

***TOWN OF TEWKSBURY, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2012***

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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 fiscal year ended June 30, 2012, 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.

However, during our audit we became aware of several 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.

A handwritten signature in black ink that reads "Powers &amp; Sullivan, LLC". The signature is written in a cursive, flowing style.

April 29, 2013

TOWN OF TEWKSBURY, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2012

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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 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 – No significant change from the prior year. We continue to recommend that management conduct and document a fraud risk assessment.

## **DEVELOP WRITTEN DISASTER RECOVERY PROCEDURES**

### 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.

## **TURNOVERS TO THE TREASURER**

### Comment

We noted that checks received for High School Athletic User Fees were not turned over in a timely manner, with some of the checks being several months old. The danger in this system is that:

- o Proper facilities to protect cash and checks from theft or loss do not exist and;
- o Delays in depositing checks often results in additional work related to the processing and accounting for insufficient fund checks.

We recommended that the School Department make turnovers to the Treasurer at least once per week.

Status - No similar instances were noted during the current year audit. Deposits were made on a more consistent and timelier basis.

## **SCHOOL DEPARTMENT COMPENSATED ABSENCES**

### Comment

Each year we audit the compensated absence liability reported by the Town. This liability consists of the sick and vacation time the Town would pay to an employee upon termination. In auditing the calculation of this accrual, we noted that the information provided by the School Department is normally difficult to obtain, has delayed the completion of the audit, involves a semi-manual process that is reported in an excel format, and can only be prepared by one individual.

These balances are not only essential in the preparation of the Town's basic financials statements, but they are essential in attendance control as well.

We recommended the School Department automate the calculation of employee's sick and vacation balances. The system should calculate available sick and vacation balances for each employee on a contemporaneous basis; and should include both the daily wage rates and the buy-back provisions as well.

Status - The compensated absence file was received from the school during the first week of the audit. This comment is considered resolved.

## **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 - No significant change from the prior year. We continue to recommend that a review and assessment of MUNIS user profiles be performed.

## **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 June 30, 2012, will have to be obtained in order for the Town to remain compliant with GASB Statement #45 for fiscal years of 2012 and 2013.

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 fiscal year 2012 audit.

Status – An updated actuarial was obtained for the fiscal 2012 audit.

## **FIXED ASSETS**

### Comment

To comply with the reporting requirements of GASB Statement #34, the Town compiled a historical cost listing of all assets owned by the various departments of the Town. Maintaining this list requires the Town to account for additions, deletions, disposals and transfers of fixed assets. Since the initial fixed asset inventory, the Town has continued to maintain this schedule by annually accounting for significant additions to capital assets, but has not implemented procedures to account for all capital asset additions, deletions, disposals or transfers. In order to continue to meet reporting requirements, the Town will need to maintain a fixed asset sub-system to track all additions, disposals and depreciation of capital assets on an ongoing basis.

We recommended management implement policies and procedures to ensure the proper accounting for capital assets and that the Town maintains a fixed asset management sub-system to account for all capital assets and to ensure proper financial reporting.

Status – Subsequent to year end The Town implemented a fixed assets system called Asset Aide project. This comment will be resolved in fiscal 2013.

## ***Current Year Comments***

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

### Current 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 2013 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 #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is required to be implemented in fiscal year 2013.
- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.
- 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 #63 and GASB #65 will require reporting each of the financial position elements in a separate section in the statements of financial position. These elements are Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position; where assets + deferred inflows – liabilities – deferred inflows = net position. These new requirements will affect certain aspects of the financial statements currently and they will pave the way for the new reporting requirements of the new Pension and OPEB 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 city, 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, 2012, the Town's estimate of this liability totaled \$2,363,200.

### Recommendation

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