

**TOWN OF NEWMARKET, NEW HAMPSHIRE**

**Management Letter**

**For the Year Ended June 30, 2010**

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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, 2010, 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 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 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 deficiencies, significant deficiencies, or material weaknesses. In addition, because of the inherent limitation in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

*Additional Offices:*

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

During our audit we became aware of matters that we believe represent 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 it with you.

*Melanson, Heath + Company P.C.*

Nashua, New Hampshire  
March 29, 2011

**STATUS OF PRIOR YEAR RECOMMENDATIONS:**

**1. Control Access to Tax Software**

Personnel in the Finance Department currently have access to the Tax Collector's receivable software system. These same individuals also control the Town's general ledger, resulting in a lack of adequate segregation of duties.

We recommend the Finance Department personnel be limited to inquiry, but not posting capability of the tax software. This will improve control over the tax receivable system, and reduce the risk of errors or irregularities occurring and going undetected.

**Town's Response:**

We are continuing to work with Munismart to have software changes made to allow read only access but at this time the only way to reconcile is to have the access that we currently have in order to reconcile cash and accounts receivable. At this point we have not received a date as to when this might be corrected.

**CURRENT YEAR RECOMMENDATIONS:**

**2. Monitor Other Fund Operations**

In fiscal year 2010, the Town's enterprise fund revenues were short of budget estimates as follows:

|            |              |
|------------|--------------|
| Water fund | \$ (357,000) |
| Sewer fund | (107,000)    |

These shortfalls of revenues caused the funds to report net losses on a cash basis of accounting, resulting in a deficit fund balance of \$ (66,000) in the Sewer fund.

We recommend the Town take action to address these revenue shortfalls and to fund the deficit fund balance. This is necessary to reestablish the financial stability of these funds.

**Town's Response:**

These shortfalls were a result of a change in the water and sewer rate structure that was implemented during the year. The Town of Newmarket Water/Sewer department has made changes that should correct this situation.

**3. Establish Plan to Eliminate \$ 1.3M Advance**

Several years ago the Town financed a DPW building construction project using \$ 1,360,000 of general fund money. We understand the intent was that this advance would be repaid, either by a bond issuance or taxation, however, the balance of this advance has not changed for at least the past four years.

We recommend the Town take action to eliminate this advance. If bonding is no longer an option, the advance could be eliminated either by a permanent transfer from the general fund, or by raising portions on the property tax rate over a period of years. This will result in more accurate and meaningful annual financial statements for the Town.

**Town's Response:**

The town will work during the year to explore options to establish a process to eliminate this advance.

**4. Prepare for New Accounting Standard**

Beginning in fiscal year 2011, the Town will need to implement a new accounting standard, called the *Governmental Accounting Standards Board (GASB) Statement 54 – Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes new criteria of special revenue funds, and new classification of governmental fund balances. Certain Town-established funds, such as capital reserve funds, will no longer be reported separately, but instead be reported in the general fund for the year end audited financial statements. In addition, the classifications of reserved, designed and unreserved fund balances will be replaced with new classifications of nonspendable, restricted, committed, assigned, and unassigned fund balances.

We recommend the Town begin planning for the implementation of GASB 54, which includes gaining an understanding of the new requirements, possible chart of accounts revisions, and training to internal users of the audited

financial statements. We could provide the Town with training resources on GASB 54, if requested.

**Town's Response:**

We will work to comply with GASB 54 during the upcoming year.