

TOWN OF DANVILLE, NEW HAMPSHIRE

Management Letter

For the Year Ended December 31, 2014

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Additional Offices:

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

To the Board of Selectmen
Town of Danville, New Hampshire

In planning and performing our audit of the basic financial statements of the Town of Danville, New Hampshire, as of and for the year ended December 31, 2014, 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.

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

August 11, 2015

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Consider Accounting for All Special Funds in the Town's General Ledger

Prior Year Issue:

In the prior year, we recommended the Town consider accounting for all special funds activity in the general ledger.

Current Year Status:

The Town is in the process of determining the most effective way to account for special fund activity in the general ledger and has created several new accounts in the QuickBooks database to accomplish this task.

Further Action Needed:

We recommend the Town continue the process of setting up a structure in QuickBooks which will enable it to effectively account for all special funds activity in the general ledger. This will help to ensure that the general ledger, which represents the Town's permanent financial records, includes a complete history of all activity in the Town's special funds. It will also help to ensure that special fund activity is accounted for appropriately and is subject to proper oversight and review by the Town's governing officials.

Town Response:

These accounts have been set up in QuickBooks. The funds to be entered each month are just duplicate entries that were done by the Treasurer and although the monies are reflected in QB, the office staff is concerned that there is no checks and balances and the accounting for this is just an exercise in duplication of work. The office staff is in the process of working with our auditors to determine the best way to complete this process without just copying figures into QB.

2. Establish Departmental Receipt Policies and Procedures

Prior Year Issue:

In the prior year, we recommended the Town establish formal departmental receipt policies and procedures addressing the maintenance of departmental receipt records and receipt logs, security of cash receipts, and frequency of remittances to the Town Treasurer. We also recommended the Town develop a standard departmental receipt turnover form and establish a policy for all food pantry transactions.

Current Year Status:

The Town is in the process of drafting a formal departmental receipt policy and creating a standardized receipt turnover form. In addition, the Town

Welfare Officer is in the process of establishing formal procedures to control and account for all food pantry transactions.

Further Action Needed:

We recommend the Town continue working to establish a departmental receipt policy, standardized turnover form, and documented procedures for food pantry transactions. This will help to improve controls over departmental receipts and food pantry donations and may reduce the risk of errors or fraud.

Town Response:

There is no longer a food pantry. Controls are now being drafted, as outlined above by the auditor, for the acceptance and tracking of money and gift cards received.

CURRENT YEAR RECOMMENDATIONS:

3. Improve Accounting for Health Insurance Reimbursements

The Town pays health insurance premiums on behalf of the Road Agent and Library, who then reimburse the Town for these payments. Transactions are recorded in the same account in the general ledger; therefore, the activity in this account should net to zero at year end (i.e., payments should equal reimbursements). However, our review of the activity in this account in 2014 indicates that payments and reimbursements did not offset at year-end.

We recommend the Town improve its accounting for health insurance reimbursements to ensure that there is a clear audit trail between the premiums paid to the LGC Health Trust and the amount reimbursed to the Town by the Road Agent and Library. We further recommend the Town ensure that bills and reimbursements are posted in the same accounting period. This will help to ensure that all transactions are recorded appropriately in the general ledger.

Town Response

The processes outlined above are already in place. Office staff needs to ensure that the January premium payment is received in December and not after the next year budget fund distribution in January.

4. Improve Accounting for Public Safety Services Revolving Fund

The Town has established a Public Safety Services Revolving Fund to account for various permit receipts and inspector fees. The Town currently posts both the gross permit receipts and gross inspector fees to separate accounts in the general ledger, with periodic cash transfers to/from the general fund and revolving fund checking accounts to ensure that 25% of

the permit revenue for all jobs that have been completed is recorded as revenue in the general fund. However, the Town's current methodology for netting revenues against expenses when calculating these transfers makes it difficult to ensure that all transactions are being accounted for appropriately in both funds.

In addition, the Town tracks permit receipts and inspector fees in a separate Excel spreadsheet that is designed to monitor the status of all jobs for which receipts have been collected. However, the activity and year-end balance reported in this spreadsheet does not agree to the activity posted in the general ledger.

We recommend the Town improve its accounting for Public Safety Services Revolving Fund transactions. Specifically, we recommend the Town establish an organized methodology for calculating the monies to be transferred between the general fund and the revolving fund bank accounts. This should include a detailed spreadsheet that documents how the net transfers between these funds are calculated. We also recommend the Town ensure that the activity and year-end balance in the Public Safety Services Revolving Fund agrees with the detail of completed and incomplete jobs that is reported in the separate Excel spreadsheet.

Town Response:

Office staff is currently in the process of implementing the recommendation above to better show the monies collected, fees paid, and the transfers into the General Fund.

5. Research Timberlane Regional School District Scholarship Fund Balances (Trustees of Trust Funds)

The Trustees of Trust Funds (Trustees) manage multiple scholarship funds for the Timberlane Regional School District. The principal and income balances of these funds are reported on the Trustees' annual MS-9 report. As of December 31, 2014, several individual scholarship funds have deficit income balances resulting from scholarship payments in excess of annual investment income.

We recommend the Trustees research each individual scholarship fund to determine whether the principal (nonexpendable) and income (expendable) balances are classified correctly on the MS-9 report. If amounts reported as principal are expendable in accordance with the donors' instructions, they should be reclassified to clear the deficit balances reported in the income portion of the report. However, if the principal balances are nonexpendable and the income balances are true deficits, the Trustees should refrain from making further disbursements from these funds until the deficit balances are cleared by the funds' annual investment income.

Town Response:

The Trustee of the Trust funds has begun the research necessary per the auditor's request. Once this task is completed, the Trustee will make any necessary reclassifications.