

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

CAMBRIDGE REDEVELOPMENT AUTHORITY
(A Component Unit of the
City of Cambridge, Massachusetts)

Management Letter

Year Ended December 31, 2022



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(A Component Unit of the City of Cambridge, Massachusetts)

MANAGEMENT LETTER
YEAR ENDED DECEMBER 31, 2022

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Honorable Board of Directors
Cambridge Redevelopment Authority
Cambridge, Massachusetts

In planning and performing our audit of the financial statements of the Cambridge Redevelopment Authority (the “CRA”), a component unit of the City of Cambridge, Massachusetts, as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the CRA’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 CRA’s internal control. Accordingly, we do not express an opinion on the effectiveness of the CRA’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
September 30, 2023

OVERVIEW

During the year ended December 31, 2022, the CRA's net position decreased by over \$5.6 million to approximately \$51.7 million. The largest reason for this decrease was a payment to reimburse the City of Cambridge \$5 million for work completed on the Foundry Building. A building owned by the City but managed by the CRA. This payment was made from funds held in reserve for the Foundry Building and thus did not impact the CRA's operating reserves.

Also, due to the less favorable market conditions during calendar year 2022, the CRA's investment portfolio performance was far below that of the previous year. This is expected to be back on track in 2023 as market conditions have once again become robust.

The CRA also regained its footing on sale of redevelopment rights with a sale of \$1.4 million near the end of the calendar year, and, on another positive note, the property at Bishop Allen Drive began producing rent through the execution of lease agreements.

On the accounting front, the CRA was able to accurately close its books on time and all balances were reconciled. In addition, the City implemented GASB 87 as it relates to the lease rentals from the Foundry Building and Bishop Allen Drive. No significant internal control issues were observed.

Looking forward, the CRA plans to rely on the recontinuation of the sale of development rights which look to regain traction. The timing on this is fortunate, as the investment market has been hamstrung by headwinds caused from the aggressive actions of the Federal Open Market Committee.

Understanding that the CRA can't rely on investment income to fund its annual operating budget due to the expected volatility in the market is a concept we can't overemphasize. In doing so, the CRA should protect its reserves more vigilantly as it continues to seek other forms of revenue.

This letter to management is intended to provide the CRA and its management with recommendations for improvement in accounting and financial operations and informational items. The CRA should review these recommendations and informational items, and, if determined to be cost-effective, implement these improvements.

INFORMATIONAL ITEMS

Processing Software

As we discussed in prior years, the CRA is beginning to expand into different areas that are expected to impact finance and its standard operating procedures. This was evident in 2022 and continues into 2023.

In that regard, we encourage the CRA to evaluate more robust operating platforms to process daily transactions. As of the fiscal year under audit, the CRA was still using Quick Books as its operating solution and this system will run into limitations as the CRA expands its operations. We understand management is evaluating other systems and will make a decision relative to this shortly, especially with the appointment of a new Director of Finance recently.

Economic Challenges

With inflation peaking near 40-year highs, and an aggressive Federal Policy Committee increasing rates at a historic pace, the CRA can expect challenges in other areas that it has not faced in many decades:

1. Wage inflation – the ability to maintain quality employees at reasonable wages.
2. Interest rates – the ability to finance capital projects at reasonable financing costs.
3. Construction inflation – the ability to complete capital projects at budgeted costs.
4. Energy inflation – the rising costs of oil, gas and electricity.
5. Goods and services – the supply chain disruptions impacting efficiency and cost of delivery of services.

We urge the CRA to monitor these situations very closely and plan accordingly as it sets forth in its fiscal 2024 budget process and capital planning.

Network Security (annual reminder)

We continue to remind our clients to remain vigilant in the fight against cybercrime. Municipal entities have and continue to be targets for cyber fraud, phishing schemes, ransomware, etc.

This has become very important as the recent pandemic has opened up opportunities to work remotely, and while this is efficient, the equipment used to facilitate these processes could also become targets if not protected adequately.

While the CRA appears to have a strong and robust security system in place, we recommend that the CRA continue to monitor the changing cybersecurity landscape and maintain its security systems and employee training accordingly.

Fraud Risk Mitigation (annual reminder)

Fraud prevention is an area that should be under ongoing evaluation. Evaluating internal systemic procedures, authorization controls and segregation of duties annually through effective risk assessment and proper safeguards is an effective control to protect the CRA from threats associated with fraud. We discuss this with management annually through our risk assessment procedures to assure that management is monitoring this critical aspect of government.

Through our discussions we have learned that management conducts many of its own internal processes to prevent and detect fraud. Periodically reevaluating procedures to make sure they are adequate and effective is an ongoing recommendation.

Long-term obligations (update)

Recent accounting standards have brought to light more than ever those hidden liabilities that are true long-term obligations of municipal entities.

More specifically, OPEB and Pension liabilities are now required under GASBs 67, 68, 74 and 75 to be recorded in the entity's financial statements.

With respect to its pension funding, the CRA is a member of the Cambridge Contributory Retirement System (CCRS) along with a handful of other employees. With a 84% funding ratio, it is near the highest funded pension system in the Commonwealth and well above the State average of 70% funding ratio. While the plan assets took a hit during calendar 2022, due to adverse market conditions, it appears to be back on track during calendar 2023. We suspect that the Pension System will be fully funded in the near future.

With respect to OPEB, the CRA has created a Trust and has been contributing \$7,000 annually towards the unfunded liability. This has caused the actuary of the CRA to use a low discount rate of 4.5% which has resulted in an OPEB liability of nearly \$800,000 and a low funded ratio of 6.7%. Given the CRA is expecting an infusion of revenue, we suggest the CRA evaluate increasing its contributions to the Trust to close the gap on this liability. We understand the CRA has been discussing different options with its actuary.

OBSERVATIONS

We are pleased to report that the CRA has resolved all prior management letter observations and no significant internal control or efficiency observations were noted in the current year.