

CITY OF SPRINGFIELD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2021

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 unit, each major fund, and the aggregate remaining fund information of the City of Springfield, Massachusetts as of and for the year ended 2021 (except for the Springfield Contributory Retirement System which is as of and for the year ended December 31, 2020), 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 other 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.



November 24, 2021

CITY OF SPRINGFIELD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2021

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Current Year Comments

PAYROLL REPORTING

Comment

For all non-Police and Fire personnel, the City utilizes the services of a third party vendor (Kronos) for accumulating and managing time activities for payroll processing which is completed utilizing the City's MUNIS software. Recently, Kronos experienced a ransomware incident, and their system was down for several months. This caused the City to be unable to accumulate the necessary information for payroll processing purposes using the applications that the third party vendor had been providing. The City had no back-up plan in place and had to revert to accumulating the time using manual spreadsheets and other varied means of communicating this information for processing. The lack of a standardized back-up system puts the City at risk for processing inaccurate or incomplete payroll information.

Comment

We recommend that the City should develop a standardized back-up plan for accumulating the data necessary to process payroll in the event that the Kronos System, or any other similar solution, should become unavailable for any period of time in the future.

City's Response

The City agrees with this comment and will develop a standardized back-up plan to put in place to mitigate the risk of losing the services of a third party vendor in the future.

FUEL PUMPS AT THE CITY OWNED GOLF COURSES

Comment

During our annual audit of the City, we conducted site visits over the inventory management systems at the Parks and DPW Departments. The Franconia and Veteran's Memorial golf courses each have two 500 gallon tanks that supply gas and diesel fuel for golf carts, lawn tractors, and other equipment at the courses. We noted that the fuel pumps at both courses are old and may not always provide accurate information regarding usage. For instance, we were told that the Franconia pump's meters don't work correctly and employees are not able to rely on the meter readings. Employees manually dip the tanks to get current level readings for reconciliation purposes, however these measurers are not completely accurate for usage reconciliation purposes.

Recommendation

We recommend that the City should consider upgrading these fuel pumps as it appears that they have been in service longer than their estimated useful lives.

City's Response

The City agrees with this comment and is currently working to identify funds to replace the aging fuel pumps at both Municipal Golf Courses.

Prior Year Continuing Comments

OPERATIONS OF THE FRANCONIA AND VETERAN'S MEMORIAL GOLF COURSES

Previous Comment

The City owns and operates two municipal golf courses primarily for the benefit of City residents. The golf courses are managed by the City's Department of Parks, Buildings, and Recreational Management (DPBRM). The DPBRM has entered into a personal services contract with Ryan Hall's Golf Shop LLC to provide a Golf Professional and staffing necessary to operate the day-to-day activities of the two golf courses. The Golf Professional reports to the Executive Director of the DPBRM. The Personal Services Contract contains numerous responsibilities of both the City and Ryan Hall's Golf Shop LLC that are intended to provide for the overall management of the courses.

There is a significant amount of monitoring required by the DPBRM to ensure that the Contract is adhered to and that the golf courses are operated properly for the benefit of the City and its residents.

2021 Update

At the end of the 2021 golf season, the City chose not to renew the agreement with Ryan Hall's Golf Shop, LLC. Beginning with the 2022 golf season the golf courses are now managed by City employees who have similar responsibilities for management of the courses.

Current Recommendation

We recommend that City Management and the DPBRM continue to closely monitor and report on the activities of the golf courses to ensure that they are managed in a professional manner in accordance with directives of the Board of Park Commissioners.

City's Current Response

The City of Springfield's Parks Building and Recreation Management Department hired a Golf Manager and Assistant Golf Manager for each Golf Course to replace the former Golf Pro. City Management continues to meet on a monthly basis to review financial records and discuss operations of both Municipal Golf Courses.

OLD PERSONAL PROPERTY TAXES

Previous Comment

The City is carrying personal property tax balances dating as far back as fiscal year 1990. The total amounts outstanding beyond 2 years old at June 30, 2020 amounted to approximately \$19.4 million, of which approximately \$15.8 million is due from one utility customer and these amounts are being contested and may not be ultimately collectible. Note that the City has recorded reserves against these balances for financial statement reporting purposes.

Previous Recommendation

We have recommended several times over the years that all concerned parties come together to create financial policies over collection, abatement, and write-offs of these older balances. More recently, the City's Director of Internal Audit prepared similar recommendations that have been submitted to management for consideration. We agree with the City Auditor's recommendations and continue to encourage management to take action on these older outstanding balances.

Current Status of the Utility Balances

In April 2022, the City received payment in full on the past due receivables from the Utility Company. With interest, the City received payment of approximately \$42 million for these past due balances.

City's Current Response

The Board agrees with the finding and is working with the City Collector to abate such requests after completing their due inquiry on a case by case basis. The payment from the Utility Company in April of 2022 reduced the City's Personal Property Receivable by \$24.7M. The payment covered Fiscal Years 2013 – 2021.

PAYROLL DEPARTMENT COMMUNICATION CHANGES DURING THE COVID-19 PANDEMIC

Previous Comment

During our FY2020 audit we became aware of some communication changes that were made as the result of the COVID-19 Pandemic. Prior to the Pandemic, the Payroll Department would accept payroll change forms from employees by mail or fax only. This policy helped ensure that the change requests being made were from the intended parties. With the onset of the Pandemic and the remote working conditions for most employees; the Payroll Department started to receive payroll change requests via e-mail. This caused concern for the Department because they were not always sure that the requests for change were valid and additional steps had to be taken to verify the information with the actual employees.

We believe, and the Payroll Department agrees, that communicating sensitive payroll information via e-mail unnecessarily exposes both the City and the employees to the risks of the information being illegally intercepted or hacked by outside parties. The Department discourages these types of communications, but they have been occurring.

Continuing Recommendation

We recommend that the Payroll Department should notify all employees that they will only process payroll change requests that are received by mail or fax, as the original policy stated, and that e-mail requests will not be processed.

We also recommend that management of each Department carefully monitor changes in Internal Controls brought about by this pandemic so that City assets and other pertinent information is not subjected to undue risk of loss or misuse.

City's Current Response

Management agrees with the finding and the Payroll Department is only accepting changes that are received by mail or fax. Management has completed a review of changes made out of necessity during the COVID-19 pandemic that may have presented a weakness to the City's internal control framework. Management has reinstated most policies and procedures formerly in place prior to the pandemic after a thorough review. Management also recognizes that certain changes made out of necessity during the pandemic have resulted in efficient and sound new procedures and they have been adopted on a permanent basis.

Informational Comments

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, 2020), the funded ratio for the System was 30.2% (27% in the previous valuation). 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 Current Response

A new funding schedule was adopted by the Springfield Retirement Board in FY23 in response to the recent actuarial valuation. The Schedule has total appropriations increasing 9.2% each year through FY33, with a final amortization payment in FY34. The new schedule also drops the assumed Investment return from 7.25% to a more conservative 7.0%.

GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENT FOR LEASES

Comment

The Governmental Accounting Standards Board (GASB) has issued a new pronouncement that will significantly affect the accounting and reporting requirements for capital and operating leases. The new standard is required to be implemented in fiscal year 2022 and will impact your financial statements.

For the City, the most significant impact is for their operating leases. The City currently reports a number of operating leases where only footnote disclosure is required. The reporting of these type of leases under the new standard will more closely follow the capital lease requirements currently in place where the related "right to use – asset" and liability amounts will need to be reported on the Statement of Net Position.

Recommendation

We recommend that management begin to evaluate these changes for financial statement reporting and disclosure purposes.

City's Response

Management is aware of the new reporting requirements and is prepared to implement these changes as required in FY2022.