

Town of Newmarket
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Memorandum

Date: May 2, 2013

To: Town Council

From: Matt Angell, Interim Finance Director *MA*

Re: FY 2012 Management Letter

Councilors,

Attached is a copy of the Town's fiscal year 2012 management letter. The first two pages are standard language that can be found in typical management letters. The substance of the management letter can be found on pages three (3) through six (6), which discuss the status of prior year comments and current year comments. Below is a summary of all of the comments:

Prior year issues:

1. Record transfers in general ledger – This issue has been satisfactorily resolved.
2. Reconcile general ledger – This issue has been satisfactorily resolved.
3. Monitor segregation of duties – This issue has been satisfactorily resolved.
4. Other issues – These issues have been satisfactorily resolved.

Current year issues:

5. Document oversight over journal entries and general ledger – Proper internal control requires a secondary approval of transactions that are being recorded in the general ledger. Historically, approval of these transactions was not reviewed prior to entry, but rather through analysis at the end of each month. We now have a process of reviewing transactions prior to entry into the general ledger by a second person.
6. Prepare to implement GASB 68 – This is a standard comment that every municipality is receiving, regardless of whether the community is preparing for the new accounting pronouncement or not. Governmental Accounting Standards Board Statement (GASB) No. 68 requires the Town to report the Town's share of the unfunded portion of the NH Retirement System on the Town's Statement of Net Assets beginning for the fiscal year 2015 financial statements. The Town is preparing to implement this statement with help from the NH Retirement System.

TOWN OF NEWMARKET, NEW HAMPSHIRE

Management Letter

For the Year Ended June 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
<u>STATUS OF PRIOR YEAR RECOMMENDATIONS:</u>	
1. Record Transfers in General Ledger	3
2. Reconcile General Ledger	3
3. Monitor Segregation of Duties	4
4. Other Issues	4
<u>CURRENT YEAR RECOMMENDATIONS</u>	
5. Document Oversight Over Journal Entries and General Ledger	5
6. Prepare to Implement GASB 68	5



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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, 2012, 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.

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.

During our audit, we became aware of other 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, 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.

March 20, 2013

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Record Transfers in General Ledger

Prior Year Issue:

In the prior year, we noted that although 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, these transfers were not posted in the general ledger in a timely manner. This resulted in inaccurate fund balances reported for various funds in the Town's internal reports, and delayed the timely completion of the annual audit.

Current Year Status:

In 2012 the transfers were posted prior to the closing of the year.

Further Action Needed:

None. This issue is considered resolved.

2. Reconcile General Ledger

Prior year Issue:

In the prior year we noted that certain accounts in the general ledger, including overlay, impact fees, and encumbrances were not reconciled 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.

Current Year Status:

In 2012 key general ledger accounts were reconciled to supporting documentation at year end.

Further Action Needed:

None. This issue is considered resolved.

3. Monitor Segregation of Duties

Prior Year Issue:

In the prior year, we noted that because of a finance director position vacancy, the finance department operated in a short-handed capacity for an extended period, using existing staff to perform additional responsibilities. This increased the risk that an adequate segregation of duties may be compromised, increasing the risk that errors or irregularities could occur and go undetected.

Current Year Status:

During fiscal year 2012, the Town Administrator provided some oversight of the finance department in the absence of a finance director. Additionally, the finance director position was filled mid-way through the year.

Further Action Needed:

None. This issue is considered resolved.

4. Other Issues

Prior Year Issue:

In the prior year audit, we noted the following issues, which are described briefly.

- 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.

Current Year Status:

During 2012, the Town took the necessary steps to correct these issues.

Further Action Needed:

None. This issue is resolved

CURRENT YEAR RECOMMENDATIONS:

5. Document Oversight Over Journal Entries and General Ledger

During the audit, we became aware that journal entries were not always formally and consistently approved by someone other than the individual initiating and posting the entries. Also, it appears all personnel in the Finance Office have the same access rights to the general ledger. These situations increase the risk of unapproved journal entries or access to the general ledger occurring which could circumvent existing accounting controls.

We recommend that all journal entries be formally approved by someone other than the individual proposing and posting the entries. We also recommend the Town re-evaluate general ledger access controls within the Finance Office. This will reduce the likelihood of irregularities occurring and going undetected.

Town's Response:

We concur with this comment. Since the recommendation was raised during the audit, we have created a process where all journal entries are reviewed and approved prior to entry into the accounting system.

6. Prepare to Implement GASB 68

Beginning in fiscal year 2015, the Town is required to implement the Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions* that will require the unfunded pension liability be recognized on the Town's Statement of Net Assets, including enterprise funds. It is widely expected that the implementation of this accounting standard will have a material impact on the Town's basic financial statements.

We recommend the Town begin planning for the implementation of GASB 68, which includes gaining an understanding of the new requirements, educating applicable financial statement users, and ensuring that the Town's applicable portions of unfunded retirement system's unfunded liability is audited and available for inclusion in your financial statements.

Town's Response:

We concur with this comment. We have begun our preparations for implementing GASB Statement No. 68.