

NORTH ATTLEBOROUGH ELECTRIC DEPARTMENT

MANAGEMENT LETTER

DECEMBER 31, 2009



100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

To the Board of Electric Commissioners
North Attleborough Electric Department

In planning and performing our audit of the financial statements of the North Attleborough Electric Department (the "Department") as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Department's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A control deficiency exists when the design of operation or a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestion concerning that matter.

This communication is intended solely for the information and use of management of the North Attleborough Electric Department, and is not intended to be and should not be used by anyone other than these specified parties.

Wakefield, Massachusetts
June 14, 2010

NORTH ATTLEBOROUGH ELECTRIC DEPARTMENT

MANAGEMENT LETTER

DECEMBER 31, 2009

TABLE OF CONTENTS

	PAGE
Fraud Risk Assessment	1
OPEB Liability Measurement and Disclosure	2

FRAUD RISK ASSESSMENT

Comment

The opportunity to commit and conceal fraud exists where there are assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud. To address this risk, we recommend that the Department perform a risk assessment to identify, analyze, and manage the risk of asset misappropriation. Risk assessment, including fraud risk assessment, is one element of internal control. Thus, ideally, the Department's internal control should include performance of this assessment, even though our annual financial statement audits include consideration of fraud.

The fraud risk assessment can be informal and performed by a management-level individual who has extensive knowledge of the Department that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussion with personnel who have extensive knowledge of the Department, its environment, and its processes. The fraud risk assessment process should consider the Department's vulnerability to misappropriation of assets. When conducting the self-assessment, questions such as the following can be considered:

- What individuals have the opportunity to misappropriate assets? These are individuals who have access to assets susceptible to theft, and to records that can be falsified or manipulated to conceal the theft.
- Are there any known pressures that would motivate employees with the opportunity to misappropriate assets? Pressures may relate to financial stress or dissatisfaction. In assessing whether these pressures may exist, the assessor should consider whether there is any information that indicated potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Department are susceptible to misappropriation?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could assets be stolen? Assets can be stolen in many ways besides merely removing them from the premises. For example, cash can be stolen by writing checks to fictitious employees or to vendors and then cashing them for personal use.
- How could potential misappropriation of assets be concealed? Because many frauds create accounting anomalies, the perpetrator must hide the fraud by running through an adjustment to another account. Generally, fraud perpetrators may use accounts that are not closely monitored.

Recommendation

We recommend that management develop and implement a fraud risk assessment program to identify, analyze, and manage the risk of asset misappropriation. Department heads should provide information detailing any activities within their departments that may lend themselves to potential fraud, i.e. identification of idle cash or collections that don't get turned over daily, or instances where internal controls over Department assets are not in place or are not functioning as intended.

OPEB LIABILITY MEASUREMENT AND DISLCOSURE

Comment

In the 2008 the Department adopted Chapter 479 of the Acts of 2008 (the "Act") that was enacted into law by the Legislature of the Commonwealth. A provision of the Act allowed the Department to establish a trust fund to account for the Department's payment of the OPEB annual required contribution (ARC) as determined by an independent actuary hired by the Department. The Act establishes an irrevocable trust that meets the requirements of Governmental Accounting Standards Board Statement #45, (GASB 45).

This is the best way to fund the OPEB liability because funds deposited into an irrevocable trust are protected from 3rd party creditors and from other parties who may desire to access the funds for purposes other than providing postemployment benefits to retirees

Another benefit of an irrevocable trust is that, under GASB 45, the actuary can assume a higher rate of return on the investments of the trust, typically in the 8% range. This contrasts significantly with OPEB funds being deposited into a revocable trust. Under GASB 45, revocable trusts are required to use of a lower rate of return on investments, typically in the 3.5% - 4% range, resulting in a higher OPEB liability when compared to an OPEB liability calculated using a higher rate of return.

The Department's current actuarial valuation assumes a rate of return at 8% which, according to GASB 45 is acceptable. However, we believe that assuming an 8% return on OPEB investments may be too high when considering the amount invested, current rates on liquid investments, and the type of investments chosen by the Town Treasurer.

Recommendation

In order to ensure a sound actuarial valuation and sound liability presentation on the financial statements we recommend that the actuary be instructed to calculate the OPEB liability and ARC using both a high rate of investment return and a low rate of investment return. We also recommend, at this time, that management consider using the lower rate of return when calculating its annual required contribution, as this will correlate more closely with the actual rate of return.