

TOWN OF LITCHFIELD, NEW HAMPSHIRE

Management Letter

For the Year Ended December 31, 2010

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
 <u>STATUS OF PRIOR YEAR RECOMMENDATIONS:</u>	
1. Improve Monthly Reconciliations	3
2. Develop Departmental Receipt Policies and Procedures	3
3. Other Internal Control Areas	4
4. Budget for Highway Block Grant	6
5. Other Prior Year Issues	6



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, 2010, 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.

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 deficiencies, significant deficiencies, or material weaknesses. In addition, because of the inherent limitation in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

During our audit we became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The

Additional Offices:

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

recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

The Town's written response to our comments and suggestions 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, 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.

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
May 25, 2011

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Improve Monthly Reconciliations

Prior Year Issue:

In the prior year, we recommended the Town establish formal procedures to reconcile key general ledger balances on a monthly basis.

Current Year Status:

In 2010 the Town established monthly reconciling procedures for all key general ledger accounts, including cash, receivables, and impact fees.

Further Action Needed:

None. This issue is resolved.

2. Develop Departmental Receipt Policies and Procedures

Prior Year Issue:

In the prior year, we recommended 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 recommended that the Town perform periodic internal audits of the various departments to assure compliance with the policies and procedures that are adopted. This would result in improved controls over departmental receipts and reduce the likelihood of irregularities occurring.

We also recommended that a copy of the departmental receipt turnover form be provided by departments directly to the Finance Manager in order to

reconcile with the receipt postings. This would provide a necessary measure of checks and balances between departments.

Current Year Status:

In 2010 the Town established a formal departmental receipt policy and departments began remitting receipt turnover forms to the Finance Manager. However, in our testing of the Library receipts, it was noted that the Library personnel was unaware of the new policies.

Further Action Needed:

We recommend all departments be reminded of the new departmental receipt policy, and that the Finance Manager begin to perform periodic internal audits of departmental receipts.

Town's Response:

Departments will be reminded of new policy and external agencies, such as the Library will be encouraged to develop a trackable internal auditing system. For Town Departments, the Finance Manager will perform internal audits at least quarterly.

3. Other Internal Control Areas

Prior Year Issue:

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 2009 audit.

Town-Wide Issues:

- Establish a formal fraud policy for Town employees.

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.

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.

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.
- Reconcile control log to detail receivable lists, and to Town general ledger receivable records.
- Sign off on receipt turnover forms by two individuals.

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.

Current Year Status:

The Town provided corrective action for all the above issues, except the two trust fund recommendations.

Further Action Needed:

We recommend the Town address the two trust issues related to investments and the MS-9 trustee report.

Town's Response:

The Trustees of Trust Funds and Town Administrator will work collaboratively to identify the Library stock holdings, clarify ownership and transfer them to a broker for management by the end of the year.

Town staff and the Trustees will research conditions of various trusts held by the Town to define the expendable and non-expendable portions for accurate reporting on the next MS-9. Those funds, for which no clear history can be found by the end of the year, will be duly noted as under active investigation.

4. Budget for Highway Block Grant

Prior Year Issue:

In the prior year we recommended that the budgets for all self-supporting funds, such as the Highway Block Grant, be balanced on the tax rate setting forms. This will neutralize the effect on the Town's property tax rate.

Current Year Status:

This issue was addressed in 2010.

Further Action Needed:

None. This issue is resolved.

5. Other Prior Year Issues

During our prior year audit, we also noted the following issues, which are summarized very briefly.

Prior Year Issues:

Print Receipt Log - The receipt log that is maintained by the Solid Waste facility is maintained on an old computer which is not compatible with any Town printers. As a result, the receipt logs cannot be printed or retained as a permanent document. We recommended the receipt log be maintained on a computer that is capable of printing.

Monitor/Record Receivables - The Town received certain state funds for 2009 in the first week of January 2010 that were not recorded as a receivable and revenue in the Town's 2009 general ledger. Although this was recorded through the audit process, this resulted in the Town's internal accounts records being understated. We recommended the Town monitor all late receipts to determine whether receivables should be appropriately recorded in the general ledger.

Monitor Due From/To Accounts - The Town's general ledger reflects various accounts to track interfund activity. Although the interfund accounts reconciled in total, certain of the accounts reflected balances owed from fund to fund that should have been reimbursed to each other at year end. We recommended the Town periodically monitor the due from/to accounts and actually transfer cash balances between funds to clear amounts due.

Reconcile Police Detail Receivables - The Police detail receivable account balance in the Town's general ledger differed from the Police Department's records by approximately \$ 500 at December 31, 2009. We recommended the Police Department reconcile the detail receivable account with the Town's general ledger on at least a quarterly basis.

Report Interest on Abatements Separately – In 2009, we noted that the tax abatement forms combined principal and interest. We recommended that principal and interest be reported separately on the abatement form. This would provide an improved audit trail over abatement postings to the general ledger.

Current Year Status:

All the above recommendations were implemented in 2010 except for the first issue dealing with the Solid Waste Facility receipt log.

Further Action Needed:

We again recommend that the Solid Waste Facility print a receipt log.

Town's Response:

The Solid Waste Facility computer will be replaced in the summer of 2011 with the ability to generate receipt logs to be printed and/or electronically stored at Town Hall.