

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF HATFIELD, MASSACHUSETTS

Management Letter

Year Ended June 30, 2020





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Board of Selectmen
Town of Hatfield
Hatfield, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Hatfield, Massachusetts (the "Town"), as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated November 16, 2020.

Internal Control Over Financial Reporting

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, we identified a matter that we identified as a significant deficiency which is discussed in the body of this report.

This communication is intended solely for the information and use of management, the Board of Selectman, 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

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Certified Public Accountants
Woburn, Massachusetts
November 16, 2020

I. OVERVIEW

The Town continued to build upon the improvements communicated in the letter to management in the prior year. The appointment of a new accounting consultant to close the fiscal 2019 accounting records and complete the fiscal 2020 year has brought a more efficient, timely and accurate level of service to the Town. In addition, the Treasurer/Collector's Office, which has had the same team in place for 3 years continues to perform at an efficient level which has served to also promote efficiency in the process. For the first time in over a decade, the Town has closed its books timely and a final audit has been completed well before the reporting deadlines.

This is a tremendous accomplishment made possible through the efforts of the entire financial and administrative teams. Many of the prior management letter issues have been either resolved or are in the process of being resolved and all material weaknesses, GAAP departures and scope limitations have been removed or, in the case of accounts receivable reconciliations, improved to a significant deficiency

In addition, fiscal 2020 will always be remembered for what is arguably, one of, if not, the beginning of one of the Nation's most daunting historical challenges. In January 2020, a novel corona virus identified as Covid-19, made its appearance in the United States. Within two months, it's devastating effects were being experienced on a large-scale basis and became a pandemic. In order to mitigate the wide-spread impacts, the entire Nation came to a virtual stand-still as schools, colleges, and non-essential businesses and activities were all shut down and citizens were required to stay in their homes.

Because the resultant unemployment skyrocketed to levels never seen before, it had, and continues to have a dramatic impact on the world economy; This impact has been felt at the Global, National and Local level.

While the Town could never prepare itself to face such an unprecedented challenge, it managed its way through the initial stages of this pandemic very well. Despite the economy being locked down for basically the entire fourth quarter, the Town was still able to ride the back of a strong first half of the year and end the year with positive operations and balance a budget for fiscal 2021.

While much progress has been made, we encourage the Town to continue to move forward with this momentum to address those remaining items whose details are highlighted in this report, as there are still some challenging issues to work through.

II. INFORMATIONAL ITEMS

Network Security

In prior years we have alerted the Town to review its network for any vulnerabilities to insidious intrusions from the outside. We continue to remind the Town to be very vigilant in this area. Especially due to remote access to the government's secure servers and networks increasing greatly as more and more municipal employees are working remotely due to the effects of COVID-19. Additionally, remote education learning has even more outside parties accessing municipal networks.

We are also alerting the Town to the increased frequency of phishing scams throughout the Commonwealth

Phishing scams of municipalities throughout the nation have been increasing in frequency and success over the past several years. One of the more common and successful strategies involves fraudsters creating email accounts that appear to belong to legitimate vendors (or even a municipal employee) a community does business with. Over a series of email communications, the fraudster will coerce sensitive information from a community or initiate a change to payment method (i.e., new mailing address or direct deposit/wiring instructions).

We cannot stress enough the need to have up-to-date network security tools and protocols and the need to regularly educate employees on these scams and threats.

New GASB pronouncements

The GASB has approved two new pronouncements that will go into effect in fiscal year 2021 and 2022.

GASB 84 which requires the Town to record certain custodial fiduciary activities such as student activities as special revenue funds goes into effect during fiscal year 2021.

GASB 87 which requires the Town to revise the manner in which it accounts for its operating leases goes into effect in fiscal year 2022. Previously, governmental entities reported their leases similarly to how private entities reported leases under ASC 840.

While finance leases would be capitalized on the balance sheet, operating leases would be reported in the footnotes. However, GASB 87 requires that all operating leases now be accounted for as finance leases.

As a result, leases previously classified as operating leases will not only be capitalized on the statement of net position, but also be reported differently in the statement of activities.

III. FINDINGS AND RECOMMENDATIONS

Significant Deficiency – Accounts Receivable Reconciliation

In prior years, we identified the Town's Accounts Receivable reconciliation process as a material weakness. In addition, we provided no opinion on receivables due to a scope limitation. This was due to our determination that the records provided to our firm by the Collector and Town Accountant, stemming back over a decade, were not reliable.

The Town is making some progress in this area. The Town's accounting consultant and the Collector's Office are working together to develop a reliable monthly process of agreeing records between the two offices. However, due to the consultant not being engaged until February 2020, combined with closing the 2019 books nine months late and the inefficiencies of Covid-19, this process was not complete in time for the fiscal year 2020 audit.

While motor vehicle excise and personal property taxes were in balance, most of the other receivable categories were out of balance by a significant amount. In fact, the DOR reduced free cash by about \$210,000 due to these variances.

We have discussed this issue with Town Management who believes that once the consultant gains a full year of working with the Collector's Office a more efficient and accurate process will finally be in place by the end of fiscal 2021.

Cash variance

As we discussed, the Town has improved its cash reconciliation process, however, a variance remains that has existed since the end of fiscal 2017. The variance has been consistently about \$50,000 which means the activity has been reconciling and continued to reconcile during fiscal 2020. If this variance continues to be the same, we suggest the Town raise it on the tax recap for fiscal year 2021 and adjust it in the records.

Tax Recap

During our review of the tax rate setting process, we determined that the Town reflected general fund subsidies of \$23,628 to the Cable Enterprise Fund and \$283,250 to the Water and Sewer enterprise funds. These subsidies were inadvertently not made during the year. The Cable Enterprise fund had sufficient revenues to cover expenditures thus the subsidy was not needed however, Water and Sewer were a combined \$286,400 short thus the subsidies should have been made. In fact, Sewer now carries an aggregate deficit of \$226,492. Since the tax recap for 2020 was prepared by Bay State Consulting, its not clear if these subsidies were communicated to the Accounting office upon their resignation.

Since free cash has already been certified, the Town should consult with DOR to determine if a retroactive adjustment is necessary. All future subsidies should be completed if revenues do not exceed expenses in a given year.

In addition to this, the water and sewer debt were reflected as indirect costs on the tax recap but were expensed directly to water and sewer in the actual records.

Deficits/variances

The Town's certified free cash reflected reductions of almost \$500,000 that could be avoided in the future.

The following summarize those reductions:

1. Receivable variances - \$210,071.
2. Cash variance - \$49,701.
3. Capital Projects not borrowed before June 30 - \$163,155.
4. Police details - \$28,302.
5. Chapter 90 - \$8,511.
6. Various others - \$13,892.

If the Town took the following action steps it could avoid the majority of these reductions in the future

1. Reconcile receivables.
2. Since the cash variance and the Chapter 90 variance appear to be permanent variances, they should be raised on the tax recap.
3. Capital projects with deficits should all be borrowed before the end of the fiscal year.
4. Subsequent police detail receipts should be provided to DOR. The majority of this outstanding items that made up this deficit were received in July and August.

Ambulance Receivables

The ambulance receivables at year end were not adjusted to reflect the amounts outstanding in the Coastal report, the Town's third-party billing agent for ambulance. The general ledger balance was \$97,171 while the Coastal report was \$192,638. Periodically, probably quarterly, the Coastal report should be reconciled, and the general ledger should be trued up or down so the balances agree.

Student Activities

The student activity balance per the general ledger reflected a balance of \$62,449 while the Student activity bank account reflected a balance of \$80,612. It does not appear as if the general ledger is reconciled to the student activity accounts at the school or the bank account. These accounts should be reconciled periodically.

Payroll Withholding Balances

The Town's payroll withholding balances do not appear to be reconciled to subsequent payments made. Currently, the Town carries nine balances. Two of the balances are identical to the prior year, three are carried as deficits, and none of them are consistent with subsequent payment activity. This has been an observation for several years. We suggest a process is put in place to reconcile these accounts on a go forward basis.