

***TOWN OF NORTH ANDOVER, MASSACHUSETTS***

***MANAGEMENT LETTER***

***JUNE 30, 2009***



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To the Honorable Board of Selectmen  
Town of North Andover, 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 North Andover, Massachusetts' (the Town) as of and for the year ended June 30, 2009, 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.

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 financial statements 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 other matters that are opportunities for strengthening internal controls and enhancing operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

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

The Town's written response to the matters identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

November 30, 2009

**TOWN OF NORTH ANDOVER, MASSACHUSETTS**

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# ***Prior Year Comments and Recommendations***

## **Preschool Revolving Funds**

### Prior Year Comment

The prior year management letter indicated that it did not appear that expenditures were being properly allocated to the Pre-school program and that it did not appear that the fee structure was designed to recover the cost of the program. It was recommended that policies and procedures be implemented to ensure that all expenditures of the preschool program (direct and indirect) are properly recorded and allocated to the preschool revolving fund. Additionally, it was recommended that the preschool program's fee structure be designed to recover all program costs (direct and indirect).

Current Status – Partially Resolved. Policies and procedures were implemented to ensure that all direct and indirect program costs are charged to the revolving fund. However, the fiscal 2009 activity resulted in a net loss of \$35,224 and resulted in a fund balance deficit totaling \$5,988.

### Recommendation

We recommend that the preschool program's fee structure be designed to recover all program costs (direct and indirect).

### Management's Response

With the increase in enrollment for the 2009-2010 school year, expenses including the deficit will be covered, and as we move forward, tuition will be increased to offset any increases in expenses.

## **Student Activity Funds**

### Prior Year Comment

The prior year management letter identified that there were no procedures in place to reconcile the total individual student activity fund balances (maintained in CAP software) to the balances recorded in the general ledger. Performance of this reconciliation provides assurance that the student activity balances are properly recorded. It was also noted that the reconciliation of the total individual student activity fund balances to the book balances of the student activity fund checking and agency bank accounts contained an unknown variance of \$2,729. It was recommended that procedures be implemented to reconcile the total individual student activity fund balances (as maintained in CAP software) to the Town's general ledger balances at the end of each month. It was also recommended that procedures be implemented to investigate and resolve all variances no later than 30 days after the end of each month.

Current Status – Resolved. Monthly student activity reports are provided to the Treasurer/Collector and Town Accountant by the School Department. Procedures are in place to reconcile the bank balances to the general ledger balance and to reconcile the general ledger balance to the School Department's balances.

## **Treasurer/Collector's Office – Vendor Bank Account Reconciliation**

### Prior Year Comment

The prior year management letter identified that the vendor account's bank to book reconciliation included amounts that had not been investigated and/or resolved timely. The amounts totaled approximately \$4,000. It was recommended that procedures be implemented that require investigation and resolution of reconciling items within 30 days of the end of the previous month.

Current Status – *Resolved*. Procedures have been implemented to investigate and resolve reconciling items on a timely basis.

## **Treasurer/Collector's Office – Old Outstanding Checks**

### Prior Year Comment

The prior year management letter identified that the vendor and payroll outstanding checklists included many checks greater than three (3) months old totaling approximately \$93,000. Typically, checks greater than three (3) months old reflect checks that have been void, lost, misplaced or stolen. There is currently no process/procedure in place to investigate and resolve the status of these checks. It was recommended that the Treasurer/Collector implement monthly procedures to investigate and resolve outstanding checks greater than three (3) months old. To do so, the stale checks should be reclassified to tailings and removed from the outstanding check lists. For all uncashed checks greater than three years old, the Treasurer/Collector should follow the Massachusetts abandoned property law (MGL Chapter 200A, Section 9A) to bring them back into fund balance as miscellaneous revenue.

Current Status – *Partially Resolved*. The Treasurer/Collector indicated that a procedure has been put in place to notify individuals of uncashed checks via phone call. However, the uncashed checks have not been moved to tailings and procedures have not been implemented to bring the uncashed checks back into fund balance.

### Management's Response

The total outstanding checks equal \$23,503. We have stopped payment and reissued \$9,658.79. The remaining checks are in various stages of being resolved. This resolution process which is in conformity with MGL CH200A will be completed by May 1, 2010.

## **Payroll Testing**

### Prior Year Comment

The prior year management letter identified instances where employee timesheets were not signed by the supervisor or the employee. It was recommended that procedures be implemented to ensure that timesheets are signed by the appropriate parties.

Current Status – In our testing we noted no instances in which payroll was not signed off and authorized by a supervisor.

However, we did note that the policies and procedures for school and non-school payroll are not the same. Non-school employees, whether salaried or hourly, are required to complete and submit a signed time sheet. We noted no signed time sheets for any full-time or part-time school employees.

### Recommendation

We recommend that payroll processing procedures be the same for all departments of the Town. We also, recommend that, at a minimum, all hourly/part-time employees prepare an individual time sheet/cost allocation sheet for each payroll period.

## **Board of Health**

### Prior Year Comment

The prior year management letter identified that there was no formal policy and procedures manual detailing the various aspects of the Department's activities. It was recommended that the Department prepare a formal, detailed financial policies and procedures manual for the Department's activities.

Current Status – *Resolved*. We were provided with a formal policy manual detailing the various activities of the Department.

## **Performance Bonds**

### Prior Year Comment

The prior year management letter identified that the Treasurer/Collector maintains performance bond deposits, totaling approximately \$3,800,000, for various Highway Department, Planning Board and Conservation Commission purposes. These deposits are escrow accounts that must be returned to the original owners upon satisfactory completion of each individual project.

It was noted that no procedures were in place to reconcile the outstanding balances of the deposits between the records maintained by the Town Accountant (general ledger), Treasurer/Collector and the appropriate departments. Additionally, although the Treasurer/Collector provides a list of these deposits to the appropriate departments, there is no confirmation/response from the department that indicates that the balances agree to the departments' records. The lack of performing these reconciliation procedures increases the likelihood that irregularities and/or errors could occur and not be detected and corrected timely.

The following recommendations were made to address the comments:

- Recommendation – That the Town implement procedures to reconcile the outstanding balance of performance bond deposits between the Town Accountant (general ledger), Treasurer/Collector and originating departments quarterly (at a minimum).

Current Status – *Partially Resolved*. The Treasurer/Collector reconciles the bank balances to the general ledger on a monthly basis. The Treasurer/Collector also maintains spreadsheets detailing all of the security deposits in the Town's possession. There are currently no procedures in place to reconcile the spreadsheets to the bank balances.

- Recommendation – That the applicable department head sign off and return a copy of the reconciliation to the Treasurer/Collector.

Current Status – *Unresolved*. We were not provided with documentation indicating that this procedure had been completed.

- Recommendation – That the Treasurer/Collector closes the individual passbooks and includes the deposits as part of the master trust account already established and maintained by the Treasurer/Collector.

Current Status – *Unresolved*. The Treasurer/Collector is not an authorized signer on the passbooks and therefore was unable to close the old passbooks and deposit them into the master trust account.

#### Management's Response

There are two reconciliations that must take place to address this finding. The first reconciliation is between the department (Planning, Conservation, Zoning Board and Public Works) records and the current bond balance recorded by the Treasurer/Collector. This reconciliation has and continues to take place. The second reconciliation is between the current bond balance and the bank statement to record interest earnings. This reconciliation is currently on going and is expected to be completed by February 15, 2010.

The pass book bonds, which have not been accepted since 1993, are in both the name of the person or organization posting the bond and the Town of North Andover necessitating approval by both parties to transfer them into the master trust account. The Treasurer/Collector will attempt to contact the person or organization to determine if they will authorize the transfer.

Apart from the accounting, management will design processes and procedures to either return outstanding balances to the person or organization posting the bond or to take the necessary steps to foreclose on the bond and complete, to the extent possible, the outstanding work.

## **Special Education Program – Form I-9 Employment Verification**

### Prior Year Comment

The prior year management letter identified that the School Department was not maintaining Form I-9 Employment Verification Forms for all of its employees that work on the Special Education program. It was recommended that the School Department implement procedures to ensure that Form I-9 Employment Eligibility Verification Forms are maintained for all employees.

Current Status – *Resolved*. No similar matters were noted in the current year audit.

## **Risk Assessment and Monitoring**

### Prior Year Comment

The prior year management letter recommended that the Town implement an ongoing internal program that provides for examining departmental internal controls, including the reporting of financial activity and the collection of cash at department levels, and for evaluating its risk and exposures to instances of fraud.

Current Status – *Unresolved*. No significant action was taken to resolve this comment.

### Management's Response

Management is working on developing and implementing an overall risk assessment program, which is expected to be reviewed by the Audit Committee.

## **Financial Policies and Procedures Manual**

### Prior Year Comment

The prior year management letter indicated that the preparation of a formal policy and procedures manual would improve and standardize the Town's financial policies and procedures. It was recommended that management develop and implement a formal financial policies and procedures manual.

Current Status – *Partially Resolved*. We were provided with a financial policy that was adopted by the Finance Committee on July 24, 1996. Also, the Town Accountant has completed policy and procedure manuals for payroll, accounts payable, accounts receivable, cash receipts and has also completed a month-end procedure checklist and a year-end procedure checklist. In fiscal 2009, an investment policy was completed and adopted by the Town. The Town Accountant is in the process of consolidating these procedures into a single manual and the Town is still in the process of documenting several other significant financial functions.

### Management's Response

Management, both in general government and the school department, will continue to consolidate and standardize financial policies and procedures.

## **Financial Systems Disaster Recovery Plan**

### Prior Year Comment

The prior year management letter indicated that the Town does not have well-defined, written disaster recovery procedures. 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 IT facilities.

We recommend that management develop a disaster recovery plan that includes, but is not 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.

Current Status – *Unresolved*. A formal disaster recovery plan has not been documented.

### Management's Response

On October 28, 2009, the Director of Information Technology submitted a draft "Information Technology Disaster Recovery Plan" which is currently being reviewed by the Town Manager and the Superintendent of Schools. Once that review is completed the final Recovery Plan will be forwarded to the Town's auditors and incorporated into the Town's overall Continuity of Operations Plan (COOP).

## **New Accounting and Financial Reporting Requirements for Other Post-Employment Benefits (OPEB)**

### Prior Year 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. We recommended that management be proactive in its approach to the successful implementation of GASB Statement No. 45.

Status – *Resolved*. The Town obtained an actuarial valuation and implemented GASB Statement No. 45 in fiscal 2009.

# ***Current Year Comments and Recommendations***

## **Other Post-Employment Benefits Actuarial Valuation**

### Comment

Now that the Town has met the requirements for implementation of GASB Statement No. 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.

This means that an updated actuarial valuation dated July 1, 2010 will have to be obtained in order for the Town to remain compliant with GASB Statement #45, for fiscal years of 2011 and 2012. This is two years after the original July 1, 2008 valuation which can be used for the fiscal years 2009 and 2010 audits.

### Recommendation

We recommend that 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 2011 audit.

### Management's Response

Management has already received a quote from a consultant to prepare updated actuarial valuations as of July 2010 in order to remain in compliance with the GASB Statement No. 45, for fiscal years 2011 and 2012, which is two years after the original July 1, 2008 valuation which is being used for the 2009 and 2010 audit years.

## **Integration of Accounts Receivable Software**

### Comment

We believe that the Town should eliminate the use of a stand-alone accounts receivable system and shift toward an integrated system. An integrated system would eliminate redundant processing and improve the Town's access to information. An integrated system would mean that customer payments would only be keyed into a system once. Analysis and other reviews could be performed online by the appropriate levels of management based on real-time data entry. Additionally, integrated systems would allow security features to ensure that only authorized personnel would be allowed to enter, modify, or change data. Other approved users would have the ability to look up data but not to originate or change it.

### Recommendation

We recommend that the Town perform a review of the accounting system and implement this recommendation to obtain a streamlined system capable of generating data on a timely basis.

### Management's Response

The Treasurer has obtained a quote from Unifund for them to install Revenue Sense, software that will work seamlessly with Budget Sense. The quote has been entered into the Capital Improvement Plan online program pending approval.