

CITY OF SPRINGFIELD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2016

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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, 2016 (except for the Springfield Contributory Retirement System which is as of and for the year ended December 31, 2015), 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 20, 2016

CITY OF SPRINGFIELD, MASSACHUSETTS

MANAGEMENT LETTER

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Current Year Comments

CHARGING COUNCIL ON AGING GENERAL COSTS TO FEDERAL GRANTS

Comment

While auditing the Senior Service Centers of America grant we tested a sample of the non-personnel expenditures charged to the grant and determined that employee parking costs were charged to the grant. The grant that was audited provided for job training and other employment services for people aged 55 and over. The items of cost that we reviewed included parking fees paid to the Springfield Parking Authority as a benefit provided to employees and to virtually all visitors to the COA building while conducting general and non-grant related business.

Management was not able to document why these parking costs would be allowable under the program, except in the case of Senior Aides, where it was determined that parking for Senior Aides is an allowable cost under the Program. The total costs in question amount to roughly \$6,000 which is substantially below the minimum amount that would require a finding in our separate report on the Schedule of Expenditures of Federal Awards. However, we believe that grant funds should only be spent on allowable costs regardless of the amounts involved.

Recommendation

We recommend that the City review these charges with those persons responsible for managing the grant and discontinue allowing these expenditures to be paid from any grant funds.

City's Response

Management of the Department of Elder Affairs agrees with this finding and has terminated the practice of providing the parking benefit to employees of the Department.

DOCUMENTATION OF INTERNAL CONTROLS

Comment

In December 2013, the U.S. Office of Management and Budget (OMB) issued *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) in an effort to (1) streamline guidance for federal awards while easing the administrative burden and (2) to strengthen oversight over the expenditure of federal funds and to reduce the risks of waste, fraud and abuse.

The Uniform Guidance supersedes and streamlines requirements from eight different federal grant circulars (including OMB Circular A-133) into one set of guidance. Local governments are required to implement the new administrative requirements and cost principles for all new federal awards and to additional funding to existing awards made after December 26, 2015 (fiscal year 2016).

In conformance with Uniform Guidance, the non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States (the Green Book) and the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The COSO internal control framework is generally accepted as a best practice within the industry including the best practices prescribed by the Government Finance Officers Association (GFOA). COSO is a joint initiative of 5 private sector organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence. The original COSO framework was published in 1992 and has been revised several times for changes in operations, technology, and audit risk. The most recent updates to the COSO Internal Control - Integrated Framework were issued in 2013 and are available at www.coso.org.

Management is responsible for internal control and to see that the entity is doing what needs to be done to meet its objectives. Governments have limited resources and constraints on how much can be spent on designing, implementing, and conducting systems of internal control. The COSO Framework can help management consider alternative approaches and decide what action it needs to take to meet its objectives. Depending on circumstances, these approaches and decisions can contribute to efficiencies in the design, implementation, and conduct of internal control. With the COSO Framework, management can more successfully diagnose issues and assert effectiveness regarding their internal controls and, for external financial reporting, help avoid material weaknesses or significant deficiencies.

The COSO internal control framework incorporates 5 major components of internal control, which are supported by 17 principles of internal control as follows:

1. CONTROL ENVIRONMENT
 - 1) Demonstrates commitment to integrity and ethical values
 - 2) Exercises oversight responsibility
 - 3) Establishes structure, authority, and responsibility
 - 4) Demonstrates commitment to competence
 - 5) Enforces accountability
2. RISK ASSESSMENT
 - 6) Specifies suitable objectives
 - 7) Identifies and analyzes risk
 - 8) Assesses fraud risk
 - 9) Identifies and analyzes significant change
3. CONTROL ACTIVITIES
 - 10) Selects and develops control activities
 - 11) Selects and develops general controls over technology
 - 12) Deploys through policies and procedures
4. INFORMATION & COMMUNICATION
 - 13) Uses relevant information
 - 14) Communicates internally
 - 15) Communicates externally
5. MONITORING
 - 16) Conducts ongoing and/or separate evaluations

17) Evaluates and communicates deficiencies

Management should evaluate and assess the government's internal control system to determine whether: each of the five essential elements of a comprehensive framework of internal control is present throughout the organization; whether each element addresses all of the associated principles; and whether all five elements effectively function together.

Recommendation

We recommend management follow the best practice for establishing and documenting their internal control system using the COSO Internal Control Framework.

City's Response

Management agrees with the recommendations and will ensure these controls are implemented and monitored.

Prior Year Comments - Unresolved

The following comments and recommendations were reported in the prior year Management Letter dated December 10, 2015. We have only included the comments we believe remain unresolved.

POLICE DEPARTMENT INFORMATION TECHNOLOGY SYSTEM AUDIT

Previous Comment

The City engaged an independent company to perform a review of the Police Department's information technology system. The review focused on:

- Security assessment of the Department's internal network infrastructure.
- Security assessment of the Department's external network infrastructure.
- Security review of IT applications utilized by the Department.

The report identified areas for strengthening the Department's information technology system in all areas that were tested.

Continuing Recommendation

We concur with the recommendations made in the Police Department's report and we continue to recommend that management implement the proposed changes and develop procedures to regularly monitor these systems.

City's Current Response

The Police Department has implemented all but a handful of recommendations made by the independent company. We recently met with the independent company and the City Auditor to discuss our concerns, mainly financial, with implementing all recommendations. We reached a mutual agreement that our current processes for these particular recommendations are sufficient. These recommendations have significantly strengthened the Information Technology Unit in the Police Department.

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, 2016), the funded ratio for the System decreased to 26.2%. 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 FY16 in response to the recent actuarial valuation. The Schedule has total appropriations increasing 14% in FY18 and FY19, then 8% each year

through FY33, with a final amortization payment in FY34. The new schedule also drops the assumed Investment return from 7.875% to a more conservative 7.650%.

Informational Comment

Informational Comment

FUTURE GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS FOR OPEB AND TAX ABATEMENT DISCLOSURES

- GASB Statements #74 and #75 - The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Other Postemployment Benefits (OPEB) similar to the changes that were required for Pensions this current year. This information has been communicated in previous Management Letters and management is preparing for this to occur in fiscal years 2017 and 2018.
- GASB Statement #77, Tax Abatement Disclosures, will require disclosure of the descriptions of tax abatement agreements, the taxes being abated, and the gross dollar amount of the taxes abated during the reporting period. This GASB statement is required to be implemented in 2017.