

TOWN OF TEWKSBURY, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2014



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To the Honorable Board of Selectmen
Town of Tewksbury, Massachusetts

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Tewksbury, Massachusetts as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Town'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily 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.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, during our audit we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning other matters.

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

This communication is intended solely for the information and use of management of the Town of Tewksbury, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

September 26, 2014

TOWN OF TEWKSBURY, MASSACHUSETTS

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JUNE 30, 2014

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Prior Year Comments

Fraud Risk Assessment

Comment

Previously we have indicated that the Town would benefit from a fraud risk assessment. A fraud risk assessment is designed to identify risk with such matters as the opportunity to commit and conceal fraud, assets susceptible to misappropriation and inadequate controls to prevent or detect the fraud.

To address this risk, we recommend that the Town 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 Town'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 Town that might be used in the assessment. Ordinarily, the management-level individual would conduct interviews or lead group discussions with personnel who have extensive knowledge of the Town, its environment, and its processes. The fraud risk assessment process should consider the Town'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 indicates potential financial stress or dissatisfaction of employees with access to assets susceptible to misappropriation.
- What assets of the Town 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 vendors and 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.

While management has developed numerous controls to manage risk, a formal fraud risk assessment program to identify, analyze, and manage the risk of fraud has not been documented.

We recommended that policies and procedures over financial transactions and asset protection be addressed in a formal fraud risk document and that, when completed, be presented to and accepted by the Board of Selectmen.

Status – Resolved.

Develop Written Disaster Recovery Policies

Comment

Over the past few years, Town and School management have begun the process of creating a written disaster recovery plan. We encourage this process to continue. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing facilities.

A disaster recovery plan should include, but not be limited to, the following matters:

1. Location of, and access to, off-site storage.
2. A listing of all data files that would have to be obtained from the off-site storage location.
3. Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)
4. Responsibilities of various personnel in an emergency.
5. Priority of critical applications and reporting requirements during the emergency period.

We noted that management has upgraded the MUNIS, Student Data Management, and general data applications, including the associated hardware and that backup procedures are being redesigned to assure offsite backup of data.

In addition to the improvements noted above, we continue to recommend that all Town disaster recovery procedures be documented. We also recommend that Items 3, 4 and 5 be addressed in the document.

Status – No significant change from the prior year. We continue to recommend that a disaster recovery plan be documented.

Review MUNIS User Profiles to Limit Unnecessary Access to Sensitive Data

Comment

It is good practice to periodically review and assess MUNIS user profiles to limit access to sensitive data such as, cash receipts, accounts payable, accounts receivable, human resource data, vendor and payroll master files and general ledger maintenance. By limiting access to this data, the Town can reduce fraud risk and protect the integrity of the data maintained in the system.

We recommended that the Town conduct a review and assessment of MUNIS user profiles to identify and limit unnecessary access to the data maintained in the system.

Status – Resolved.

Other Postemployment Benefit Actuarial

Comment

Now that the Town has met the requirements for implementation of GASB Statement #45, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, it is time to acknowledge the requirements necessary to stay in compliance with the GASB and obtain the information necessary to complete the Town's annual audit.

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 total membership of fewer than 200.

For the Town of Tewksbury this means that an updated actuarial valuation dated July 1, 2014, will have to be obtained in order for the Town to remain compliant with GASB Statement #45 for fiscal years 2017 and 2018.

We recommended the Town work with their actuarial firm to assure that information needed for the next valuation report is provided in ample time for the future fiscal year audits.

Status – Resolved

Fixed Asset Capitalization Policy

Comment

The Town has implemented a fixed asset software system to assist in tracking fixed assets. However, the Town currently does not have a written policy for capitalizing fixed assets. Implementing a fixed asset capitalization policy will reduce uncertainty as to which purchases to capitalize. This will allow asset types to be consistently capitalized.

We recommended the Town implement a written capitalization policy and have it formally approved by the Board of Selectmen.

Status – No significant change from the prior year. We continue to recommend that a disaster recovery plan be documented.

Cash Maintenance Procedures

Comment

The Town currently uses QuickBooks to reconcile the Treasurer/Collector's cashbook to the bank statements on a monthly basis. The Treasurer/Collector's Office then reconciles the QuickBooks balances with the MUNIS general ledger system. The reconciliation between QuickBooks and MUNIS is made up of multiple pages of reconciling items dating back two years and consists of entries that need to be made in both MUNIS and QuickBooks.

As part of the reconciliation process, it is imperative that variances be identified and corrected timely. Carrying old reconciling items for several periods increases the Town's risk of inaccurate financial reporting.

We recommended the Town make timely adjustments for these reconciling items. The Town could also consider alternative software for maintaining cash that will easily facilitate the adjustments needed for reconciling items. MUNIS has a cash module for the Treasurer/Collector function that would allow the Treasurer/Collector to maintain bank accounts within the system. The Treasurer/Collector's balances would be readily available to be reconciled and any adjustments can be made directly within MUNIS.

Status – Resolved.

Current Year Comments

Improve Controls over Performance Bond Deposits

Comment

The Town does not have a process to formally reconcile the Treasurer's performance bond balances to the Town's general ledger balances. This would provide additional checks and balances and should simplify the year-end reconciliation process. The deposits are put in escrow accounts that must be returned to the original owners upon satisfactory completion of each individual project. A listing of performance bonds is maintained by the Treasurer but the fiscal 2014 activity was not recorded on the general ledger.

Recommendation

We recommend that the performance bond deposits are reconciled between the Treasurer's book balances and the general ledger balances on a monthly basis.

Student Activity Cash Reconciliations

Comment

The Student Activity checking account is reviewed and reconciled by the Principal on a monthly basis. While auditing the reconciliation, we noted that the reconciling item of outstanding checks did not match the provided outstanding check listing with a variance of approximately \$2,000. As part of the reconciliation process, it is imperative that variances be identified and corrected timely. Carrying unreconciled balances increases the Town's risk of inaccurate financial reporting.

Recommendation

We recommended the Town research reconciling items related to the Student Activity checking account and properly identify them.

Informational Comments

Future Government Accounting Standards Board (GASB) Statements for Pensions and OPEB

Comment

The GASB has issued new pronouncements that will significantly affect the accounting and reporting requirements for Pensions and Other Postemployment Benefits (OPEB). These new standards will start to phase in during fiscal year 2014 and will substantially impact your financial statements and will also affect the requirements for accumulating the necessary data to meet the reporting requirements.

The new standards that have been issued and their effective dates are as follows:

- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015.

The GASB is expected to issue additional standards following #67 & #68 for Pensions, which will similarly affect accounting and financial reporting for OPEB Plans. The GASB is encouraging earlier application of these standards. To briefly summarize these new standards –

- GASB #67 and #68 will substantially change the reporting for pension liabilities and expenses. Changes in pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on the nature of the changes. Substantial changes to methods and assumptions used to determine actuarial information for GAAP reporting purposes will be required. Current actuarial methods may continue to be used to determine funding amounts. Employers will report in their financial statements a net pension liability (asset) determined annually as of the fiscal year end. Net pension liability (asset) equals the total pension liability for the plan net of the plan net position. Pension liability is the actuarial present value of projected benefits attributed to past service, and plan net position is the accumulated plan assets net of any financial statement liabilities of the plan.

The Town should expect to record significant pension and OPEB liabilities in the future.

Recommendation

We recommend that management begin to study and evaluate these changes for financial statement reporting and disclosure purposes, and to formulate plans to meet with your actuaries and financial advisers as more information becomes available. You may also want to consider how and when this information should be communicated to your constituents and other financial statement users.

Reserve Fund for Future Payment of Compensated Absences

Comment

Effective July 3, 2012, Chapter 40, Section 13D, provides a Town, town, or school district with the ability to establish a reserve fund for the future payment of accrued liabilities for compensated absences due any employee or full-time officer upon termination of employment.

At June 30, 2014, the Town's estimate of this liability totaled approximately \$2.4 million.

Recommendation

The Town should consider accepting the provisions of this section with the goal of incrementally funding this significant liability.