

CITY OF SPRINGFIELD, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2019



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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 unit, each major fund, and the aggregate remaining fund information of the City of Springfield, Massachusetts as of and for the year ended 2019 (except for the Springfield Contributory Retirement System which is as of and for the year ended December 31, 2018), 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.

Powers & Sullivan, LLC

November 30, 2019

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Current Year Comments

BUDGETARY CONTROL OVER POLICE DEPARTMENT OVERTIME COSTS

Comment

The Police Department expended roughly \$3.5 million on Officer's overtime and court appearance costs during 2019. These costs include expenditures that were incurred for the backfilling of various positions throughout the year. The Department will typically backfill positions when sworn Officers, who would otherwise be on patrol, are assigned to appear in court cases, participate in tactical response exercises, and the deployment of "hot-spot" responses, for example. Some of the overtime costs also relate to filling positions for Officers who have retired during the year, and for injuries that occur.

The Department's final budget for overtime and court costs was \$3.4 million and a budgetary deficit for this component of the Police Department's total salary budget was absorbed by available funds in other personnel line items within the Department.

Our review of the budgeting and expenditure activity recorded in the City's MUNIS software appears to indicate a lack of control over the management of the overtime budget. We noted that initial budgets for overtime were insufficient and these line items were overspent for a good portion of the year. Supplemental appropriations provided additional funds for these expenditures along with transfers from surpluses in other personnel line items.

We believe that Management could do a better job anticipating and managing these overtime budgets throughout the year with better planning and by more closely monitoring activity so that line item budgetary adjustments could be made on a monthly basis throughout the year.

Recommendation

We recommend that management should review current practices in this area with the goal of improving line item budgetary controls over its personnel costs.

City's Response

The City agrees with the comment and notes that overtime expenditures are reviewed on a weekly basis. The Department experienced a high level of attrition in Fiscal Year 2019 and settled union agreements with the International Brotherhood of Police Officers and The Supervisors Associations. The Police Department will work with the Office of Management and Budget to prepare budgetary transfers on a quarterly basis to move funding to the appropriate line items within the Police Department's Personal Service Budget.

FACILITIES DEPARTMENT DATA MANAGEMENT

Comment

The Facilities Management department oversees the physical condition of all municipally owned buildings within the City. This includes making sure that all buildings are in a state of good repair through ongoing maintenance efforts. The Department accomplishes the maintenance plan by utilizing department employed custodians, tradespeople, and outside service providers. The Department also makes recommendation on which projects should be a part of the City's capital improvement plan.

The Department maintains various internally developed spreadsheets to track work order status, parts and supply inventory management, small equipment asset tracking, and general building condition. The spreadsheets are updated based on purchase orders approved, work orders completed, insurance records, and data extracted from

the City's MUNIS financial reporting system. The spreadsheets are stored on a shared network drive that can only be accessed by Facilities Department staff.

The Department's current method of maintaining the data it needs to function may not be the most technologically efficient system that could be used to provide information sharing between the other City Departments that may need access to such data for budgeting, accounting, purchasing or other purposes.

Recommendation

We recommend that the City explore all options available that will allow the Facilities Department to maintain the data it needs in a manner that allows other direct or indirectly related departments to be able to see the data and make appropriate decisions.

City's Response

The City agrees with the finding and is exploring options to centralize the reporting of inventory and the physical condition of City Assets. The City is working with a consultant to utilize MUNIS fixed asset and inventory modules to house the reports currently maintained using various spreadsheets in one easily accessible location.

Prior Year Continuing Comments

OPERATIONS OF THE FRANCONIA AND VETERAN'S MEMORIAL GOLF COURSES

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.

Current Recommendation

We recommend that City Management and the DPBRM develop detailed procedures to monitor the various aspects of the Contract. All parties involved should agree on the mutual responsibilities included in the Contract and the agreement should be updated periodically to delineate changes as time goes on.

City's Current Response

The City agrees with the finding and has instituted monthly meetings with the Golf Professional to review operations at both Municipal Golf Courses to ensure contract compliance.

OLD PERSONAL PROPERTY TAXES

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, 2019 amounted to approximately \$16.6 million, of which approximately \$12.9 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.

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 continued to encourage management to take action on these older outstanding balances.

City's Current Response

Regarding the delinquent utility account, the Board of Assessors has been collaborating with three other large communities on defending the assessed values and completing the litigation process.

The Board agrees with the finding and will continue to work with the City Collector to abate such requests after completing our due inquiry.

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, 2018), the funded ratio for the System was 27% (26.2% 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 FY18 in response to the recent actuarial valuation. The Schedule has total appropriations increasing 14% in FY19, then 9% each year through FY33, with a final amortization payment in FY34. The new schedule also drops the assumed Investment return from 7.65% to a more conservative 7.40%.

FRAMEWORK FOR ASSESSING AND IMPROVING CYBERSECURITY RISKS

Comment

Throughout an organization's normal course of business comes the need to collect, transmit, and store extensive amounts of personal and financial information, in both paper and electronic form, relating to residents, vendors and employees. The use of technology has become a driver in helping organizations stay current and succeed. However, the sharing and compilation of this information lends itself to increasing the organization's vulnerability to either a cyber computer attack, ransomware attack, or a security breach, all are considered cybersecurity attacks.

Management must be aware of the risks associated with the collection of this information and be diligent in implementing the proper policies and procedures to help to expose these risks. While impossible for an organization to eliminate all risks associated with a cybersecurity attack, an organization can take a variety of steps to mitigate its exposure, satisfy its governance responsibilities and help to minimize the impact of an attack.

The first step in understanding an organization's risks and working to develop and implement an effective cybersecurity plan. An organization needs to conduct a risk assessment and understand where its greatest exposure and vulnerabilities lie. This can be completed internally if the organization has an experienced information technology team, or there are many organizations that employ experienced professionals in the information technology arena to assist in the risk assessment and implementation if desired.

Once a risk assessment is completed, the next step is to develop and implement a cybersecurity risk program, which needs to be continually reviewed and updated as technology changes. This response program should be tested to determine if the proper policies and procedures have been implemented to minimize the potential costs of a cyber-attack.

The obvious benefit to conducting a risk assessment is having the knowledge and an objective identification of the organization's areas where exposure to risks is more prevalent and allows for the development of a roadmap to address the remediation of these risks.

Some of the main areas of review that should be incorporated into the risk assessment are as follows:

- Electronic Records, Paper Records (Human Resource Records, Bank Statements, Payroll Records), Resident Data, Employee Data, Physical Security of hardware and software, Any Third Party or Vendor exposure, Password Security, E-Mail Security (Understanding the risks of malware and ransomware), Mobile phones and Portable Storage Devices, System Backup Procedures, Virus Protection Software, Data Encryption, Document Retention and Destruction Policies, Use of Unauthorized Software, Ongoing Employee Training.

Risk management is the ongoing process of identifying, assessing the risk, and developing a plan to address the risks. In order to manage their risk, organizations should understand what the likelihood is that an event will occur and assess the resulting impact of the event. This will assist the organization in developing their own acceptable level of risk tolerance and help to prioritize the areas in which internal controls should be strengthened.

Recommendation

We recommend that management continue with its pro-active approach and assess their risk exposure to cyber-attacks. This would include that the City and the School department, through its Information Technology department, phish and train its employees to protect against phishing attacks. There are a number of software packages in the marketplace, some of which are free, which the City can use for such purposes.

Management has initiated several IT audits which were performed by experienced external auditors who specialize in this type of work and has received detailed reports from these audits. We recommend that policies and procedures be developed to mitigate each identified risk to an acceptable level that fits with the organization's determined risk tolerance.

Additionally, we want to make management aware that technology is constantly changing and that this is not a one-time static process, this will require additional risk assessments and the updating of policies and procedures with the changing technological landscape.

City's Current Response

Management agrees with the recommendations and we have implemented policies and procedures which we consider to be best practices under current conditions. Our systems are continually monitored and tested to be sure they are functioning as intended.