



HAMPSHIRE COUNTY GROUP INSURANCE TRUST

Management Letter
For the Year Ended June 30, 2020

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To the Executive Committee
Hampshire County Group Insurance Trust

In planning and performing our audit of the basic financial statements of the Hampshire County Group Insurance Trust (the Trust) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Trust'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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

Material weaknesses are noted in the table of contents and comment headings.



During our audit we also became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

The Trust's written responses to our comments and suggestions 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, the Trust, and others within the Trust, and is not intended to be, and should not be, used by anyone other than these specified parties.

Melanson

Greenfield Massachusetts
April 16, 2021



CURRENT YEAR ISSUES:

1. Establish a General Ledger Accounting System (Material Weakness)

The Trust uses spreadsheets to track and record revenues and expenses flowing through the operating checking account. The Trust also uses QuickBooks, but is currently only utilized to pay vendor invoices. Since the spreadsheet is maintained on the cash basis, it does not provide a complete account of all the activities of the Trust. In order to perform the audit, a complete account of all Trust transactions on the accrual basis of accounting is needed, which includes the recording of accounts receivable and accounts payable. A large number of adjustments were required as part of the audit process to record balances maintained in the separate spreadsheets and other records provided by the Trust.

The implementation of a general ledger accounting system will provide the Trust with a complete account of all transactions on the accrual basis of accounting and improve controls and oversight over the Trust's activity. We recommend the Trust takes the necessary steps to get this system up and running and consider hiring an internal bookkeeper or outsourcing this service through an accounting firm.

Trust's Response:

The Trust recognizes that the implementation of an automated general ledger accounting system would provide a more sophisticated level of control for the Trust's Executive Committee. The Executive Committee has discussed the accounting and treasury function of the Trust in the period of time leading to and following the dissolution of the Hampshire Council of Government's role as trustee. The Executive Committee is satisfied with the volume and transparency of financial data being provided to it by the current cash basis accounting system. The cost of purchasing a fully automated accrual accounting system and/or hiring an outside vendor would outweigh the benefits derived from such. The Executive Committee agrees to revisit this management suggestion from time to time.

2. Consider Establishing an OPEB Trust Fund

In June 2004, the Governmental Accounting Standards Board issued GASB Statement No. 45 which addresses other post-employment benefits (OPEB), including medical, dental, vision and other health-related benefits provided to terminated or retired employees and their dependents and beneficiaries. Currently there is no legal requirement to fund this liability; however, Legislation was passed (Chapter 218 Section 15 of the Acts of 2016) that significantly expanded and clarified the responsibilities of governmental entities in maintaining OPEB trust funds, including clarifying the criteria for accessing the fund's assets, providing investment options, and a custodial

management framework (which supersede the original legislation passed in January of 2009).

While the liability associated with the Trust is not excessive and the Trust already has the assets available to offset the entire liability, we recommend the Trust consider formally adopting the statute and creating the OPEB trust.

Trust's Response:

The Trust agrees with this recommendation and has formally adopted an OPEB trust.