

TOWN OF DEERFIELD, NEW HAMPSHIRE

Management Letter

For the Year Ended December 31, 2013

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Additional Offices:

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

To the Board of Selectmen
Town of Deerfield, New Hampshire

In planning and performing our audit of the basic financial statements of the Town of Deerfield, New Hampshire, as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal accounting control over financial reporting (internal control) 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. 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

Nashua, New Hampshire
July 9, 2014

STATUS OF PRIOR YEAR RECOMMENDATIONS:

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

Prior Year Issue:

In the prior year, we recommended the Town review all inactive escrow accounts held in the Treasurer’s pooled sub-accounts to ensure that completed projects were closed out and refunded in a timely manner.

Current Year Status:

The Town is still carrying balances in various escrows and other accounts that have been inactive for several years.

Further Action Needed:

We recommend the Town close out all old, inactive escrow accounts. We also recommend that individual departments, boards, and commissions maintain detailed records of the activity and balances for their accounts. We further recommend the Finance Department provide summary financial reports to the appropriate departments, boards, and commissions on a monthly basis to help ensure that their activity and balances are accurately recorded.

Town Response:

The Town will continue to work with the individual departments to review the remaining inactive accounts 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 internal controls over departmental receipts.

Current Year Status:

The Town continues to make improvements to its departmental receipt procedures.

Further Action Needed:

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

- All money collected for pistol permits should be turned over to the Finance Office for deposit to the pistol permit sub-account and all expenditures of pistol permit receipts should be included on the Town’s manifest.
- All departments that collect receipts should maintain organized receipts logs that provide a clear audit trail from the point of receipt to

the point when funds are turned over for deposit. Funds awaiting deposit, as well as unused licenses and permits should always be maintained in a secure location, and checks should be endorsed "For Deposit Only" when received.

- All departments that collect receipts should maintain detailed financial records, and these records should be reconciled to the general ledger or pooled sub-account reports on a monthly basis. We recommend the Town require department heads to provide a signed copy of their reconciliation forms to the Finance Office every month for review.
- The Finance Office should perform periodic internal reviews of all departments that collect Town receipts. In addition, the Finance Office should retain all of the documentation related to these reviews for the external auditors.

Town Response:

The Police Department now remits all monies collected for pistol permits to the Finance Office for deposit in the pistol permit sub-account.

The Finance Office is working with departments to comply with the suggestion of the auditing firm with regards to receipts and reconciliations.

In the future the Finance Office will keep the documentation of the external audits it conducts with departments collecting cash/checks.

3. Develop a More Formal Risk Assessment Process

Prior Year Issue:

In the prior year, we recommended the Town develop a more formal risk assessment process, including a written evaluation of risk areas linked to the policies and procedures the Town has implemented to mitigate the identified risks. We also recommended the Town establish an employee fraud policy.

Current Year Status:

The Town has adopted a fraud policy and continues to work towards developing a comprehensive risk assessment process to identify and address its financial and compliance risks.

Further Action Needed:

We recommend the Town continue developing a more formal risk assessment process, including written identification of risk areas and the procedures established to mitigate these risks.

Town Response:

The Town will continue developing a more formal risk assessment process.

CURRENT YEAR RECOMMENDATIONS:

4. Improve Impact Fee Accounting and Reporting

The Town assesses and collects Public Capital Facilities Impact Fees. However, the Town does not currently maintain accurate and comprehensive records of all impact fee collections, including the date assessed, date collected, updated current ownership for fees paid, authorization, date and purpose of expenditure, and expiration date of fee if not expended or legally obligated within six years of collection. In addition, the Town does not publish an annual accounting of impact fee activity, as required by NH RSA 674:21.

We recommend the Town improve its impact fee accounting and reporting process to ensure that it is in full compliance with NH RSA 674:21.

Town's Response:

The Town will work with the Planning Board and Treasurer to ensure accurate records of all impact fees collected in compliance with NH RSA 674:21.

5. Establish Formal Receipt and Expenditure Policies – Library

The Library does not currently have formal, written policies and procedures to govern its expenditures and receipts. Lack of formal policies increases the risk of errors occurring and not being detected and corrected in a timely manner.

We recommend the Library establish formal receipt and expenditure policies. Issues to be considered include:

- Maintaining a receipt log to provide an audit trail from the point of collection to the remittance of monies to the Library Treasurer for deposit.
- Endorsing checks "For Deposit Only" immediately upon receipt.
- Ensuring that all expenditures are supported by an original invoice, receipt, or other documentation that is approved by the Library Director prior to payment.

Town Response:

The Library will work toward developing a formal receipt and expenditure policy.