yong Ju No, CPA, CFE
Director of Internal Audit

**Office of Internal
Audit**

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THE CITY OF SPRINGFIELD, MASSACHUSETTS

December 9, 2021

Councilor Justin Hurst, Chairman
Councilor Timothy Allen
Councilor Melvin Edwards

Honorable Members of the Audit Committee:

Enclosed is our 2021 Annual Report. This report highlights the Office of Internal Audit's activities and accomplishments for Fiscal Year 2021. We thank the Mayor, Audit Committee, City Council, and City management for the support given to this Office.

Respectfully submitted,

A handwritten signature in black ink that reads 'Yong Ju No'. The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Yong Ju No, CPA

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

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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 (FY) 2021, the OIA completed the following types of services:

- 6 Audit and Assurance
- 4 Investigations

As of June 30, 2021, the OIA had the following types of services in progress:

- 5 Audit and Assurance
- 1 Investigation

See Fiscal Year 2021 Activities section of this report on page 4 for a summary of these projects. Also, to access the reports issued by the OIA, please visit: <https://www.springfield.ma.gov/audit/auditors-reports>.

HIGHLIGHTS

Some of our highlights from this past year include:

- **Productivity.** Productivity related to staff time remained consistent with the previous fiscal year. In FY2021, staff time charged to audit related projects was 76% of available staff time. This percentage exceeded our annual goal of 70%.
- **Risk Based Audit Plan.** Our professional standards require the Internal Audit Director to establish a risk-based approach to determine the priorities for audit activities. A City-wide risk assessment serves as the basis for the Office of Internal Audit's Annual Audit Plan.
- **Certified Fraud Examiner Professional Designation.** Yong No obtained the professional designation of Certified Fraud Examiner (CFE) in November 2020. Certified Fraud Examiner is a professional certification available to professionals who possess expertise in preventing and detecting fraud. According to research conducted by the Association of Certified Fraud Examiners, organizations with CFEs on staff uncover fraud sooner and experience less losses from fraud than organizations that do not have CFEs on staff.

- **Information Technology Cybersecurity Review.** We worked with outside consultants to conduct a Cybersecurity review at Springfield Public Schools. The review included a simulated phishing attack on City employees which was done for the purpose of educating City employees on cybersecurity risks and best practices. We plan on continuing this work related to information technology in Fiscal Year 2022 by reviewing the Springfield Police department’s cybersecurity protocols.
- **Reduced Professional Fees.** The OIA continued to work with the City’s external auditors and City departments in reducing professional services fees. The OIA helped to reduce professional service fees by allocating \$14,000 (eligible portion) of the City’s annual external audit fees to grants.

RESULTS OF FISCAL YEAR 2021 GOALS

On February 11, 2020, the OIA presented its Fiscal Year 2021 goals to the Audit Committee. The results of these goals are as follows:

| | Goals | Results | Comments |
|----|--|---------|---|
| 1. | Facilitate the implementation of audit recommendations we provide within 1 year of being reported. | Met | Most of the audit recommendations from FY2020 had follow up audit work performed in FY2021 in accordance with the FY2021 Audit Plan. |
| 2. | Complete 80% of the annual audit plan each fiscal year, depending on the occurrence of unforeseen events that may cause fewer resources to be available for projects scheduled in the annual audit plan. | Not Met | The OIA devoted significant resources to consulting projects and various investigations, which resulted in fewer resources available for scheduled audits in the FY2021 Audit Plan. |
| 3. | 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. | Met | The OIA presented the FY2021 Audit Plan to the Mayor and Audit Committee in September 2021. |
| 4. | Provide independent, confidential and reliable investigations of fraud, waste or abuse that are reported via the City’s Fraud Hotline. | Met | See Fiscal Year 2021 Activities section of this report on page 7 for summary of fraud related projects. |
| 5. | Allocate 50% of audit effort to audits and audit-related projects, 20% to maintaining the Fraud Hotline, 30% to administration, training, development, and other. | Met | The OIA spent approximately 76% of its efforts on audits/audit related projects and maintaining the fraud hotline and approximately 24% on administration, training, and other. |

RESULTS OF FISCAL YEAR 2021 GOALS (continued)

| | Goals | Results | Comments |
|----|---|----------------|---|
| 6. | Coordinate audits with the City’s external auditors. | Met | The OIA coordinated and monitored the completion of the City’s Comprehensive Annual Financial Report for FY2020. |
| 7. | Use technology based audit tools. | Met | <p>The OIA uses Auto Audit for managing our audits, which includes planning our audits, storing our electronic workpapers and reports, and tracking recommendations, thereby making our process more efficient.</p> <p>The OIA used data mining and flow charting software where appropriate.</p> |
| 8. | Obtain 40 hours of CPE for professional development annually. | Met | <p>In addition, the audit staff was actively involved in the professional organizations listed below:</p> <ul style="list-style-type: none"> • The Institute of Internal Auditors, • Association of Local Government Accountants, • Massachusetts Municipal Auditors and Accountants Association, and • Association of Certified Fraud Examiners. |

FISCAL YEAR 2021 ACTIVITIES

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FISCAL YEAR 2021 ACTIVITIES

| Title/Department | Objective(s) | Status | Results/Comments |
|--|---|----------|---|
| Audit and Assurance | | | |
| Audit of the Department of Public Work’s Bulk Trash Sticker Program at Big Y | Determine if Big Y has adequate controls to ensure the accuracy and the completeness of the sales of the Department of Public Work’s bulk trash stickers and bulk trash sticker inventory records, and the safeguarding of the Department of Public Work’s bulk trash stickers. | Complete | The OIA presented the report to the Audit Committee on December 30, 2020. |
| Follow Up Reviews – Citywide Procurement Audit and Human Resources Life Insurance Review | Review, monitor, and test the implementation status of prior audit recommendations. | Complete | The OIA presented the report to the Audit Committee on December 30, 2020. |
| Compensatory Time Off, also known as “Bankable Overtime,” Review at the Springfield Police Department | Review compensatory time off practices at the Springfield Police Department and assess compliance with union contracts, City policies, and federal/state guidelines. Identify opportunities for improved controls and cost savings associated with current practices. | Complete | The CAFO requested this review. The OIA presented the report to the Audit Committee on March 16, 2021. |
| The Police Career Incentive Pay Program, also known as the Quinn Bill, Review at the Springfield Police Department | Review the program’s practices at the Springfield Police Department and assess compliance with union contracts, City policies, and state guidelines. Identify opportunities for improved controls and cost savings associated with current practices. | Complete | The CAFO requested this review. The OIA presented the report to the Audit Committee on March 16, 2021. |
| City’s Investment Quarterly Review | Determine whether the City’s investments comply with City Ordinance 42-35 and Massachusetts General Laws. | Complete | There were no reportable findings. |

FISCAL YEAR 2021 ACTIVITIES (continued)

| Title/Department | Objective(s) | Status | Results/Comments |
|--|--|------------|--|
| Audit and Assurance (continued) | | | |
| Annual External Financial Audit for Year Ended June 30, 2020 | 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 presented the result of their FY 2020 audit to the Audit Committee on April 14, 2021. |
| Information Technology Cybersecurity Review | Reassess the School department’s vulnerability to cybersecurity and information theft. This assessment will build on the results of the 2016 and 2018 information technology reviews by examining additional areas of potential vulnerability. | In Process | The OIA outsourced the review to Wolf & Company, IT Consultants. Wolf & Company expects to present the report to the SPS Finance Committee in January 2022. |
| City Benefits Review – Flexible Spending Account | To calculate the estimated account balance held by WageWorks, the City’s third party administrator. | In Process | The OIA estimates that the review will be completed in January 2022. |
| City Benefits Audit – Health Insurance | Determine whether appropriate controls exist for the administration of City employee benefits – Health insurance. | In Process | The CAFO requested this review. We expect to complete the review in January 2022. |
| Inventory Management Audit at Department of Public Works and Park Department | Determine if the Department of Public Works and Parks department have adequate controls to ensure accuracy and completeness of inventory records, accountability for inventory transactions, and safeguarding of inventory. The review is outsourced to the external auditors. | In Process | Work is co-sourced with the City’s external auditors. The external auditors expect to complete the review by April 2022. |

FISCAL YEAR 2021 ACTIVITIES (continued)

| Title/Department | Objective(s) | Status | Results/Comments |
|--|--|------------|--|
| Audit and Assurance (continued) | | | |
| Student Activity Funds Agreed Upon Procedures | Comply with Massachusetts General Laws. The Office of Internal Audit (OIA) performs the agreed upon procedures (AUP) for two years and the external auditors performs the AUP for the third year. Since FY2021 represents the third year, the AUP was outsourced to the external auditors. | In Process | Work is co-sourced with the City's external auditors. The external auditors expect to complete their procedures by April 2022. |
| Investigations | | | |
| Investigation of Alleged Ethics Violations at DPW Involving Nathan Bill's Restaurant | Investigated an allegation that City resources at DPW were unlawfully used to benefit a private citizen, Nathan Bill's Restaurant. | Complete | The OIA did not find evidence of ethics violations at DPW. The OIA presented our report to the Audit Committee on February 24, 2021. |
| Investigation of Alleged Theft of City Wood and Misuse of City Resources at Forestry | Investigated an allegation that Forestry employee was stealing wood and using City resources in doing so. | Complete | The OIA did not find evidence to substantiate the allegation of theft of City wood. However, the OIA did find evidence that the use of City resources violated ethics laws. The OIA presented our report to the Audit Committee on August 19, 2021. |
| Investigation of Alleged Misrepresentation of Hours Worked and Misuse of City Resources at the Office of Housing | Investigated an allegation that an employee from the Office of Housing had inappropriately worked as a private home inspector while on City time and that they used City resources in their private business. | Complete | The OIA found evidence to substantiate the allegation. The OIA presented our report to the Audit Committee on August 19, 2021. |

FISCAL YEAR 2021 ACTIVITIES (continued)

| Title/Department | Objective(s) | Status | Results/Comments |
|---|---|------------|---|
| Investigations (continued) | | | |
| Investigation of Alleged Overtime Fraud and Theft of Gift Cards at Springfield Public Schools Student Services Department | Investigated an allegation that an employee from the SPS Student Services department had falsified their hours worked on their timesheets and misappropriated Big Y gift cards. | Complete | <p>The OIA found evidence to substantiate the allegation.</p> <p>The OIA expects to present the report to the SPS Finance Committee in December 2021.</p> |
| Investigation of the Alleged Contract Violations for Managing the City's Golf Courses | Quantify the alleged contract violations by Kennedy Golf Management Inc. | In Process | We do not currently have a timetable for the completion of our investigation. |
| Maintain the City's Fraud Hotline | Investigate reports of fraud, waste or abuse. | On-going | <p>Thirty-one (31) allegations have been submitted, twenty-eight (28) of which have been closed with no further action warranted.</p> <p>A complaint was made against the City Clerk. It was alleged that a money order was supposed to be returned by the City Clerk to the complainant but was instead deposited. We investigated and noted that a clerical oversight was made by the City Clerk who subsequently issued a refund to the complainant.</p> <p>As described above, the OIA issued two investigative reports from tips reported on the Fraud Hotline in FY21 (alleged ethics violation at DPW and Office of Housing) and two investigative reports from tips reported on the Fraud Hotline from previous years (alleged ethics violation at Forestry and alleged payroll fraud and theft of gift cards at Student Services).</p> |