

TOWN OF MERRIMACK, NEW HAMPSHIRE

Independent Auditors' Reports Pursuant  
to Governmental Auditing Standards  
and The Single Audit Act Amendments of 1996

For the Year Ended June 30, 2011

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

102 Perimeter Road  
Nashua, NH 03063-1301  
Tel (603) 882-1111 • Fax (603) 882-9456  
[www.melansonheath.com](http://www.melansonheath.com)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

To the Town Council  
Town of Merrimack, New Hampshire

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Merrimack, New Hampshire, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated November 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

*Additional Offices:*

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

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 a 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. We consider the deficiency described in item 11-1 in the accompanying schedule of findings and questioned costs to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

We noted certain matters that we reported to management of the Town in a separate letter dated November 22, 2011.

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Town Council, others within the entity, and federal awarding agencies and pass-through entities 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 22, 2011



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS  
MANAGEMENT ADVISORS

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Nashua, NH 03063-1301  
Tel (603) 882-1111 • Fax (603) 882-9456  
[www.melansonheath.com](http://www.melansonheath.com)

REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Town Council  
Town of Merrimack, New Hampshire

**Compliance**

We have audited the Town of Merrimack, New Hampshire's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Town's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

## **Internal Control over Compliance**

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

## **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of and for the year ended June 30, 2011, and have issued our report thereon dated November 22, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Town Council, others within the entity, and federal awarding agencies and pass-through

entities 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  
February 14, 2012

## TOWN OF MERRIMACK, NEW HAMPSHIRE

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2011

Federal Grantor/ Pass through Grantor/ Program Name	Federal Catalogue Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed Through New Hampshire Department of Education Special Milk Program for Children	10.556	\$ 747
Total U.S. Department of Agriculture		747
<u>U.S. Department of Housing and Urban Development</u>		
Passed Through State Community Development Financing Authority Community Development Block Grant	14.228	482,198
Total U.S. Department of Housing and Urban Development		482,198
<u>U.S. Department of Justice</u>		
Passed Through New Hampshire State Office of the Attorney General Underage Drinking Initiative	16.727	9,105
Total U.S. Department of Justice		9,105
<u>U.S. Department of Transportation</u>		
Passed Through State Department of Transportation Federal Aid Highway Program (Turkey Hill Bridge)	20.205	879,804
Passed Through New Hampshire Highway Safety Agency		
Seat Belt Law Enforcement	20.600	2,334
Enforcement Patrols	20.600	6,876
DWI Hunter	20.600	482
OHRV Law Enforcement (Off-Highway Recreation Vehicle)	20.600	1,354
Operation Safe Commute	20.600	261
Radar Grant	20.600	948
SRO Grant	20.600	85,480
Total U.S. Department of Transportation		977,539
<u>U.S. Environmental Protection Agency</u>		
Passed Through New Hampshire Department of Environmental Services Capitalization Grants for Clean Water State Revolving Funds - ARRA	66.458	5,839
Total Environmental Protection Agency		5,839
<u>U.S. Department of Energy</u>		
Passed Through New Hampshire Department of Energy Resources Energy Efficiency Conservation Block Grant - ARRA	81.128	78,753
Total U.S. Department of Energy		78,753
<u>U.S. Department of Homeland Security</u>		
Passed Through the New Hampshire Department of Justice		
FEMA - Ice Storm/Wind Storm	97.036	23,975
Homeland Security Grant	97.067	32,873
Total U.S. Department of Homeland Security		56,848
Total All Programs		\$ 1,611,029

This schedule is prepared on the modified accrual basis of accounting.

See Independent Auditors' Report on Schedule of Expenditures of Federal Awards.

State identifying numbers were not available for the pass-through grants listed above.



**TOWN OF MERRIMACK, NEW HAMPSHIRE**

**Schedule of Findings and Questioned Costs**

**For the Year Ended June 30, 2011**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? ☒ yes ☐ no
- Significant deficiencies identified? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? ☐ yes ☒ no
- Significant deficiencies identified? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs:

Community Development Block Grant  
-Small Cities  
Highway Planning and Construction

Unqualified  
Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☐ yes ☒ no

Identification of major programs:

CFDA Number(s)

14.228  
20.205

Name of Federal Program or Cluster

Community Development Block Grant--Small Cities  
Highway Planning and Construction

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no

## SECTION II - FINANCIAL STATEMENT FINDINGS

### Finding #

### Finding/Noncompliance

11-1

#### 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.

(continued)

(continued)

**Finding #**

**Finding/Noncompliance**

**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.

**SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

None.

**SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS**

<b><u>Finding #</u></b>	<b><u>Program</u></b>	<b><u>Finding/Noncompliance</u></b>	<b><u>Questioned Cost</u></b>
10-2	Capitalization Grant for Clean Water 66.458	<u>Request Funds in a Timely Manner (Significant Deficiency)</u>  Finding 10-2 was resolved in the current year.	N/A