

TOWN OF MERRIMACK, NEW HAMPSHIRE

Management Letter

For the Year Ended June 30, 2013

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

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, 2013, 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.

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 material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Melanson, Heath + Company P.C.

Nashua, New Hampshire

November 26, 2013

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Improve Trust Fund Accounting and Reporting

Prior Year Issue:

In prior years, we recommended that 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 to improve overall trust fund accounting and oversight.

Current Year Status:

In fiscal year 2013, the Town made improvements to trust fund internal controls over cash management, oversight, and reconciliation process.

Further Action Needed:

We continue to recommend the Town (the Town and the Trustees of Trust Funds) integrate the Permanent Funds into the Town's general ledger and record all activity, including fair value reporting. This will result in more complete accounting records of the Trust Funds. We also continue to recommend that the cost basis for securities which was provided to the custodians be fully reconciled to the MS-9 and MS-10 reports filed with the state.

Town's Response:

The Town will once again encourage the Trustee of Trust Funds to comply with the audit findings and improve the trust fund accounting practices. However, because this request 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. In addition, the Town has hired a Deputy Finance Director who will be attending all trustee meetings and helping in the reconciliation process as needed.

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. We also noted that the Town has not been timely in the reporting of capital asset disposals.

Further Action Needed:

We recommend the Town complete this conversion by December 31, 2013. We also recommend that the Town implement a process to account for capital asset disposals on a timely basis.

Town's Response:

While the Town agrees that a fully integrated system would be nice, the cost far out ways the benefits at this time. We will continue to look at alternative software programs.

3. Improve Internal Control over Code Enforcement

Prior Year Issue:

In the prior year, we recommended that the Code Enforcement Department (a division of the Fire Department) improve controls over receipts, primarily by obtaining an automated cash register and segregating duties over cash receipts, but also by stamping checks upon receipt, using pre-numbered permits, and using read only access to the Town's general ledger to reconcile revenues between departmental records and the general ledger.

Current Year Status:

The Code Enforcement Department is still in process of addressing these concerns.

Further Action Needed:

We continue to recommend the Finance Department work with the Fire Department and the software vendor to automate the building permits and other departmental receipts. Automation will improve controls over building permits and other fire receipts, and will mitigate the risk of lack of segregation of duties due to limited staff in the department. We also recommend the Finance Department to perform internal audits of the departments on at least a semi-annual basis.

Town's Response:

The Finance Department will continue to monitor the cash collection process for the Building Department. The Fire Department has begun implementation of new software to help track building permits. Once operational, this will improve efficiency and tighten internal controls. In addition, the Finance Department will continue to train the staff on proper cash management procedures.

4. Update Existing Fund Balance Policy

Prior Year Issue:

In the prior year, we recommended that the Town update the existing fund balance/net assets policy to incorporate accounting changes that resulted from the Governmental Accounting Standard Board Statement #54.

Current Year Status:

The Town annually adopts the existing fund balance policy which sets the level of undesignated fund balance (unassigned fund balance per GASB 54), but has not modified the policy to the current standard.

Further Action Needed:

We continue to recommend that the existing fund balance policy be updated for GASB 54.

Town's Response:

The Finance Director will continue to go to training sessions relating to GASB #54 and begin to implement the necessary changes in the Town's existing Fund Balance Policy.

5. Develop a More Formal Risk Assessment Process

Prior Year Issue:

In the prior year, we recommended the Town implement a formal risk assessment process that includes written identification of the risk areas.

Current Year Status:

Regular department head meetings have been established as a starting point for risk assessment. However, a written description of risk areas identified by those charged with governance (management and elected officials) and a description of how the Town intends on responding to the risks was not compiled.

Further Action Needed:

We continue to recommend that the Town formalize its risk assessment process. As part of this process, the Town should pay particular attention to its assessment of the Control Environment; specifically, the risks associated with related parties and potential conflicts of interest. Specific monitoring activities to address these risks should be documented and implemented as well.

Town's Response:

The Town has begun to work toward a formal risk policy and will work toward developing a Risk Assessment Process over the next fiscal year.

CURRENT YEAR RECOMMENDATIONS:

6. Implement Internal Controls over Library

In our review of the Library activity, we noted that the current cash management process lacks an audit trail of the receipts. We also noted that the Department commingles customer receipts with the petty cash account, which is not established in the general ledger. As a result, there is an increased risk that errors and/or irregularities could occur and not be detected.

We recommend that the Department implement controls over receipts by taking the following actions:

- Research the possibility of printing daily cash reports from the Library's software vendor or explore other options to obtain an audit trail of the receipts.
- Segregate the petty cash account out of the customer receipts and establish the petty cash in the general ledger.
- Gross up Library fines account activity in the special revenue fund in the general ledger.

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 Library to address this issue. However, because the request would usurp the independent legal authority of the Library, privately donated funds should not be integrated into the Town's general ledger. Under both NH Statute and NH Supreme Court decisions, the Library alone maintains the books and records regarding privately donated funds given to a town or city.

7. Improve Internal Controls over Transfer Station

In our review of the Transfer Station activity, we noted a lack of segregation of duties, and that the employees were unaware of the Town's formal receipt policy. As a result, there is an increased risk that errors and/or irregularities could occur and not be detected.

We recommend the Transfer Station improve controls over revenue management and reconciliation procedures by performing the following controls:

- Review and comply with the Town's policy for departmental receipts.
- Reconcile departmental records for revenue to the Town's general ledger, preferably on a monthly basis.
- Post revenues and expenditures at their gross amounts in the general ledger.
- Consider exploring options to segregate the duties at the Transfer Station.
- Consider options to preclude or minimize currency (cash) receipts, and clearly document currency receipts in receipt turnover documentation.

Town's Response:

In an effort to offset the lack of segregation of duties in the Solid Waste Department, periodic Audits will be conducted at least quarterly. In addition, we will begin to utilize the Public Work Administration secretary to double check the receipts and verify the cash and checks. Also, the Finance Department will continue to train the staff on proper cash management procedures. The Town will look into obtaining pre-numbered receipts for the Solid Waste Department's scale software.

8. Improve Audit Trail in Tax Collector's Office

The Tax Office does not consistently document (on the paid tax stub) whether the payment was made by check or currency. As a result, the audit trail over collections needs improvement.

We recommend that the Tax Collector's Office improve the audit trail of cash vs. checks by notating the form of currency on the payment stubs. Improving the audit trail of currency will decrease the risk of errors and irregularities occurring and not being identified to a particular payment.

Town's Response:

The Town will work with the Town Clerk/Tax Collector Department to start identifying cash or checks on the receipt.