

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF HATFIELD, MASSACHUSETTS

Management Letter

Year Ended June 30, 2021





Select Board
Town of Hatfield
Hatfield, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America 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, 2021 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 4, 2022.

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 or significant deficiencies, as defined above.

This communication is intended solely for the information and use of management, the Select 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
January 4, 2022

I. OVERVIEW

Fiscal year 2021 was a productive year for the Town and marked the first time in at least 10 years that no findings were identified as material weaknesses or significant deficiencies. Town finance officers worked diligently to resolve all prior year management letter items and at the close of the year, only a handful remain.

The following items that were included in the prior year management letter were resolved:

1. Property tax receivables were adjusted to collector balances and those balances were reconciled at year-end. This should remove the free cash hit.
2. Capital project deficits were all supported by bond anticipation notes at year-end. This should remove the free cash hit.
3. Ambulance receivables were adjusted to agree to the balance reported by Coastal, the third-party vendor.
4. Cash variances have been adjusted to much more manageable amounts and this continues to be a work in progress.

The Town also continues to show financial stability. The following summarize some highlights:

- Unassigned fund balance of about \$1.7 million represents almost 15% of general fund expenditures.
- Included in the above amounts are 3 stabilization funds that in aggregate approximate \$460,000.

It's encouraging to see the Town finally turn the corner both financially and from an internal control perspective. Improvements were observed in fiscal 2020 that continued into 2021 and the Town should strive to maintain this level of operation.

II. INFORMATIONAL ITEMS

Network Security

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 Town has a very strong and robust security system in place, we recommend that the Town continue to monitor the changing cybersecurity landscape and maintain its security systems and employee training accordingly.

Risk Assessment and Fraud Identification Measures

We continue to caution our municipal clients regarding the risks of fraud and theft. In recent years, we have seen such activity increase significantly. The Town should be well aware of this increased risk, and accordingly should evaluate and enhance measures to better safeguard the Town's cash and other assets.

Fraud can include theft, the misappropriation of assets such as cash or easily marketable equipment like computers, the execution of transactions with related parties that are not disclosed and not completed "at arm's length," or the modification or fabrication of financial records to protect job security.

The Town must increase its focus and awareness of fraud risks throughout all areas of local government. Suspicious or unusual activity, particularly in cash handling areas, should be promptly investigated.

New GASB pronouncements

The GASB has approved one new pronouncement that will go into effect in fiscal 2022.

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.

Long-Term Obligation

An area that has not been given much attention but will become very important over time is the area of long-term liabilities; namely OPEB and Pension. These are real liabilities and addressing these should be part of the Town's long-term strategic plan. Given the Town has been dealing with other much more pressing challenges over the last decade, it is understandable that these financially important areas have not been addressed; but now is a very good time to begin the thought process.

The most recent actuarial valuations place the Town pension liability at about \$4.4 million and the OPEB liability at about \$10.5 million. Recent GASB pronouncements have forced Towns to recognize these liabilities in their financial statements and thus have brought to light these significant amounts more readily than in the past.

The Town is a member community of the Hampshire County Regional Retirement System and the System has a funding schedule in place to address this liability over the next 15 years or so. However, there is currently no funding process in place for the OPEB liability. Given the Town has put some very challenging financial issue behind it, now is the time to begin to think of what strategy to use to fund OPEB. We recommend that a committee is created to begin to address this.

III. FINDINGS AND RECOMMENDATIONS

Cash variance

The Town has made tremendous progress in its cash reconciliation procedures. Cash is reconciled timely and efforts to correct variances as they inherently arise are aggressive. For a number of years, the Town carried a variance of about \$50,000. This was adjusted to give the Town a clean slate.

Per our procedures we observed two variances at year-end. A variance in which the bank was greater than the cash book of about \$28,000 existed, and a variance in which the general ledger was about \$16,000 greater than the cash book existed. The two could be related and if netted would leave a residual variance of about \$12,000. The Town should continue efforts to identify the source of this variance.

Tax Recap

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. This process should be revised moving forward.

Student Activities (repeated from prior year)

The student activity balance per the general ledger reflected a balance of \$65,763 while the student activity bank account reflected a balance of \$54,771. 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 (repeated from prior year)

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.