

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, 2012

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

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, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 3, 2012. 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

Management of the Town is responsible for establishing and maintaining effective 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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 as item 12-1 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 Standards*.

We noted certain matters that we reported to management of the Town in a separate letter dated October 3, 2012.

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

This report is intended solely for the information and use of management, the Town Council, others within the entity, 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.
October 3, 2012



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

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, 2012. 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 compliance 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, 2012.

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, 2012 and have issued our report thereon dated October 3, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the June 30, 2012's 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing

and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

This report is intended solely for the information and use of management, the Town Council, others within the entity, 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.
December 17, 2012

TOWN OF MERRIMACK, NEW HAMPSHIRE

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Federal Grantor/ Pass through Grantor/ <u>Program Name</u>	Federal Catalogue <u>Number</u>	Federal <u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed Through New Hampshire Department of Education Special Milk Program for Children	10.556	\$ <u>533</u>
Total U.S. Department of Agriculture		533
<u>U.S. Department of Housing and Urban Development</u>		
Passed Through State Community Development Financing Authority Community Development Block Grant	14.228	<u>1,771</u>
Total U.S. Department of Housing and Urban Development		1,771
<u>U.S. Department of Justice</u>		
Bullet Proof Vest	16.607	346
Passed Through New Hampshire State Office of the Attorney General Underage Drinking Initiative	16.727	<u>5,157</u>
Total U.S. Department of Justice		5,503
<u>U.S. Department of Transportation</u>		
Passed Through State Department of Transportation Federal Aid Highway Program (Turkey Hill Bridge)	20.205	1,155,481
Passed Through New Hampshire Highway Safety Agency		
Seat Belt Law Enforcement	20.600	1,727
Highway Safety Train	20.600	5,379
Enforcement Patrols	20.600	236
Seat Belt Convincer	20.600	1,123
DWI Hunter	20.600	2,508
OHRV Law Enforcement (Off-Highway Recreation Vehicle)	20.600	1,486
Operation Safe Commute	20.600	3,002
SRO Grant	20.600	<u>85,480</u>
Total U.S. Department of Transportation		1,256,422
<u>U.S. Department of Homeland Security</u>		
Passed Through the New Hampshire Department of Safety		
FEMA - Flood Mitigation Assistance (Beacon Drive)	97.029	205,088
FEMA - Disaster Grants	97.036	177,079
Homeland Security Grant	97.067	<u>25,458</u>
Total U.S. Department of Homeland Security		<u>407,625</u>
Total All Programs		\$ <u><u>1,671,854</u></u>

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, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses 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:

Highway Planning and Construction 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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	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

12-1 Improve Trust Fund Accounting and Reporting (Material Weakness)

Prior Year Issue:

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

- Properly segregate treasury and accounting responsibilities. One individual was responsible for the accounting and treasury functions, resulting in a lack of segregation of duties, 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.
- 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.
- 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). The financial records of the Permanent funds and Library funds were largely kept by the custodial bank and complete accounting records were not adequately maintained. School Permanent Funds were reported on the Town's financial statements.

Current Year Status:

In fiscal year 2012, the following recommendations listed above were implemented:

- Capital Reserve MS-9 was reconciled to the general ledger.
- One School Permanent Fund is now reported on the School's financial statements.
- We were informed that another member of the board of trustees is responsible for reviewing and signing check payments to mitigate lack of segregation of duties.

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding

Finding/Noncompliance

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Finding #**Finding/Noncompliance**

- Cost basis for securities was provided to the custodian, although it lacks a complete audit trail.

Examples of findings noted while reviewing the 2012 MS-9 and 10 forms of the Permanent funds are as follows:

- The cost basis for securities, which was provided to the custodian, was not fully reconciled on the MS-9 and MS-10 reports filed with the state.
- Spendable and non-spendable balances were not appropriately tracked.
- Accumulated amounts from not reporting gains and losses and updating investment income consistently have caused the beginning balances for individual securities to appear inaccurate.
- Securities are sometimes removed and replaced to correct balances from prior years without an adequate audit trail. Substantial changes to beginning balances were noted.
- The number of shares on the MS-9 and MS-10 were not consistently adjusted by stock splits and shares reinvested through dividend reinvestment plans.

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. We also recommend that the Town (the Town and the Trustees of Trust Funds) work to resolve the issues noted in the 2012 MS-9 and MS-10 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. The Trustees have begun the process of hiring a custodian to help in establishing complete accounting records for the investments of the Town's trust funds. In addition the Trustees have begun segregating the responsibilities between the Trustees as noted. The Town has hired a consultant to go back and correct the issues noted in the MS-9 and MS-10 over the past reports.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

There were no findings in the prior year.