

NORTH ATTLEBOROUGH ELECTRIC DEPARTMENT

MANAGEMENT LETTER

DECEMBER 31, 2007



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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 years ended December 31, 2007 and 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financials 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 or operation of 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 matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestion concerning those matters.

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.

April 29, 2008

NORTH ATTLEBOROUGH ELECTRIC DEPARTMENT

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DECEMBER 31, 2007

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GASB #45 – AN INFORMATIONAL COMMENT RELATEING TO FUTURE GASB STATEMENTS

Comment

In July of 2004, the Governmental Accounting Standards Board (the GASB) issued Statement No. 45 *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement improves the relevance and usefulness of financial reporting by (a) requiring a systematic, accrual-basis measurement and recognition of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

For financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership (including employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits) of 200 or more, or at least triennially for plans with a total membership of fewer than 200. The projection of benefits should include all benefits covered by the current substantive plan (the plan as understood by the employer and plan members) at the time of each valuation and should take into consideration the pattern of sharing of benefit costs between the employer and plan members to that point, as well as certain legal or contractual caps on benefits to be provided. The parameters require that the selection of actuarial assumptions, including the healthcare cost trend rate for postemployment healthcare plans, be guided by applicable actuarial standards. Failure to obtain an actuarial valuation will result in a qualification to the independent auditors' opinion on the basic financial statements.

Net OPEB obligations, if any, including amounts associated with under- or over contributions from governmental funds, should be displayed as liabilities (or assets) in government-wide financial statements. Similarly, net OPEB obligations associated with proprietary or fiduciary funds from which contributions are made should be displayed as liabilities (or assets) in the financial statements of those funds.

An employer's net OPEB obligation is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan, including the OPEB liability or asset at transition, if any. (Because retroactive application of the measurement requirements of this Statement is not required, for most employers the OPEB liability at the beginning of the transition year will be zero.) An employer with a net OPEB obligation is required to measure annual OPEB cost equal to (a) the annual required contribution (ARC), (b) one year's interest on the net OPEB obligation, and (c) an adjustment to the ARC to offset the effect of actuarial amortization of past under - or over contributions.

This Statement generally provides for prospective implementation—that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The Department is required to implement this statement in fiscal 2009 although earlier implementation is encouraged.

Recommendation

We recommend that management take a proactive approach to the planning and implementation of GASB Statement No.45. The most important consideration in the planning process is obtaining an actuarial valuation.

POST RETIREMENT HEALTHCARE REPORTING

Comment

The Department currently provides footnote disclosure specifying the amount expended to provide health care benefits to retirees and eligible dependents. Currently, the amount expended for post retirement benefits is recorded in the accounting ledgers as part of the overall employee benefits expenditure. As a result, staff must sort through monthly premium billings from its insurance carriers to determine the proper financial statement disclosure. With the implementation of GASB 45 quickly approaching, efforts need to be made to eliminate the duplication of effort and to refine the controls over this process for financial statement reporting purposes.

Recommendation

We recommend that management refine the current process so that amounts expended for post retirement healthcare benefits are readily identifiable in the general ledger.

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.