

CITY OF LACONIA, NEW HAMPSHIRE

Management Letter

For the Year Ended June 30, 2017

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Additional Offices:

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

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, 2017, 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 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 a 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 those matters.

The City'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 Mayor and City Council, and others within the City, 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

December 12, 2017

PRIOR YEAR RECOMMENDATIONS:

1. Improve Trust Fund Accounting

Prior Year Issue:

In the prior year, we recommend the City maintain, review, record, and reconcile all trust fund activity and transfers between funds on a monthly basis. This will provide for a more efficient process to analyze activities and to identify unexpected trends and variances, and will help ensure that the year-end closing process proceeds timely and efficiently.

Current Year Status:

Substantial improvements to the trust fund accounting were noted during our fiscal year 2017 audit. However, adjusting entries were still required to correctly record the year-end transfer to reimburse the general funds for costs incurred by the trust funds throughout the year.

Further Action Needed:

We recommend that the City continue to improve the financial reporting of Trust Fund transfers between the various general ledger funds.

City's Response:

The City will review and improve the reporting of the transfers between the Trust fund accounts and other General Ledger funds.

2. Review City-wide Financial Software Access Controls

Prior Year Issue:

In the prior year, we recommended the IT departments thoroughly review all employees' job descriptions and ensure that permission levels assigned in the systems are appropriate given the current job descriptions. We further recommended that the City establish a policy whereby any change to an employee's job description occurs in conjunction with management's review of permission levels assigned to individuals.

Current Year Status:

Improvements have been made at the City, School, and Water Department, however, the Water Department has reported that all office personnel currently have full access to the general ledger software system.

Further Action Needed:

We recommend the Water Department perform a risk assessment to identify where financial software access controls can be improved. In addition, we recommend the Department review any identified risks with the City and re-evaluate if additional access control changes are warranted.

City's Response:

The City IT staff will be performing a security risk assessment in the coming months on all City departments, including the Laconia Water Works. Upon completion of this assessment we will start to implement any corrections to access control issues.

3. Enhance Student Activity Policies and Procedures

Prior Year Issue:

In the prior year, we recommended the School Department enhance the Student Activity Fund Accounting Policy to include specific elements that will provide guidance to those responsible for the accounts.

Current Year Status:

This recommendation has not yet been implemented.

Further Action Needed:

We continue to recommend the School Department enhance the Student Activity Fund Accounting Policy. Implementation of this recommendation will provide the School Department an improved monitoring of the effectiveness of its internal controls.

City's Response:

The District has a School Board policy regarding the student activity accounts. In addition to this policy, the Business Administrator prepared a detailed "Student Activity Account Procedures" sheet which includes specific elements that will provide guidance to those responsible for the activity account. Also, to improve the effectiveness of internal controls, the Business Administrator conducted a review of each account and documented each site visit. The Business Administrator will continue to monitor these accounts and conduct periodic internal control reviews during each school year.