

CITY OF LACONIA, NEW HAMPSHIRE

Management Letter

For the Year Ended June 30, 2012

TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY LETTER	1
School Department Issues:	
1. Improve Oversight and Formal Documented Review Procedures	3
2. Improve Segregation of Duties Issues Related to Payroll and Accounts Payable	3
Water Department Issue:	
3. Implement and Document Review Procedures	4
City Issue:	
4. Prepare to Implement GASB 68	5



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To the Mayor and City Council
City of Laconia, New Hampshire

In planning and performing our audit of the financial statements of the City of Laconia, New Hampshire as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

During our audit we also 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 those matters.

The City'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 Mayor and City Council, 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.

February 21, 2013

SCHOOL DEPARTMENT ISSUES

1. Improve Oversight and Formal Documented Review Procedures

As part of the 2012 audit an evaluation of the internal controls in the school business office was performed which resulted in the following issues:

- We noted situations where vendor invoices were processed without formal approval by the applicable department head.
- Vendor and payroll manifests were not formally documented as being reviewed by the school Business Administrator prior to the School Board approval.
- Journal entries did not include a documented reviewer's approval.

We recommend that the School Department take the necessary steps to improve documented oversight over the journal entry and disbursement process, to decrease the risk that errors or irregularities could occur and go undetected.

School Response:

Our past procedure was that the Business Administrator approved and documented all warrants. We were instructed by the prior Finance Director that the School Board had to sign the warrants, thus a change in our procedures. If the City wants both the Business Administrator and School Board Members to sign warrants, we can begin this process.

Journal Entries are initiated by the Business Administrator and based on the approved budgets. For example, journal entries are made monthly to transfer District holding account amounts to grant accounts.

2. Improve Segregation of Duties Issues Related to Payroll and Accounts Payable

We noted a lack of adequate segregation of duties over vendor and payroll processing. Specifically we noted several instances occurred where the accounts payable bookkeeper and payroll clerk reviewed invoices, approved

the invoice for payment, and then entered in the necessary data into the general ledger. In addition, it was noted that payroll clerk had full posting access to the general ledger.

We recommend that the School Department review and segregate the function and responsibilities of the business office staff as well as access to the general ledger, and that invoices be approved by an individual who is not directly involved with the disbursement process.

School Response:

Invoices that are processed into the AP system have Purchase Order approval from the Building Principal, along with the receiving copy of the PO, which documents the items have been received.

WATER DEPARTMENT ISSUE

3. Implement and Document Review Procedures

As part of the 2012 audit an evaluation of the internal controls in the Water Department was performed which resulted in the following issues:

- Monthly bank reconciliations are prepared, however a separate review by another party is not being performed. We recommend monthly bank reconciliations be signed by the preparer and a reviewer.
- Journal entries do not include a documented reviewer's approval. We recommend all journal entries be reviewed and formally approved by another party. This will improve documented oversight.

Water Department Response:

Effective April 1, 2013 monthly bank reconciliations will be signed by Cheryl Hounsell, preparer and reviewed and signed by Seth Nuttelman, Superintendent.

Effective April 1, 2013 all manual journal entries will be reviewed and approved by Seth Nuttelman, Superintendent, on a monthly basis with the sign-off sheet being filed with the backup paperwork that generates the entries.

In response to GASB 68, the Water Department will carry their portion of the unfunded liability for the NH Retirement System on their financial statements and this amount will also be included in the City's financial statements.

CITY ISSUES

4. Prepare to Implement GASB 68

Beginning in fiscal year 2015, the City is required to implement the Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions* that will require the unfunded pension liability be recognized on the City's Statement of Net Assets, including enterprise funds. It is widely expected that the implementation of this accounting standard will have a material impact on the City's basic financial statements.

We recommend the City begin planning for the implementation of GASB 68, which includes gaining an understanding of the new requirements, educating applicable financial statement users, and ensuring that the City's applicable portions of unfunded retirement system's unfunded liability is audited and available for inclusion in your financial statements.

City Response:

We are aware of the new GASB 68 requirements and will look for direction from Melanson Heath on implementation of this liability in our financial statements. Awaiting more information from State of New Hampshire on how the State expects to allocate this liability to each municipality. I am registered to attend the 2013 NHFGOA Annual meeting in May, where there will be a presentation on GASB 67 and 68.