

Powers & Sullivan, LLC

City of Springfield

Meeting with the Audit Committee



June 5, 2023



Thank You!!

- On behalf of all of us at Powers & Sullivan we'd like to thank the City for your business and recent vote of confidence associated with the Bid for Audit Services.
- We are all very pleased to continue as the City's Independent External Auditors.



Our Objective

- ❑ Introduction
- ❑ Overview of the 2022 Audit Process
- ❑ Overview of the 2022 Audit Results
- ❑ Review of the 2023 Audit Plan
- ❑ Impact of Future Accounting Standards
- ❑ Planning Discussions with Management



Audit Objectives

- ❑ The main objective of our work during fiscal 2022 was the expression of our opinions on the City's financial statements and on the City's compliance with the Uniform Guidance with respect to federal grants.
- ❑ We perform our audits in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.



Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

- ❑ Our responsibility is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles.
- ❑ Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.



2022 Audit Results

- ❑ Unmodified Audit Opinions – financial statements present your financial position in accordance with Generally Accepted Accounting Principles.
- ❑ No significant instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.
- ❑ The Net Pension and OPEB Liabilities in the amounts of \$744 million and \$1.255 billion, respectively have been recorded and the City's financial statements in accordance with current GAAP.



2022 Audit Results

- ❑ The 2021 ACFR received the GFOA Certificate of Achievement for Excellence in Financial Reporting – this was the 11th GFOA Award for the City’s ACFR.
- ❑ We are waiting for the 2022 Award which should be available this summer.
- ❑ The City also received the GFOA Distinguished Budget Presentation Award for the 14th consecutive year.
- ❑ Management’s Discussion and Analysis – summarizes the results of operations and describes the Government – Wide (full accrual) and the Fund Based (modified accrual) financial statements and significant budgetary, capital and debt related highlights.



ACFR Components

- ❑ Introductory Section – Management’s Transmittal Letter, Organization Chart, Directory of Officials, and the Prior Year Award Certificate.
- ❑ Financial Section
 - Audit Opinion
 - Management’s Discussion and Analysis
 - Basic Financial Statements & Notes
 - Required Supplementary Information
 - ❑ Budget to Actual, Retirement Schedules, OPEB Schedules
 - Other Supplementary Information – Combining Schedules
- ❑ Statistical Section



The Statistical Section

- 10 Year Trend data
- Financial Trends (pages 140-143)
- Revenue Capacity (pages 144-146)
- Debt Capacity (pages 147-150)
- Demographic and Economic Information (pages 151-153)
- Operating Information (pages 154-155)
- Free Cash & Stabilization Fund Balances (page 156)



Financial Position Highlights

□ General Fund Balance

- \$804 million General Fund budget.
- Revenues exceeded budget by \$44.2M, mainly from R/E and PP taxes, Eversource payments, excise taxes, charges for services, permits, and other revenues.
- Expenditures were under budget by \$16M, including carryovers of \$37M (mostly School carryovers).
- General Fund Balance = \$200M (includes Stabilization of \$53 million). 23.73% of General Fund Expenditures. The general fund increased \$61.5M during FY'22.
- Unassigned General Fund Balance = \$154.8 million.



Financial Position Highlights

- ❑ Stabilization Fund Balance – Included within General Fund, unassigned \$53 million.
- ❑ Pension funded ratio of 39.53% as of the 1/1/22 valuation. This is up from 33.26% in the prior valuation.
- ❑ OPEB –
 - FY2018 was the year that the full OPEB liability was recorded on the financials
 - Unfunded Liability is just over \$1.255 billion (\$1.6 billion PY)
- ❑ Governmental Debt \$250 million.
- ❑ General Fund Debt Service of \$26.1 million was 3.25% of the 2022 Budget.



Management Letter Status

- ❑ There were no deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.
- ❑ Comments consist of areas where internal controls could be strengthened or efficiencies obtained, as well as information on the Retirement System's funded ratio and new GASB Standards.



Single Audit

- ❑ The City is required to have a Single Audit which includes specific testing of Federal Expenditures.

- ❑ Total Federal Expenditures \$148.6M, including Education of \$98M (66%) ESSER was \$30M of this, Community Development of \$19.8M (13%), Coronavirus Relief Fund of \$24.2M (16%) and other Grants of \$6.6M (5%)

- ❑ 2022 Major Grants
 - Child Nutrition Cluster
 - National Disaster Resilience Competition
 - Coronavirus State and Local Fiscal Recovery Funds
 - Education Stabilization Fund



2022 Audit Summary

- This is a Team Effort.
- Thank You for Your Assistance and Commitment to this Process.



2023 Audit Plan

June 5, 2023

To the Audit Committee
City of Springfield, Massachusetts

Thank you for selecting Powers & Sullivan, LLC as the provider of independent audit and assurance services to the City of Springfield. We are submitting the following slides to you describing our plan for the audit of the financial statements of the City of and for the fiscal year ending June 30, 2023. Our plan includes a summary of our mutual understanding and expectations of the City and the Powers & Sullivan, LLC team, a summary of areas of audit focus, our strategy, reporting and audit timetable and other matters. By discussing our plan with you, we hope to ensure that we understand your expectations of us and that we provide you with the highest level of client service.

We appreciate the opportunity to discuss this plan with you. Should you have any questions regarding this plan, please contact us directly at (781) 914-1700.

Very Truly yours,

Michael K. Nelligan, CPA
Todd Jurczyk, CPA
Engagement Partners



Audit Overview

Audit Overview

The main objective of our work during fiscal 2023 is the expression of our opinions on the following:

- The fair presentation of the City's Annual Comprehensive Financial Report (ACFR) as of and for the year ending June 30, 2023;
- The City's compliance with the provisions of the OMB Circular A-133 with respect to federal grants and contract programs during fiscal 2023;
- We will perform our audits in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States;
- We will also apply the Agreed-Upon Procedures to the School's EOYR.
- We performed a separate audit of the Retirement System to comply with GASB Statement #68.

Our audits are designed to obtain reasonable assurance that the financial statements and the schedule of federal awards are free of material misstatement. As part of our audit plan, we will examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We will also assess the accounting principles used, review the significant estimates made by management, and evaluate the overall financial statement presentation. Although our audit is not designed to provide assurance on the internal control structure with respect to financial reporting, we will provide you with our comments and recommendations regarding the City's financial reporting and internal control structure that are intended to help the City make improvements and achieve operational efficiencies.

In addition to our letter of comments and recommendations with respect to accounting and operating controls and procedures, we will:

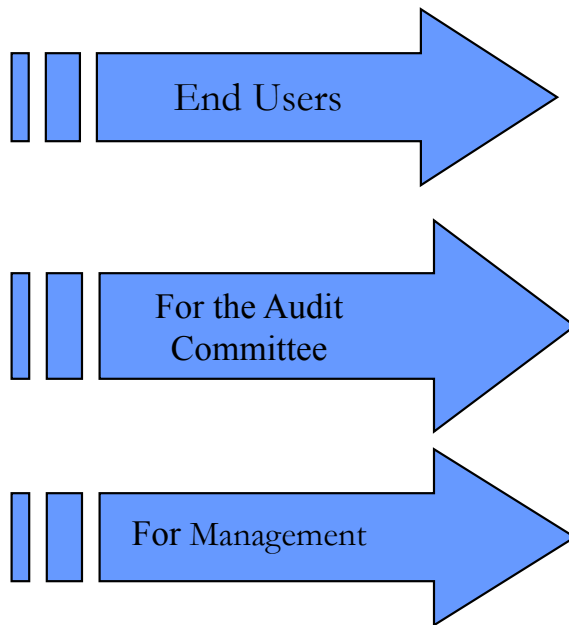
- Report to the Audit Committee on required communications related to the annual audit;
- Provide to management and the Audit Committee updates on new accounting and reporting developments.
- Be available to management and the Audit Committee throughout the year to provide advice and counsel on matters of accounting, financial reporting, compliance, internal controls, and other matters.



Service Objectives

Our objective is to continue to provide the City of Springfield with cost efficient audits of the highest quality and to provide exceptional client service

Our audit is designed to deliver our services at three levels:



- Independent opinions that add additional credibility to financial information released by the City.
- Assistance to the Audit Committee in discharging their governance and compliance responsibilities.
- Observations and advice on financial reporting, internal control over financial reporting, and business issues from senior professionals who have an in-depth understanding of the City and experience with industry best practices.



Management Responsibilities

As part of the audit process, management is responsible for the following:

- The fair presentation of the City's financial statements in accordance with generally accepted accounting principles;
- Establishing and maintaining effective internal controls over financial reporting to ensure all significant transactions are properly reflected within the financial statements;
- Identifying and ensuring that the City complies with the laws and regulations applicable to its activities;
- Making all financial records and related information available to P&S;
- Perform procedures to ensure the appropriate valuation of the City's assets and liabilities;
- Identify contingent liabilities of the City and ensure that they are assessed and appropriately reflected in the financial statements; and
- Adjusting the financial statements to correct material misstatements and affirming to the auditor in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor, if any, during the current engagement pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.



Auditor's Responsibilities

- ❑ Our responsibility is to express an opinion on the City's financial statements and compliance over federal programs;
- ❑ Conduct our audits in accordance with generally accepted auditing standards and Governmental Auditing Standards (Yellow Book). Those standards require that we obtain reasonable (rather than absolute) assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud;
- ❑ An audit includes obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or to identify reportable conditions;
- ❑ We are responsible for ensuring that the Audit Committee is aware of any significant deficiencies and/or material weaknesses;
- ❑ Our responsibility with respect to other information in documents containing audited financial statements is to read such information and consider whether the information or the manner of its presentation is materially consistent with information appearing in the basic financial statements; and
- ❑ Our responsibility with respect to Audit Committee communications is to communicate those matters that have come to our attention as a result of the performance of our audit.



Proposed Audit Timetable

- ❑ Preliminary Audit of Federal Awards, Internal Control System Updates, Transaction Testing, Report Preparation and ongoing planning (April to September).
- ❑ Note that for the most part our 2023 audit will be conducted Remotely. This is consistent with industry standards under the COVID-19 Pandemic.
- ❑ Year-end audit fieldwork (September/October)
- ❑ Meetings to discuss draft reports (November/December)



Areas of Audit Emphasis

- Ensuring that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.
- Updating our understanding of internal control structure surrounding significant accounting cycles, including treasury, investments, fixed asset purchases and construction in progress, purchasing, payables and procurement, revenues and receivables, and payroll.
- Understanding any changes in key information technology systems and control areas, including the computer environment.
- Ensuring that the cash and investments are maintained in accordance with the City's investment policy and that they are presented in accordance with GAAP.
- Ensuring that the receivables from taxpayers and other governments exist, are collectible and are presented at their net realizable value.
- Identification of Component Units to be included in the financial statements



Areas of Audit Emphasis

- Determining whether capital assets are properly capitalized and impairment of capital assets is considered and appropriately disclosed.
- Ensuring that certain significant accruals are calculated in accordance with the City's policies and GAAP.
- Assisting the City in implementing new financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). In 2015 new Pension Standards were applicable for the first time.
- Ensuring that the City's OPEB Trust is appropriately calculated, valued and fairly stated in accordance with GASB 74 and 75.
- Testing the City's compliance with requirements applicable to each major program and internal control over compliance in accordance with Uniform Guidance.
- Following up on the status of our prior year Management Letter.
- Gathering the necessary information, charts, pictures, and schedules to be included in the ACFR.



Future Accounting Standards

- ❑ New GASB (Government Accounting Standards Board) Statements that are scheduled to be implemented:

- ❑ Nothing significant for FY2023.
 - FY'22 Statement #87, Leases
 - This Statement was implemented in FY'2022 and it required approximately \$67 million of operating leases to be capitalized on the City's books. Previously operating leases were just disclosed in the footnotes.



Planning Discussions with Management

- ❑ Changes in Internal Controls due to the COVID-19 Pandemic.
- ❑ Federal and State funding of COVID-19 related expenses and the associated accounting requirements.
- ❑ Compliance requirements for new COVID-19 related Federal Grants are on-going.
- ❑ Remote and On-Site Auditing. Munis access has been provided to us remotely.



Summary

Questions?

Thank you.