

Town of Newmarket  
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3/30/09

Town of Newmarket  
Town Council/Municipal Audit Committee:

Attached please find a copy of the audited financial statements and management letter for the fiscal year ended 6/30/08.

After reviewing the attached statement and management letter you will see that the town has come a long way in a short period of time.

Last year (6/30/07) the town was faced with a management letter that listed 12 audit recommendations. Of these 12 items 4 were listed as a "Material Weakness" and 2 were listed as a "Significant Deficiency".

This year (6/30/08) you are presented with a management letter that has 3 items on it and no "Material Weaknesses" or "Significant Deficiencies". One of these items has been corrected entirely and the other two will be corrected in the near future.

In addition, the town has increased the available fund balance to the level of 16% which complies with the Fund Balance Policy that was approved by the Town Council earlier this year. This means that all future surplus that is in excess of the 16% level can be used to reduce the tax rate. This also has put the town in a strong financial position which will allow favorable bond interest rates (if needed) and should provide sufficient funds on hand to eliminate short term borrowing commonly known as Tax Anticipation Notes.

Please review the attached statements and let me know if you have any questions. Matt Angell from Melanson and Heath has agreed to meet to review these statements with you and the Municipal Audit Committee.

Regards,



Donald J. Parnell  
Finance Director

**TOWN OF NEWMARKET, NEW HAMPSHIRE**

**Management Letter**

**For the Year Ended June 30, 2008**

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To the Town Council  
Town of Newmarket, New Hampshire

In planning and performing our audit of the financial statements of the Town of Newmarket, New Hampshire, as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's of Newmarket's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 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 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.

*Additional Offices*

*Andover, MA • Greenfield, MA • Ellsworth, ME • Manchester, NH*

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

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

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

*Melanson, Heath + Company P.C.*

Nashua, New Hampshire  
March 17, 2009

## **OPENING REMARKS:**

We would like to commend the Town for making improvements in the internal control processes in various departments and in its efforts to resolve most prior year management letter comments. Specifically, the following prior year recommendations were resolved or substantially resolved as of the time of our fiscal year 2008 audit fieldwork:

- Improve Cash Reconciliation Procedures
- Improve Controls Over Town Credit Cards
- Develop Departmental Receipt Policies and Procedures
- Comply With IRS Employee vs. Independent Contractor Requirements
- Formalize Fraud Policy and Periodically Discuss Fraud Prevention With Employees
- Investigate Health Fund Deficit
- Prepare Proof of Budget
- Re-Sort Trustees of Trust Fund Report
- Implement Internal Control Improvements Over Preparation of Financial Statements
- Document Components of Internal Control
- Establish Internal Audit Function

The following section summarizes other prior year recommendations that have not yet been fully implemented.

## **PRIOR YEAR RECOMMENDATIONS:**

### **1. Establish Formal General Ledger Reconciliation Procedures**

#### Prior Year Issue:

In the prior year we recommended the Town establish formal general ledger reconciling procedures over cash, receivables, due from/to accounts, withholdings, and interfund transfer accounts.

#### Current Year Status:

The 2008 general ledger was significantly improved over the prior year. Most accounts were properly balanced, however, interfund transfer and withholding accounts were not reconciled.

Further Action Required:

We again recommend the Town continue to improve the overall general ledger reconciliation process by specifically reconciling withholding and interfund transfer accounts.

Town's Response:

We have already implemented a reconciliation procedure for interfund and withholding accounts beginning in February 2009. These accounts were reconciled and forwarded to Melanson & Heath for review and approval.

**2. Follow or Revise Purchasing Policy**

Prior Year Issue:

In the prior year we recommended the Town either follow or formally revise the existing purchasing policies. This will improve documented oversight and control over Town disbursements.

Current Year Status:

In our testing of disbursements we noted one purchase for \$ 16,000 which was not formally bid as required.

Further Action Required:

We again recommend the Town take action to assure all purchases follow the required procurement policies.

Town's Response:

The purchase in question was for mosquito control services. The Town of Newmarket has been using the same vendor for several years and as a result has not gone out to bid to other vendors because the permit process for this type of service is cumbersome. The Town Council has been made aware of and approved the use of this vendor. A more formal process will be put in place to account for this type of situation.

**3. Establish Administrative Regulations**

The Town does not maintain formalized regulations to provide departments with documented guidance over certain administrative policies and pro-

cedures. As a result, inconsistencies may exist between departments with respect to such issues.

Prior Year Issue:

In the prior year we recommended the Town develop formal regulations to provide current guidance over administrative policies and procedures including:

- Cell phone use
- Employee incentives/bonus'/rewards
- Use of Town vehicles
- Insurance requirements on personal vehicles used on Town business

Current Year Status:

The Town has not yet formalized policies over these administrative areas.

Further Action Required:

We recommend these policies be formally established and implemented.

Town's Response:

During the remainder of 2009 the Town will work to implement a policy for cell phone use, employee incentives/bonuses/rewards, and insurance requirements on personal vehicles used.

**CURRENT YEAR RECOMMENDATIONS:**

**4. Establish FTC "Red Flag" Security Documentation**

To combat the growing problem of identity theft, the Federal Trade Commission (FTC) issued new "Red Flag" rules that apply to all municipalities that have utility accounts such as water, sewer or electricity. Municipalities have until May 1, 2009, to have written programs to identify, detect, and respond to patterns, practices, or specific activities – known as red flags – that could indicate identity theft. Examples of red flags include alerts, notifications, or warnings from a consumer reporting agency, forged or inconsistent customer identifying information, as well as many other examples described in the FTC rules.