

TOWN OF DEERFIELD, NEW HAMPSHIRE

Management Letter

For the Year Ended December 31, 2012

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

To the Board of Selectmen
Town of Deerfield, New Hampshire

In planning and performing our audit of the financial statements of the Town of Deerfield, New Hampshire, as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Deerfield'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 over financial reporting.

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 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 these matters.

The Town's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Board of Selectmen, and others within the Town, 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
September 6, 2013

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Review and Determine Status of All “Pooled Sub-Accounts” Held in Escrow

Prior Year Issue:

In the prior year, we recommended the Town review all escrow account balances, close out completed projects, and refund monies to the appropriate parties.

Current Year Status:

The Town closed multiple old escrow accounts and refunded the balance in those accounts.

Further Action Needed:

We recommend the Town review the remaining inactive escrow accounts to ensure that all completed projects are closed out and refunded in a timely manner.

Town Response:

The Town will continue to work with the Planning Board to review the remaining inactive account in order to ensure that all completed project accounts are closed and refunded in a timely manner.

2. Continue Improvements in Departmental Receipt Procedures

Prior Year Issue:

In the prior year, we recommended the Town continue improving its departmental receipt procedures.

Current Year Status:

The Town has made numerous improvements in its departmental receipt procedures.

Further Action Needed:

During our audit, we noted the following areas where improvements can continue to be made:

- All department heads should retain a signed copy of their departmental statement of deposit. This copy should include both the signature of the person turning over the monies for deposit and the person receiving the monies from the department.
- All department heads should periodically reconcile departmental revenue records to the general ledger to ensure that receipts are posted correctly in the general ledger.

- The Town should consider formalizing a follow-up collection policy for “no pays” at the transfer station.
- We continue to recommend the Finance Office perform periodic internal audits of all departments that collect Town receipts.

Town Response:

The Town will continue to improve its departmental receipt procedures. The finance department will provide receipts to departments turning over monies for deposit. The finance department will provide departments reports of their departmental deposits so that the departments can reconcile these with their records.

The Town has looked into possible methods of creating a “no pay” situation at the transfer station and has not been able to identify a cost-effective solution that will provide adequate service to the residents.

The finance department will perform periodic internal audits of all departments that collect Town receipts.

3. Improve Trust Fund Accounting and Reporting – Trustees of Trust Funds

Prior Year Issue:

In the prior year, we recommended the Trustees of Trust Funds (Trustees) establish procedures to ensure that the balances and activities of all funds under their control were reported correctly on the MS-9.

Current Year Status:

During our testing, we noted the following:

- Total cost-based cash and investment balances reported on the MS-9 did not agree with the reconciled cost-based balances per the trust fund bank and investment statements.
- The beginning and ending balances of various trust funds were reported incorrectly on the MS-9.
- Transactions flowing between the trust funds investment accounts and the trust funds checking account did not offset.

Further Action Needed:

We continue to recommend the Trustees improve their trust fund accounting and reporting by establishing procedures to ensure that the activity and balances of all funds are correctly accounted for and reported on the MS-9.

Town Response:

- Total cost-based cash and investment balances reported on the MS-9 did not agree with the reconciled cost-based balances per the trust fund bank and investment statements.

Some of this is just spreadsheet errors. Some Trust Fund cash expenses occurring in 2012, and therefore shown in the 2012 check statements, are for 2011 Town reimbursed transactions, i.e., certain cemetery expenses and income, and are reported on the 2011 MS-9. This is a practice continued from prior annual reports. The Trustees are in the process of engaging a Financial Advisor, Cambridge Trust Company, to provide management of Fund investments and annual reporting. MS-9 and MS-10 reporting will be done by Cambridge, so any current incorrect techniques will be remedied in this change of management and reporting.

- The beginning and ending balances of various trust funds were reported incorrectly on the MS-9.

This is spreadsheet and formula errors. The Trustees are in the process of engaging a Financial Advisor, Cambridge Trust Company, to provide management of Fund investments and annual reporting. MS-9 and MS-10 reporting will be done by Cambridge, so any current incorrect techniques will be remedied in this change of management and reporting.

- Transactions flowing between the trust funds investment accounts and the trust funds checking account did not offset.

Prior practice in handling monthly Fidelity income disbursement of Library Trust Fund checks had been to endorse the Fidelity check to be payable directly to the Philbrick-James Library, and not to route the disbursement through the Citizen's checking account. This was a matter of expedience and the fact that Fidelity would not issue checks directly to the Library. That meant the time for check issuance by Fidelity to the Trustees, Trustee pickup at town offices, deposit to Citizen's, waiting for check clearance, issuing check and mailing was sometimes longer than reasonable. That practice was stopped in the summer of 2013, so that the two statement streams will agree eventually. The Trustees are in the process of engaging a Financial Advisor, Cambridge Trust Company, to provide management of Fund investments and transactions. Library monthly income checks, as well as other ordinary checks, issued directly to payees, are being arranged with Cambridge, so any current incorrect techniques will be remedied in this change of Fund management.

CURRENT YEAR RECOMMENDATIONS:

4. Develop a Formal Risk Assessment Process

The Town has an informal risk assessment process that includes various financial control policies and procedures and regular review of revenue and expenditure trends. Risk assessment is a management function designed to identify where a Town may be vulnerable to errors or fraud. A complete risk assessment process involves a written description of risk areas identified by those charged with governance (management and elected officials) and the linking of specific policies and procedures that have been instituted to mitigate these identified risks.

We recommend the Town develop a formal risk assessment process. In evaluating risk, particular consideration should be given to situations where a single employee is responsible for performing most or all accounting responsibilities, since this could create opportunities for fraud to occur and remain undetected. In risk areas where staffing limitations do not permit an adequate segregation of duties, management and the Board of Selectmen should provide additional oversight, including documented review and approval of key accounting records.

We also recommend the Town establish an employee fraud policy that provides staff with guidance in the event they observe or suspect that fraud is occurring in the workplace.

Town's Response:

The Town will work toward developing a formal risk assessment process. The Town will also work to establish an employee fraud policy.

5. Prepare for Implementation of GASB 68

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which is required to be implemented in 2015. This statement will have a significant impact on the Town's basic financial statements by requiring the Town to recognize, as a liability and expense, its applicable portion of the New Hampshire Retirement System's unfunded actuarially accrued liability.

We recommend the Town prepare for the implementation of GASB 68 by communicating with the New Hampshire Retirement System to ensure that information is available for reporting when needed.

Town Response:

The Town will work with the New Hampshire Retirement System to ensure that information is available for reporting when needed. The Town will prepare for the implementation of GASB 68.