



**Powers &
Sullivan, LLC**
CPAs AND ADVISORS

**HAMPDEN COUNTY REGIONAL RETIREMENT
SYSTEM**

MANAGEMENT LETTER

DECEMBER 31, 2022



Powers & Sullivan, LLC
CPAs AND ADVISORS

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To the Honorable Hampden County Regional Retirement Board
Hampden County Regional Retirement System
Agawam, Massachusetts

In planning and performing our audit of the financial statements of the Hampden County Regional Retirement System (HCRRS) as of and for the year ended December 31, 2022, we considered the System's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

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 material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 System's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. During our audit, we also became aware of other matters, which we believe represent opportunities for strengthening internal controls and operating efficiency as listed in the table of contents.

The accompanying comments and recommendations are intended solely for the information and use of management of the HCRRS and the Public Employees Retirement Administration Commission (PERAC) and are not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next engagement. We have already discussed these comments and recommendations with various personnel, and we will be pleased to discuss them further at your convenience, to perform any additional studies of these matters, or to assist you in implementing the recommendations.

October 5, 2023

HAMPDEN COUNTY REGIONAL RETIREMENT SYSTEM

FINDINGS AND RECOMMENDATIONS

DECEMBER 31, 2022

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Prior Year Comments

Covered Payroll

Prior Year Comment

Hampden County Regional Retirement System (HCRRS) sends out a letter every September/October to the member units requesting the number of employees of HCRRS who were actively employed by the member unit at the close of business on September 30, the total of the annual budgeted rate of regular compensation of those members listed, and the number of employees who are not members of HCRRS.

HCRRS generally receives summary level data from member units which include the annual salary and the number of employees. The reports received vary by member unit. The data is compared to the prior year's information by HCRRS and any significant or unusual fluctuations are discussed with the member unit. While the data provided is reviewed, it cannot be audited in its entirety, as the review varies by member unit based on the information provided. The annual appropriation to the member units is allocated based on covered payroll reported by each member unit. By not fully verifying the data received along with not having standard documented procedures, the allocation to member units may not be calculated on a consistent basis, and in turn, provide an inconsistent measurement of both the annual appropriation and net pension liability.

Current Status –Resolved

HCRRS has established procedures and made improvements in receiving consistent documentation from the member units to calculate the annual covered payroll.

Periodic Evaluation and Documentation of Accounting and Management Policies and Procedures

Prior Year Comment

The System currently does not have adequate documentation of the policies and procedures of the accounting processes. Although the System does process the accounting transactions they do not periodically evaluate and assess the internal control system.

Management is responsible for internal control and to see that the System is doing what needs to be done to meet its objectives. Having limited resources and constraints on how much can be spent on designing, implementing, and conducting systems of internal control most governments use the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO Framework can help management consider alternative approaches and decide what action it needs to take to meet its objectives. Depending on circumstances, these approaches and decisions can contribute to efficiencies in the design, implementation, and conduct of internal control. With the COSO Framework, management can more successfully diagnose issues and assert effectiveness regarding their internal controls and, for external financial reporting, help avoid material weaknesses or significant deficiencies.

The COSO internal control framework incorporates 5 major components of internal control, which are supported by 17 principles of internal control as follows:

1. CONTROL ENVIRONMENT

- 1) Demonstrates commitment to integrity and ethical values
- 2) Exercises oversight responsibility
- 3) Establishes structure, authority, and responsibility
- 4) Demonstrates commitment to competence
- 5) Enforces accountability

2. RISK ASSESSMENT

- 6) Specifies suitable objectives
- 7) Identifies and analyzes risk
- 8) Assesses fraud risk
- 9) Identifies and analyzes significant change

3. CONTROL ACTIVITIES

- 10) Selects and develops control activities
- 11) Selects and develops general controls over technology
- 12) Deploys through policies and procedures

4. INFORMATION & COMMUNICATION

- 13) Uses relevant information
- 14) Communicates internally
- 15) Communicates externally

5. MONITORING

- 16) Conducts ongoing and/or separate evaluations
- 17) Evaluates and communicates deficiencies

Current Status – Partially Resolved

Now that the new software system has been implemented for 2023, management should evaluate and assess the System's internal control system to determine whether: each of the five essential elements of a comprehensive framework of internal control is present throughout the organization; whether each element addresses all of the associated principles; and whether all five elements effectively function together. We have spoken to the Executive Director in assisting with this project and anticipate the recommendation will be resolved in 2024.

Management Response

We agree with the auditor's comments insofar as it is our goal to evaluate and assess the System's internal control system to determine each of the five essential elements of internal control is present, addresses associated principles, and effectively functions. The formal cash management and investment policy, together with the formal Internal Control Policy, have been approved. The policy will address the goals and provide for monitoring and periodic evaluation to assure the goals are being met. However, the implementation of all five essential elements will be an ongoing effort and reported on a regular basis as continued progress in this area occurs.

Timeliness of Actuarial Information for Financial Reporting and Disclosure

Prior Year Comment

Accounting standards require information that is provided through independent actuaries in order to meet the financial reporting and disclosure requirements for the HCRRS and its member units. The actuaries base their reports on a significant amount of information provided by the HCRRS and the assumptions approved by the Retirement Board. The full actuarial valuations are required to be completed every two years with updates required each of the off years.

The member units have established audit schedules that require timely reporting by the HCRRS. This process was delayed in 2021 due to the HCRRS's actuarial valuation reports not being completed by the Actuary until

December 5, 2022.

For future years, we recommend that the HCRRS establish a timeline for providing the required information to the actuary and agree to a delivery date with the actuary that will ensure that the required reports will be finalized in a timelier manner, to allow for timely reporting by the HCRRS's member units.

Current Status – Partially Resolved

The rollforward actuarial reports were completed timely in 2023. We continue to recommend the System work with the Actuary to ensure the January 1, 2024, full valuation is completed timely.

Management Response

The board will review the actuarial valuation contract in 2024 to ensure compliance.