

TOWN OF LITCHFIELD, NEW HAMPSHIRE

Management Letter

For the Year Ended December 31, 2008

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
 <u>CURRENT YEAR RECOMMENDATIONS:</u>	
1. Improve Monthly Reconciliations (Material Weakness)	3
2. Develop Departmental Receipt Policies and Procedures	4
3. Other Internal Control Areas	5



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

To the Board of Selectmen
Town of Litchfield, New Hampshire

In planning and performing our audit of the financial statements of the Town of Litchfield, New Hampshire as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Litchfield'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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control. A material weakness is noted in the table of contents and comment headings.

Additional Offices:

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

In addition, during our audit we became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

The Town's written response to our comments and suggestion has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

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
June 10, 2010

CURRENT YEAR RECOMMENDATIONS:

1. Improve Monthly Reconciliations (Material Weakness)

In 2008, The Town did not have a formal system in place to reconcile key general ledger accounts. Monthly reconciliations are necessary to prove the accuracy of general ledger records as well as to provide a method of checks and balances between the financial departments. The lack of this procedure results in an increased risk that the Town's accounting records could contain errors or omissions. This was evidenced by the significant adjustments that were required by the Town's outside consultants to accurately report the Town's cash and receivable account balances.

We recommend the Town establish formal procedures to reconcile the following critical general ledger balances on a monthly basis:

- Cash - overall balances should be reconciled to the Treasurer.
- Receivables - each balance should be reconciled to the Tax Collector.
- Impact fees/escrow balances - should be reconciled to responsible Town departments.

Implementation of this recommendation will provide assurance that the Town's internal financial reports are accurate. It will also provide the necessary checks and balances over the Treasurer and Tax Collector Offices to ensure that errors or irregularities are identified and corrected in a timely manner.

Town's Response:

The Town has established a policy for the reconciliation between the Treasurer, Tax Collector/Town Clerk and Selectmen's Office during 2009. This policy requires the monthly reconciliations between all three groups with the participation and signoff of the Board of Selectmen. This policy reconciles the cash receivables by the Tax Collector/Town Clerk, the Treasurer's balances to the bank statements and the balances of the various escrow accounts held by the Treasurer.

2. Develop Departmental Receipt Policies and Procedures

The Town currently does not have formal written policies and procedures for departments to follow for collecting and remitting departmental receipts. Although we did not detect any errors or irregularities during our audit, the lack of formal policies and procedures increases the risk that such situations could occur and go undetected.

We recommend the Town establish formal written departmental receipt policies and procedures, which should address, at a minimum, the following:

- Standardized receipt logs
- Standardized receipt turnover forms
- Requiring two signatures on the receipt turnover form
- Requiring departments remit receipts to the Collector
- Prohibiting the collection of currency, wherever feasible
- Establishing frequencies of turnovers and physical security over receipts

We further recommend that the Town perform periodic internal audits of the various departments to assure compliance with the policies and procedures that are adopted. This should result in improved controls over departmental receipts and reduce the likelihood of irregularities occurring.

We also recommend that a copy of the departmental receipt turnover form be provided by departments directly to the Town Administrator in order to reconcile with the receipt postings. This will provide a necessary measure of checks and balances between departments.

Town's Response:

The Town of Litchfield will develop a policy for the collection and remitting of receipts. It is the intention of the Board of Selectmen that the policy will include the observations and suggestions outlined in the 2008 audit management letter. Timing of this policy will be prior to the end of the year 2010.

3. Other Internal Control Areas

A key component of any financial statement audit is the evaluation of internal controls. This evaluation is accomplished through inquiry, observation and testing. The following weaknesses were noted as a result of our evaluation of controls during our 2008 audit. We understand some of these issues may have been addressed by the Town in 2009 or 2010. We will be available to discuss these with the Town in more detail.

Town-Wide Issues:

- Establish a formal fraud policy for Town employees.

Town's Response:

The Town has drafted a fraud policy and has had the document reviewed by Town Counsel. This policy has been approved by the Board of Selectmen pending Counsel's opinion and will become effective July 1, 2010.

General Ledger Issues:

- Maintain all funds (other than trustee of trust funds) in the general ledger.
- Maintain organized records for all adjusting journal entries, including explanations and support.
- Provide expenditure reports to departments at least monthly.
- Provide revenue reports to all departments that collect revenues.

Town's Response:

Commencing in 2009, all funds are being entered into the general ledger computer system. This work is expected to be completed in 2010. The Town has begun to maintain all adjusting journal entries with documentation and support attached in a monthly filing system suitable for audit.

All department heads, Trustees, Budget Committee members, and Selectmen receive weekly expense against budget reports and monthly they receive a report of revenues against forecasted revenues. Further, this information is made available to the public through web posting.

Computer Issues:

- Establish regular offsite computer backups.

Town's Response:

The Town of Litchfield has established a backup schedule for all critical files within its network, which includes weekly offsite backups. Daily backups are executed Monday through Friday, which then are streamed offsite on the following Saturday. These backups are maintained for a six month period and then removed after that period of time.

Vendor Disbursement Issues:

- Close excessive number of credit cards and establish formal credit card policy for remaining cards.
- Require that all vendor checks be mailed by the Board of Selectmen's office.

Town's Response:

Commencing in 2009, all existing credit cards were closed. The Town has now re-issued selected department heads with one limited credit card. A written policy on credit card usage has been adopted by the Selectmen, which requires the signature of all card holders showing their review, agreement, and understanding of the policy.

Commencing in 2009, all vendor checks signed by the Treasurer are mailed from and by the Selectmen's office.

Payroll Issues:

- Establish employee personnel files, including documented pay rate approval forms.
- Prohibit the distribution of paychecks until the payroll is formally approved by the Board of Selectmen.

Town's Response:

Commencing in 2009, all personnel files are maintained in the Selectmen's office or with the department head. In 2010, the Town is working to include pay rate notices and change justifications in those files. In 2008, the Town

utilized the contract payroll services of Advantage. The required timing of the payroll accounting and paycheck printing resulted in the payroll being signed by Selectmen on the Monday after the Thursday pay date. In 2010, the Town ceased utilizing Advantage for the payroll accounting and check printing functions and instead those activities are now performed by the Selectmen's office. This change now ensures that the Selectmen sign the payroll on the Monday prior to the check distribution to employees on Thursdays.

Treasury Issues:

- Document a summary of all Town bank reconciliations on a single form to be used to prove to general ledger balances.
- Consolidate impact/escrow passbook accounts into a master bank account.
- Consider increasing collateralization of bank accounts.
- Void old outstanding checks at least annually.

Collector Issues:

- Maintain a control log to track receivable activity.

Town's Response:

Control logs have always been maintained in both the Town Clerk and Tax Collector. Up until this year 2010 we have kept a running log in a general ledger which I have in my office.

- Reconcile control log to detail receivable lists, and to Town general ledger receivable records.

Town's Response:

T. Briand started doing this in January 2010 with L. Langille.

- Sign off on receipt turnover forms by two individuals.

Town's Response:

Each day when the daily close out is balanced and completed it is now signed off on by either the Town Clerk/Tax Collector or the deputy. Then there is a line for the Treasurer to sign off on as well.

- Consider using a lockbox service for receipt processing.

Town's Response:

T. Briand will look into the cost of this at the September 2010 Tax Collector's conference for pricing to the Town, although it will not be in the 2011 budget because budgets are due mid August.

Trust Fund Issues:

- Bring library trust stock investments in house or contract with a broker.
- Track expendable and nonexpendable portions of trust funds for MS-9 Trustee report.