

NORTH ATTLEBOROUGH ELECTRIC DEPARTMENT

MANAGEMENT LETTER

DECEMBER 31, 2014



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To the Board of Electric Commissioners and Management
North Attleborough Electric Department

In planning and performing our audit of the financial statements of the business-type activities of the North Attleborough Electric Department (the "Department") as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances 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 *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 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.

Our consideration of the internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

May 1, 2015

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DISASTER RECOVERY

Comment

In December 2012, the Department experienced a sudden loss of key information technology hardware that had a severe and multiday effect on daily operations of the Department. After completing necessary repairs to the hardware infrastructure, the Department commissioned a consultant to produce a management review of the hardware failure incident. The contents of the report indicated that the failure was not foreseeable and that given the nature of the incident, and the number of responding vendors involved, that the Departments response appeared to be adequate.

The management review discussed other matters that, if addressed by the Department in advance, may have resulted in a hardware failure event that was not as severe as what had occurred.

Recommendation

We recommend that the Department embrace the recommendations noted in the consultant's report on the failure incident. Specifically, the Department will need to prioritize all existing disaster recovery policies and procedures to align with current technologies and industry norms. Any policy and procedure document is a "living" document and will need to be updated continually.

Management's Response

As noted in its response to an analogous comment last year, management concurs with the importance of instituting a "disaster recovery" program. The Department is now in the process, via testing, of implementing a "disaster recovery" plan. Management anticipates a completion of this effort to occur by the end of the second quarter of 2015.

INFORMATIONAL COMMENT

FUTURE GOVERNMENT ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS FOR PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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 are effective for the year ending December 31, 2015 with respect to Pensions and for the year ending December 31, 2018 with respect to Other Postemployment Benefits. The OPEB Standards are currently in draft form and are expected to be issued in June 2015.

The new standards that have been issued are as follows:

- The GASB issued Statement #67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*.

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 Department 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. Management will want to give consideration as to how and when this information will be communicated to your constituents and other financial statement users.