

TOWN OF NEWMARKET, NEW HAMPSHIRE

Management Letter

For the Year Ended June 30, 2011

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
 <u>CURRENT YEAR RECOMMENDATIONS:</u>	
1. Record Transfers in General Ledger (Material Weakness)	3
2. Reconcile General Ledger (Significant Deficiency)	3
3. Monitor Segregation of Duties (Material Weakness)	4
4. Other Issues	4



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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, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Town'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.

Our consideration of internal control was for the limited purpose described in the preceding 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. In addition, because of inherent limitations 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. Material weaknesses are noted in the table of contents and comment headings.

Additional Offices:

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Significant deficiencies are noted in the table of contents and comment headings.

During our audit we also 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.

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

This communication is intended solely for the information and use of management, the Town Council, 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 19, 2012

CURRENT YEAR RECOMMENDATIONS:

1. Record Transfers in General Ledger (Material Weakness)

Annually the Town budgets to transfer cash between funds for several purposes, including fund subsidies, capital reserve funding and withdrawals, TIF revenues, and capital project funding. For the past two years these transfers were not posted in the general ledger in a timely manner, resulting in inaccurate fund balances reported for various funds in the Town's internal reports. It also delays the timely completion of the annual audit.

We recommend that all actual transfers be posted to the general ledger as soon as budgeted transfers are authorized. This will result in more accurate internal reporting and should help accelerate the year-end audit process.

Town's Response:

The Town agrees with this comment. All FY 2012 transfers have been made with the exception of transfers the Town Council has not approved.

2. Reconcile General Ledger (Significant Deficiency)

Certain accounts in the general ledger, including overlay, impact fees, and encumbrances did not reconcile to supporting documentation at year end. We also noted that not all of the prior year audit adjustments were properly recorded in the general ledger. Sound internal controls include the regular reconciling of all general ledger accounts to supporting documentation on a regular basis, and an agreement of all fund balance amounts to the annual audit.

We recommend the Town record all audit adjustments in the general ledger to ensure consistency in fund balance amounts, and re-establish regular reconciling of all general ledger balances on a monthly basis. This will result in more accurate general ledger balances and should also help accelerate the year-end audit process.

Town's Response:

The Town agrees with this comment. All accounts have been reconciled during FY 2012.

3. Monitor Segregation of Duties (Material Weakness)

During the fiscal year 2012 finance director position vacancy, the finance department has been operating in a short-handed capacity for an extended period, using existing staff to perform additional responsibilities. This increases the risk that an adequate segregation of duties may be compromised, increasing the risk that errors or irregularities could occur and go undetected.

We recommend the Town evaluate the assignment of responsibilities within the finance department to ensure an adequate segregation of duties over the key accounting cycles (vendor disbursements, payroll, receipts, general ledger maintenance, and cash reconciliations) exists. This will help ensure the Town's assets are adequately protected until all vacancies are filled.

Town's Response:

The Town disagrees with this comment. At no time did staff take on additional duties that resulted in a conflict of duties. Additionally, the Town Administrator was appointed finance director during any finance director vacancy.

4. Other Issues

We also noted the following issues, which are described briefly, during our audit. We will be available to discuss these with the Town in more detail.

- Old outstanding checks should be voided, removed from the Town's bank reconciliations, and followed up with the applicable payees.
- No Town department heads, including the Town Administrator, should approve their own expense reimbursements.
- Additional care should be exercised at year end to ensure vendor bills are charged to the appropriate fiscal year.
- Procedures should be established to track capital asset additions and compile related supporting documentation throughout the year.
- All funds should be monitored on a quarterly basis to evaluate reasons for inactivity or excessive/deficit balances.

Town's Response:

The Town partially agrees.

- Old outstanding checks have not been removed from the outstanding check lists. The Town has attempted to contact vendors on the outstanding check list, however, some vendors have not responded. Additionally, the time before the Town can hand over the funds to the state treasurer's abandoned funds has not yet been met.
- The Town Accountant now approves any check request made to the check requester.
- The Town has implemented the purchase order system which should prevent vendor invoices being paid out of the wrong fiscal year budget.
- The Town has procedures to track capital asset additions and to compile supporting documentation.
- The Town will endeavor to track inactive funds for closure.