

NORTH ATTLEBOROUGH ELECTRIC DEPARTMENT

MANAGEMENT LETTER

DECEMBER 31, 2013



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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 year ended December 31, 2013, 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 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Department 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 North Attleborough Electric Department, and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan, LLC

June 13, 2014

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CONTINUING COMMENTS

REVIEW THE ROLES AND RESPONSIBILITIES OF THE BUSINESS DIVISION

Comment

During our audits we've become aware of the need for management to review and to potentially develop the necessary organizational support and capacity required to ensure that NAED can effectively address any prolonged absence of the Business Division Manager or any other key employee whose prolonged absence would impact the fiscal operations of NAED.

Recommendation

In order to improve internal controls and operational efficiency we recommend that management develop an organizational strategic plan relative to NAED's fiscal operations that specifically addresses staff functions and responsibilities. Such a "plan" should include recommendations relative to operational and fiscal operations, as well as employee training and management expectations. The development of such a "plan" will provide guidance to NAED management as to how NAED, in the potential future prolonged absence of any of the department's fiscal staff, can meet its on-going financial and reporting requirements to end users.

Status – During 2012 the Department assessed procedures and processes used within the financial reporting framework to determine to how to make the workload distribution more efficient while allowing for accountability across the entire Business Division. During 2013 the Department continued to be hindered by unavoidable absences of the Business Division Manager. Assignments and responsibilities have been realigned to make the best of this situation; however it has been difficult to manage this situation and not all financial reporting deadlines are being met on a regular basis.

Management Response

Management agrees with this recommendation. During the past two years managements' efforts to enhance the operational efficiencies of the division were challenged by the absences of personnel. However, management believes that improvements have been made in the department's fiscal operations particularly in the area of clarifying the role, expectations and responsibilities of the position of NAED's General Accountant.

Management's plan to continue addressing these matters include adding a new staff position to the Department, re-establishing realistic deadlines and evaluation procedures for monitoring these, and continued automation of processes to assist in achieving these goals.

CUSTOMER SERVICE OPERATIONS REVIEW

Comment

In February 2013 a consultant delivered the final report relating to an operational review of the Customer Services Division. The report contains various recommendations relating to: 1) Customer Service, 2) Collections, 3) Billing, 4) Information Systems Division, and 5) Metering. The report also contained a priority listing of critical items necessary to be implemented in order to bring efficiencies and the modernization of Division procedures.

Recommendation

We understand that management has embraced the contents of the report and desires to implement the recommendations as soon as practical. We recommend that a plan be developed to prioritize and provide

funding where necessary to implement the recommendations made.

Management Response

Management agrees with this recommendation. Management has reviewed the cited report both internally and with NAED's customer service personnel. Management has implemented the recommendations deemed to be critical to the Department's operations and continues to work on the other recommendations at the departmental level.

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 Response

Management agrees with this recommendation. Although the events cited in the auditor's comments were determined by the consultant to be "...extraordinary and highly unlikely..." NAED has acted to address recommendations presented by the consultant. Further, NAED has instituted a review of its IT "in-house" operation and services. Said review includes assessing and making recommendations relative to departmental equipment, infrastructure design and internal practices. The Department has also commenced an update of its internal "Disaster Recovery Plan" which currently includes the utilization of Cloud Technology for off-site housing and storage of critical programs and data.

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 will start to phase in during fiscal year 2013 with full implementation being required for the year ending December 31, 2014.

The new standards that have been issued are as follows:

- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*.
- 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*.

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 outflows – 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 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.

Management Response

Management agrees with this recommendation. Management will continue its current on-going efforts to better understand, and become educated relative to these GASB standards. Management will also work with the North Attleborough Retirement Board to ensure that the necessary actuarial valuations are available on a timely basis.