

TOWN OF SANDOWN, 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 Sandown, New Hampshire

In planning and performing our audit of the financial statements of the Town of Sandown, 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 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Significant deficiencies are noted in the table of contents and comment headings.

This communication is intended solely for the information and use of management, the Board of Selectmen, 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

September 3, 2014

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Improve Entity-Level Controls (Significant Deficiency)

Prior Year Issue

Although the Town has implemented certain entity-level controls (control environment, risk assessment, information and communication systems, monitoring), we noted areas where improvements should be considered. Specifically, we recommended that the Town implement a more formal (documented) risk assessment process.

Current Year Status

The recommendation has not been addressed.

Further Action Required

Although the Town informally performs risk assessment for possible fraud or material misstatement through various policies and procedures and regular reviews of trends in the financial statements, it is not performed in a formal and documented methodology. Risk assessment is a management function designed to identify where an organization may be vulnerable to errors and/or irregularities. A complete risk assessment process involves a written description of risk areas identified by those charged with governance (management and elected officials) and a description of how the organization intends on responding to the risks. Particular attention should be given to potential related party transactions.

2. Improve Controls over Departmental Receipts (Significant Deficiency)

Prior Year Issue

Due to the number of decentralized/departmental cash receipts within the Town, and our testing of those receipts in the prior year, we recommended that formal policies, procedures, and training of personnel be implemented Town-wide. These policies and procedures should require that there is always more than one individual involved in the receipts process. This should be documented with a signature or initials of both individuals involved. We also recommended that pre-numbered receipts be prepared in duplicate, that all numbers be accounted for and reconciled to actual bank deposits and the

accounting records, and that cash and checks be stored in a secure location at all times.

Further, decentralized/department cash receipts records should be periodically monitored or “audited” by someone that is not involved in the receipts process.

Current Year Status

These issues continued to exist in 2013.

Further Action Required

We continue to recommend that the Town implement these recommendations.

3. Centralize the Accounting Function (Significant Deficiency)

Prior Year Recommendation

In the prior year, we recommended that the Town consider reducing the number of bank accounts and that all accounts be under the control of the Treasurer.

Current Year Status

This recommendation was not addressed during 2013.

Further Action Required

We continue to recommend that the number of Town bank accounts be reduced and that all accounts be under control of the Treasurer. Further, in order to improve controls over decentralized activities and the efficiency of the accounting function, we recommend that all departmental accounts and records related to Town activities be centralized in the Finance Office and be recorded in one general ledger.

4. Improve Controls over Disbursements (Significant Deficiency)

Prior Year Recommendation

During our audit testing of disbursements in the prior year, we found several issues related to controls.

Current Year Status

Issues noted during the 2013 audit included the following:

Vendor Disbursements

- There is a lack of segregation of duties with respect to Cemetery Trust Fund disbursements as one individual performs multiple functions including approving disbursements, signing the checks, and accounting for all transactions. This creates a situation where errors or irregularities could occur and go undetected in a timely manner.
- A debit card was being used on a checking account with a large account balance (Library). This circumvents the approval process, as funds are disbursed prior to obtaining proper approvals and gives the user of the card access to a large account balance. In order to reduce the risk of loss, we recommend that the debit card either be replaced with a credit card with a limited balance, or be linked to a bank account with limited balance.
- Certain transfers were incorrectly charged to expenditures.
- Instead of performing a formal line item budget transfer, expenditures were incorrectly charged to another line item.
- Support for petty cash replenishment did not include all invoices/receipts/bills.
- Established bidding procedures were not followed for the purchase of a vehicle.
- One disbursement in our sample of twenty-five did not have documented approval from the department or the board.
- One disbursement involving a related party was not approved by an unrelated third party.

Payroll Disbursements

- Department heads approving their own timesheets.
- Rate agreements for three employees tested had not been signed by the governing body.

- Rate agreements for three employees tested did not agree to the hourly rates paid to those employees.
- Rate agreements for four employees were unable to be located.
- A formal per-inspection pay structure is not in place for certain Town inspectors.

Further Action Required

We recommend that policies and procedures be implemented in order to address the issues noted above.