

TOWN OF MERRIMACK, NEW HAMPSHIRE

Management Letter

For the Year Ended June 30, 2011

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To the Town Council

Town of Merrimack, New Hampshire

In planning and performing our audit of the financial statements of the Town of Merrimack, 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 of Merrimack'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 a certain deficiency in internal control that we consider to be a material weakness.

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

During our audit, we also became aware of several 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, 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

November 22, 2011

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Improve Trust Fund Accounting and Reporting (Material Weakness)

Prior Year Issue:

In the prior year, we recommended the following actions be taken to improve overall trust fund accounting and oversight:

- Properly segregate treasury and accounting responsibilities. Currently, one individual is responsible for the accounting and treasury functions, thereby creating a substantial risk for errors and/or irregularities.
- Review Capital Reserve MS-9 for mathematical accuracy. Numerous errors were found on the original version provided to us.
- Fully integrate Permanent Funds into the Town's general ledger and record all activity appropriately.
- Report Permanent Funds' investments at fair market value in the general ledger and reconcile monthly to the investment statements. Additionally, reconcile investments to the trust reports (MS-9 and MS-10) annually, prior to filing with the New Hampshire Department of Revenue Administration. Unrealized gains and losses on the investment statements should be reconciled to the difference between cost basis per MS-9 and MS-10 and the general ledger. Cost basis for all investments should be provided to the custodians.
- Organize the Trust Fund types in a manner consistent with generally accepted accounting principles (primarily GASB 34).
- Reconcile Capital Reserve Funds general ledger equity accounts to the trust activity report (MS-9) prior to filing with the New Hampshire Department of Revenue Administration.

Current Year Status:

In fiscal year 2011, the recommendations listed above were not implemented. The financial records of the Permanent funds and Library funds remain largely kept by the custodial bank and complete accounting records are not adequately maintained. School Permanent Funds are reported on the Town's financial statements. Further, a single person is responsible for both the accounting and

treasury function of the funds, resulting in a lack of segregation of duties. As a result, the Town is at risk for errors and or irregularities occurring and not being detected and corrected in a timely manner.

Further Action Needed:

We continue to recommend the Town (the Town and the Trustees of Trust Funds) work to establish complete accounting records of the Trust Funds and to properly segregate the responsibility of trust fund accounting and cash management. Implementation of these recommendations will assist in identifying errors immediately and reduce the risk of erroneous reports.

Town's Response:

The Town agrees that internal controls are important and should be implemented by the Trustees and will continue to be committed to work with the Trustee of Trust Funds to address this issue. The Town will once again encourage the Trustee of Trust Funds to comply with the audit findings and improve the trust fund accounting internal control practices. However, because bullets 3, 4 and 5 would usurp the independent legal authority of the Trustees of Trust Funds, privately donated permanent funds should not be integrated into the Town's general ledger. Under both NH Statute and NH Supreme Court decisions, the Trustees of Trust Funds alone maintain the books and records regarding privately donated funds given to a Town or City.

I see no problem with the Trustees providing the Town with a periodic report of the activities of these funds, but I do have an issue with any attempt to integrate these funds into the Town's general ledger, the Trustee of Trust Funds positions are elected so they cannot be mandated by the Finance Director to comply with the audit findings.

2. Obtain Capital Asset Software

Prior Year Issue:

In the prior year, we recommended that the Town maintain the historical cost and depreciation of all capital assets in the finance software. Implementation of this recommendation will streamline and provide improved internal control over existing assets, year-end closing, as well as all future acquisitions and calculations of annual depreciation.

Current Year Status:

We understand that the Town intends to convert capital assets records from the current spreadsheets to the general ledger in fiscal year 2012.

Further Action Needed:

We recommend the Town complete this conversion by December 31, 2011.

Town's Response:

The Town continues to work toward converting its capital assets records to the finance software. During the past year, there were a couple of issues with the software that continue to be worked through. We believe that by June 30, 2012, the assets package in the current finance software will be fully operational.

3. Improve Internal Control over Departmental Receipts and Petty Cash

Prior Year Issue:

In the prior year, we recommended that the Police Department and Community Development Department work with the Town to address the weaknesses noted. Priorities should include an automated cash register to produce an adequate audit trail, and more timely turnovers. We also recommended the Fire and Solid Waste Departments improve segregation of duties, obtain cash register, and reconcile revenues to the general ledger.

Current Year Status:

During fiscal year 2011, the Town began addressing some of the weaknesses identified at the Police, Community Development, Fire and Solid Waste Departments. We understand that the Town has implemented a receipt log, and is working on automating cash registers and implementing pre-numbered receipts. During our 2011 audit, we noted many of the similar weaknesses in the Code Enforcement Department. A summary of these weaknesses is listed below:

- Checks are not stamped "For Deposit Only - Town of Merrimack" upon receipt.
- A lack of segregation of duties exists over cash receipts, as the same individual responsible for cash also has access to receipts records at the Code Enforcement Department.

- The Code Enforcement Department does not use its read only access to the Town's general ledger to reconcile revenues between the Department's records and the Town's general ledger.
- Building permits are not pre-numbered.

Further Action Needed:

We continue to recommend the Finance Department work with the various departments that handle cash receipts to ensure they comply with the Town's formal policies and procedures.

Town's Response:

The Finance Department will continue to monitor the cash collection process for the Building Department. They will purchase a stamp for all departments so that checks can be stamped "Deposit Only" when they are received. In an effort to offset the lack of segregation of duties in the Building Department, periodic Audits of number of permits issued compared to deposits will be conducted twice a year. In addition, the Finance Department will continue to train the staff on proper cash management procedures. The Town will look into obtain pre-numbered building permits.

CURRENT YEAR RECOMMENDATIONS:

4. Monitor Spendable Sewer Fund Balance

The following represents a trend in sewer spendable fund balance over the last three fiscal years:

<u>Fiscal Year</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Available balance	\$ 1,276,440	\$ 1,335,617	\$ 2,071,857

Although there was no significant change from fiscal year 2010 to 2011, in three years the available resources have decreased 38%.

We recommend that the Town maintain a reconciliation between Sewer fund balance and amount available for spending, and monitor the use of the spendable portion.

Town's Response:

The Town had a rate study completed a couple of years ago and are in the process of spending down fund balance in accordance with the rate study. The rate study reviews both the O&M costs with annual capital expenditures so that they are lumped together and then compared to the fund balance to make sure we raise enough revenue to maintain a target \$2 million in combined reserves. We will continue to monitor the decrease in fund balance so not to jeopardize the Sewer Fund cash position.

5. Clear Old Reconciling Items

The Town has approximately \$72,000 and \$84,000 in accounts receivable and unearned revenue (a liability), respectively, that are greater than one year old. It is likely that these accounts should be written off or recognized as revenue. Doing so will simplify the account reconciliation process.

We recommend that the Town research the old items and either pursue collection/recognition or write off the balance.

Town's Response:

We will review these old items and take all the necessary action required before December 31, 2011. In addition, we will review all receivables as to their collectivity and take appropriate action as needed.