

TOWN OF HAMDEN, CONNECTICUT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For The Year Ended June 30, 2021

II. FINANCIAL STATEMENT FINDINGS

21-01 Pension Ongoing Monitoring and Administration

Condition – The operations of the Employee Retirement Plan do not follow the policies and procedures of the Town of Hamden. Procedures such as maintaining a general ledger, reconciling accounts and monitoring procedures were not being performed during the fiscal year. There is a similar internal control weakness in the Other Post Employee Benefits (OPEB) program.

Criteria – The Town of Hamden is required to accurately administer the employer's retirement fund, which includes proper controls to ensure if any, are found and corrected in a timely manner. The Employee Retirement Plan agreement states the Town's finance department will maintain the financial records of the fund.

Cause – The Finance Department has had significant turnover in key personnel during the past several years. Included in this period was the loss of a senior account, retirement of the assistant treasurer and three different Finance Directors.

Context – The Employee Retirement Plan is maintained by the Town but operates separately from the government activities. Several departments of the Town are utilized for plan operations including the Departments of personnel and finance. In the past, the financial duties were partially outsourced to a local accounting firm but, do to a lapse in communication, have since stopped providing these services.

This is similar to finding 2020-02 reported during the previous audit, in which the cost of living adjustment (COLA) was not being properly calculated. The Town developed additional procedures to correct this issue.

Effect – The Town incurred the following:

- Unable to complete an actuarial valuation of the OPEB programs in preparation of the June 30, 2021 audited financial statements. A formal evaluation has not been completed in the past 24 months prior to the fiscal year end.
- In accordance with the State pension bond Statute, the Town is required have an annual valuation of the pension fund. Management feels these will be completed by March 31, 2022 for the June 30, 2021 fiscal year.
- During our audit, we noted a bank error where the Town's contribution to the OPEB fund of \$250,000 was found to be deposited in the pension investment fund.
- During the fiscal year, the pension paid for services in the amount of \$5,023, which were not received from the vendor.

Recommendation – The Town develop policies and procedures for the ongoing monitoring and administration of the Town's retirement. This would include adding the duties to a Town's official, the oversight and monitoring of Employee Retirement fund.

CLERMONT

ACCOUNTANTS • ADVISORS

Clermont & Associates, LLC
37 Waterbury Road
Prospect CT 06712

Main: 203-758-6658
Fax: 203-758-6758

clermontaccounting.com

February 22, 2022

To the Audit Committee
Town of Hamden, Connecticut

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Hamden, Connecticut, for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 22, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates significant to the financial statements.

The financial statement disclosures are neutral, consistent, and clear. There were no sensitive disclosures affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Significant audit adjustments that were corrected by management relate to the recording of accounts receivable.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 25, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the Town of Hamden, Connecticut, as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Hamden, Connecticut'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 Town of Hamden, Connecticut's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Hamden, Connecticut's internal control.

We noted the following matters involving the internal control over financial reporting and its operation that we offer as constructive suggestions for your consideration as part of the ongoing process of modifying and improving accounting controls and administrative practices.

General Fund

In the past, we have reported that the Town has carried a significantly low fund balance for several years, which is making cash management difficult and costly. The Town has become dependent on the continual issuance of general obligation bonds which provides for additional resources from the premium sales of bonds as well as the refunding of current obligations due. It is not uncommon for a Town this size to have annual bonds sales, however the Town would have significant budget deficits in the general fund if the ability to issue general obligation bonds were lost or have difficulty in issuance. We recommend the Town continue to increase the general fund balance to a more stable level and develop an operating budget not dependent on the issuance of bonds. The June 30, 2021, activity increased the general fund balance to \$7.3 million or 2.9% of the current year appropriations.

We also recommended the cash received from general obligation bonds be reclassified to the capital projects fund from the general fund. The Town has historically maintained the G.O.B cash balances in the general fund for cash management purposes. We recommend these funds be reclassified to clarify the financial condition of the general fund. An audit adjustment was made to reclassify these funds.

The general fund budget variance in revenue was as follows:

<i>Budget line</i>	<i>2020 Budget Variance</i>	<i>2021 Budget Variance</i>	<i>Note on 2021</i>
<i>Property Taxes</i>	\$ (3,091,639)	\$ (923,356)	<i>Largest deficit in motor vehicle tax \$5,951,539 was recognized under federal support related to COVID</i>
<i>Intergovernmental</i>	502,250	158,049	
<i>Charges or services</i>	(998,133)	(29,346)	-
<i>Licenses and permits</i>	(1,541,116)	(113,943)	-
<i>Miscellaneous</i>	(2,672,055)	(1,673,753)	<i>College reimbursement and project reimbursement from the bond fund was not received.</i>

The 2021 general fund operating surplus was also funded through the restructuring of bond debt, which reduced the debt service expenditures by \$1,190,202.

The Town made two budget transfers during the year with line items not included in the operating budget or general fund. As stated below, the budget transfer provided for appropriations in an underfunded program. We recommend the Town approve budget transfers that only include budget line items in the general fund budget.

Capital Projects

Similar to June 30, 2020, the capital project funds did not transfer funds to, or reimburse, the general fund during the June 30, 2021, fiscal year. Historically, the Town recognized the following transactions in the general fund:

1. Reimburse the general fund for direct costs associated with a capital project
2. Reimburse the general fund for indirect costs associated with bond insurances
3. Receive unexpended bond proceeds from completed projects in which the debt was fully paid.

Education Grant Fund and Reimbursement in Fringe Benefits

The Board of Education reimburses the Town for employee benefits but there is not support on the actual cost of these expenses. Also, fringe benefits on the federal and state education grants are not being requested on most grants agreements. The Board of Education reimbursement for the June 30, 2021, and 2020 fiscal years were \$853,831 and \$1,201,880, respectively.

The Town has several school construction programs that have not been closed out after the completion of the projects. These projects, which have had no activity for over 10 years, carry potential receipts or liabilities. Although these projects have bond authorizations for any potential liabilities, the long standing inter-fund payables reduced the amount of cash available in the general fund. On June 30, 2021, the State of Connecticut passed an act to reduce the Town's liability in these programs. We recommend the Town fund the remaining program deficit.

Underfunded Programs

The following programs operate outside the general fund and are currently underfunded.

Insurance Risk – Tornado Fund: The Town separately recognized the costs associated with the 2018 tornado cleanup in an insurance risk fund. These costs were to be reimbursed by a Federal Emergency Management Assistance (FEMA) grant and an emergency assistance bond under C.G.S. Section 7-379. The statute regarding dire emergencies which allowed financing for the tornado expenses, requires bonds issued to pay temporary notes must be issued within two years from the date of the earliest temporary note to be paid in whole or in part with the proceeds. The FEMA funds were received, however the allowable period to bond the excess liabilities lapsed on August 23, 2020.

During the current fiscal year, through a budget transfer, the Town appropriated and expended \$453 thousand in this fund. The Town has not made a plan to fund this deficit.

Ice Rink – During the June 30, 2019 fiscal year, the Town separated the operations of the Louis Astorino Ice Rink (the "rink") from the general fund. During this two-year period, the program has incurred similar losses.

Through a management agreement dated, July 7, 2016, the Town grants the exclusive right to manage and operate the rink to a privately owned rink management company subject to the certain terms and conditions. Included in these terms is that the Town has the ability to oversee the finances of the rink through certain agreed accounting procedures including the Town being named second on the bank account, bank statements being sent directly to the Town, and providing the Town's Finance Director with an accounting of the previous months revenues. These accounting procedures have not been implemented which made it difficult to evaluate the rink's finances. The Town will need to evaluate and provide a future funding plan for these projects.

The current year fund operating deficit for Ice rink was \$281,077 compared to \$212,633 in the previous year. After reporting this in the June 30, 2020, audit, the Town's general fund began incurring a portion of the Ice Rink's liabilities.

Debt and Long-term Liabilities

A five-year history of the general obligation bonds net pension liability for the past five-year history is as follows:

Fiscal Year ended June 30,	In Thousands		
	Debt	Net Pension Liability	
		Debt	Net Pension Liability
2017	\$ 285,690	287,990	573,680
2018	299,190	293,144	592,334
2019	298,180	297,298	595,478
2020	294,205	298,338	592,543
2021*	307,975	270,656	578,631

Related annual payments are as follows:

Fiscal Year ended June 30,	In Thousands		
	Annual Debt Service	Annual Pension Contribution	Total
2017	\$ 20,325	14,747	35,072
2018	20,895	12,650	33,545
2019	16,400	15,926	32,326
2020	18,278	19,210	37,488
2021	15,987	23,600	39,587

* The pension investment return was 22% for this fiscal year

In accordance with the State's Pension Bond Statute, the Town is required to fund the pension at the actuarial required contribution. This should be considered when planning for a long-term debt reduction plan. We recommend the Town continue the plan to reduce the total debt of the Town.

Other Matters

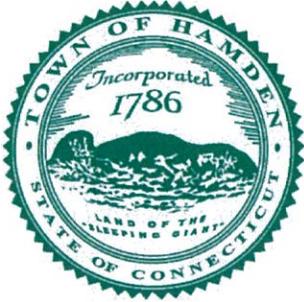
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles accepted in the United States of America. The method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Audit Committee and management of the Town of Hamden, Connecticut, and is not intended to be and should not be used by anyone other than these specified parties.

If you have any additional questions or concerns that you would like for us to look at in detail, whether dealing with the topics above or others we have not discussed, please let me know. The quality of our audit depends on us knowing your questions and concerns.

A handwritten signature in cursive script that reads "Clermont & Associates, LLC".

Clermont & Associates, LLC
Certified Public Accountants



Lauren Garrett
Mayor

TOWN OF HAMDEN
OFFICE OF THE MAYOR

Hamden Government Center
2750 Dixwell Avenue
Hamden, Connecticut 06518
Tel: (203) 287-7100
Fax: (203) 287-7101

February 10, 2022
Town of Hamden
State Single Audit Corrective Action Plan
For the Fiscal Year Ended **2021**

Office of Policy and Management
450 Capitol Avenue MS-54MFS
Hartford, Connecticut, 06106-1379

Municipal Finance Services Unit

Att: William Plummer

AUDIT FINDINGS

Reference Number:

20-01-General Fund Balance Deficit

20-02-Pension Ongoing Monitoring and Administration

Description of Findings:

(20-01): The Town incurred a general fund operating budget deficit of \$5,007,472, leaving the Town's general fund a \$2,289,004 deficit balance.

(20-02): The Town had overpaid the pension benefits for several years by incorrectly calculating the Cost of Living (COLA) Annual Adjustment. The Town also uncovered several years of benefit payments to an ineligible recipient.

Corrective Actions:

20-01: The Town developed and adopted a deficit mitigation plan to rebuild its fund balance over the next several fiscal years.

20-01: On September 8, 2021, the Town's Pension Board corrected administratively corrected the current benefits paid to retirees so that they can conformed to the terms of the Plan. The Board adopted a resolution requesting that the Hamden Legislative Council consider the adoption of a retroactive amendment to the Plan ordinance which would ratify payments made to retirees prior to September 2020 and their survivors on the basis of incorrect COLA adjustments and retroactively confirm that the payments as being permitted by the Plan.

Name of Contact Person:

Curtis Eatman, Finance Director, 203-287-7007, ceatman@hamden.com

Sincerely,

A handwritten signature in blue ink, appearing to read "Lauren Garrett". The signature is fluid and cursive, with a large initial "L" and "G".

Lauren Garrett, Mayor