

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

***MANAGEMENT LETTER***

***JUNE 30, 2010***



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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, 2010, 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 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 the 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.

Our consideration of 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. 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 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 of the Town of North Andover, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

The Town's of North Andover'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.

January 26, 2011

**TOWN OF NORTH ANDOVER, MASSACHUSETTS**

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# ***PRIOR YEAR COMMENTS***

## **Payroll Timesheets**

### Prior Year Comment

The prior year management letter indicated that the policies and procedures for the school and non-school payroll are not the same. Non-school employees, whether salaried or hourly, are required to submit a signed timesheet. School employees, whether salaried or hourly, are not required to submit signed timesheets. It was recommended that payroll processing procedures be the same for all Town departments and that, at a minimum, all hourly/part-time employees prepare an individual time sheet/cost allocation sheet for each payroll period.

### Current Status

The school department has implemented procedures requiring time sheets to be maintained for all hourly/part-time school employees. Administrators at each location are required to confirm each employee's time and attendance. The school is also exploring the implementation of an electronic time sheet that would be utilized by all employees and would standardize time and attendance reporting at all locations.

## **IT 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.

### Current Status

The Town has developed an IT disaster recovery plan.

## **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

All program expenditures (direct and indirect) are still not being charged to the preschool revolving fund.

Revenues increased by approximately \$50,000 from the prior year.

### Continuing Recommendation

We continue to recommend that all program expenditures (direct and indirect) be identified and charged to the preschool revolving fund.

Once this occurs, we also recommend that the fee structure be reviewed to assure it is sufficient to recover all costs associated with the program.

### Management's Response

A reconciliation will be done by the Business Manager and Accounts Supervisor prior to the end-of-year close out to ensure all direct and indirect preschool program expenditures are being identified and charged to the preschool revolving fund. In addition, the fee structure is reviewed by the School Committee each year to ensure it is sufficient to recover all costs associated with the program.

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

### Prior Year Comment

The prior year management letter indicated that the vendor and payroll outstanding checklists included many checks greater than three (3) months old. Typically, checks greater than three (3) months old reflect checks that have been void, lost, misplaced or stolen. 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

The Treasurer has developed policies and procedures to resolve uncashed checks in accordance with MGL Chapter 200A, Section 9A and has made significant progress in resolving the majority of the old checks. As of June 30, 2010, outstanding checks greater than three months old totaled approximately \$8,600. However, a procedure has not been implemented that requires uncashed checks to be moved into the tailings account pending resolution. Reclassifying the uncashed checks to the tailings account is important because the reissuance of the checks becomes subject to the Town's internal controls.

### Continuing Recommendation

We recommend that the Treasurer/Collector develop policies and procedures that require outstanding checks greater than three months old to be removed from the outstanding check lists and to be reclassified to the Town's tailings account.

### Management's Response

The Treasurer/Collector has submitted a listing of outstanding checks greater than three months old to the Town Accountant to be add to the tailings account and will continue to on a quarterly basis.

## **Performance Bonds**

### Prior Year Comment

The prior year management letter identified that the Treasurer/Collector maintains performance bond deposits, totaling approximately \$3,700,000, as of June 30, 2010, 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 Treasurer/Collector and the appropriate departments. We also indicated that the Treasurer/Collector provides a list of these deposits to the appropriate departments; however there was no confirmation/response from the department indicating that the balances agree/do not 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.

### Current Status

The Treasurer/Collector and the Highway department have reconciled the Highway department performance bonds to the detailed records of the Highway department and the Highway department has signed-off on the balances. The Treasurer/Collector has also reconciled the detailed records to the bank balances.

The Treasurer/Collector and the Planning department have reconciled the Planning department performance bonds to the detailed records of the Planning department and the Planning department has signed-off on the balances. The Treasurer/Collector is still in the process of reconciling the detailed records to the bank balances.

The Treasurer/Collector and the Conservation Commission have reconciled approximately 500 out of the 800 performance bonds to the detailed records of the Conservation Commission. The Treasurer/Collector is still in the process of reconciling the detailed records to the bank balances.

### Continuing Recommendation

We continue to recommend that the Treasurer/Collector complete the reconciliation between the detailed records for the Planning department and the Conservation Commission bank balances.

We also recommend that the Treasurer/Collector and the Conservation Commission complete the reconciliation between the Treasurer's balances and the detailed records of the Conservation Commission.

Management's Response

The Treasurer's office has been working on reconciling the performance bonds and escrows accounts on an on going basis. The status as of September 30, 2010 is outlined on the table below:

	<b># of Active Accounts</b>	<b>Reconciled to Bank</b>	<b>Reconciled to Dept</b>
Highway Bonds	72	Yes	Yes
Conservation Bonds	209	No	Yes
Conservation Escrows	36	No	Yes
Planning Bonds	139	No	No
Planning Escrows	102	Yes	No

During fiscal 2011, the Treasurer's office will complete the reconciliation of the planning and conservation bonds bank balance to the detail and ensure reconciliations are conducted on a monthly basis there after.

**Fraud 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

Management has hired an outside consultant who is currently in the process of developing an overall fraud risk assessment program. Once developed, the program is expected to be reviewed by the Audit Committee and fully implemented.

Continuing Recommendation

We recommend that the Town continue to work with the outside consultant in developing and fully implementing a fraud risk assessment program.

Management's Response

A fraud risk assessment grid was prepared and given to an outside consultant to complete a review and provide findings and recommendations. The consultant conducted meetings with all of the departments. Following the interviews the consultant has provided us with a draft report which is currently under review after which we will move to develop a plan to implement the recommendations.

## **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

An accounting policies and procedures manual was completed in fiscal 2010. The Treasurer/Collector has completed an investment policy and procedures have been documented to resolve uncashed checks. However, the Treasurer/Collector is still in the process of documenting various Treasury and Collection policies and procedures.

### Continuing Recommendation

We continue to recommend that the Treasurer/Collector complete the development of a formal policies and procedures manual for the Treasury and Collection functions and that all policies and procedures be reviewed periodically.

### Management's Response

Currently the Treasurer Collector has established the following policies and procedures:

- Investment Policy
- Cash Reconciliation Procedure
- Quarterly Report Check List

During fiscal 2011, the Treasurer/Collectors office will complete these additional policies and procedures:

- Performance Bond reconciliation process
- General Receipt Posting
- Abatement/Refund Processing
- MLC Requests
- And others as time and resources allow

## **Integration of Accounts Receivable Software**

### Prior Year Comment

In the prior year, we indicated 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. We recommended that the Town perform a review of the accounting system and implement a streamlined system capable of generating data on a timely basis.

### Current Status

An appropriation was approved, at the May, 2010 Annual Town Meeting, for the Town to install Unifund's Revenue Sense software, which is designed to integrate with Budget Sense. The Town plan's to implement this software on July 1, 2012, which is a year later than originally planned. The delay is due to the Vendor being unable to implement the system prior to July 1, 2012.

### Continuing Recommendation

We continue to recommend that the Town implement an integrated accounts receivable software solution.

### Management's Response

The Treasurer's office will implement integrated accounts receivable software July 1, 2012 provided that the software company can follow through on its scheduled time commitment.

# ***CURRENT YEAR COMMENTS***

## **Other Postemployment Benefits Actuarial Valuation**

### 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.

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 was valid for the fiscal 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

The Town signed an engagement letter with the company Nyhart to complete the fiscal year 2011 actuarial update; work will be performed and completed prior to June 30, 2011.

## **Government Accounting Standards Board (GASB) Statement #54**

### Comment

In February 2009, the GASB issued Statement #54, *Fund Balance Reporting and Government Fund Type Definitions*, which is required to be implemented in fiscal year 2011. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents

the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund types, capital projects fund types, and permanent fund types are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

#### Recommendation

As it appears that this GASB Statement will significantly impact the fund balance classifications presently reported, we recommend that management begin to study and evaluate these changes for financial statement reporting and disclosure purposes, and to formulate plans to be used in explaining these changes to interested parties within the Town and to the external users of the Town's financial statements.

#### Management's Response

We will comply with the recommendations for the FY11 Management Report.

### **Audit of Student Activity Funds**

#### Comment

The Massachusetts Association of School Business Officials (MASBO) published a student activity accounts manual, in May of 2007, to assist school districts with the operation and management of student activity accounts under the provisions of Massachusetts General Law (MGL), Chapter 71, Section 47, as amended by Chapter 66 of the Acts of 1996. To comply with the MGL, the MASBO recommends that annual audits of the student activity funds be performed. The audit may be an internal audit conducted by the school business administrator, if so approved by the School Committee. However, at least one time every three years, the audit should be performed by an independent audit firm.

#### Recommendation

We recommend that the Town implement policies and procedures to comply with the MASBO recommendation.

### Management's Response

A policy will be drafted and presented to the North Andover School Committee for approval no later than February 2011, that would require the School Business Administrator and the School Accounts Supervisor to conduct an annual audit of Student Activity Accounts and to have an independent audit firm conduct an audit of the Student Activity Funds every three years, beginning in 2011. This will bring the North Andover School Department in compliance with MGL, Chapter 71, and Section 47, as amended by Chapter 66 of the Acts of 1996.

### **Conduct a Periodic Inventory of Fixed Assets**

#### Comment

The Town has a significant investment in property and equipment items and we recommend that controls be strengthened in this area. The Town's Charter requires annual physical counts of such property and equipment and we noted that the physical counts are not being performed in accordance with the Charter. We believe that annual physical counts will assist in planning for capital expenditures, help determine accurate amounts and values of insurable assets, and will help detect the loss or unauthorized use of valuable Town property.

#### Recommendation

We recommend that the Town adhere to the provision in the Charter requiring annual physical counts of property, especially removable equipment items, and compare the physical counts to the detailed fixed asset subsidiary ledger.

#### Management's Response

The Town currently maintains fixed asset records on all capital assets consistent with GASB34. The IT Department maintains inventory of all technology equipment i.e. printers, computer. In addition the Town maintains an inventory of all registered motor vehicles as required by the Town's insurance carrier.

Moving forward a policy will be developed that will define other types of assets to be included with the inventory. In developing the inventory policy a balance must be found between the value of the assets being protected and the cost of that protection. Once a policy has been approved, an inventory control system will be put in place to comply with that policy. The IT department is currently conducting research on an asset management program that will meet the needs for the town and school. IT will recommend implementation by the end of the fiscal year.

A review of other municipalities inventory/fixed assets system indicates that North Andover would be in the minority with establishing record keeping policies beyond what is currently required by GASB 34.

## **Consider Online Payments for Real Estate, Excise Tax, and Other Revenues**

### Comment

A recent trend among many municipalities is to offer its citizens the opportunity to make payments of taxes and other charges online via the internet. It is our understanding that the Town is considering to offer such an option.

Such systems allow bill payers to electronically access and pay their bills online. Often, payments can be made using an electronic check or a major credit card. Revenues that can be collected using an online system include real estate tax, personal property tax, motor vehicle excise tax, water sewer, parking tickets, school fees, lunch prepayments, park and recreation and building permits.

### Recommendation

We support the Town's initiative to automate its revenue collection procedures and recommend that all revenue sources be evaluated and considered when implementing this new system.

### Management's Response

The Town has awarded a contract for "payment on line services", and will be implementing the Real Estate on line payment by May 1<sup>st</sup> followed by Motor Vehicle Excise. Other payment options will be added at a later date.