

CITY OF LACONIA, NEW HAMPSHIRE

Management Letter

For the Year Ended June 30, 2019

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Additional Offices:

Nashua, NH
Andover, MA
Greenfield, MA
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, 2019, 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

January 21, 2020

OPENING COMMENT

Fiscal year 2019 was a year of transition for the City's Finance Department with three different individuals operated as Finance Director during the fiscal period, resulting in numerous adjustments being made in late December, nearly six months after year-end. In our opinion, some of the following comments are in part a result of the situation noted.

CURRENT YEAR RECOMMENDATIONS:

1. Re-establish Controls of Journal Entries and the General Ledger

Our audit disclosed multiple instances whereby adjustments to general ledger accounts were prepared by and reviewed by the same individual. Sound internal controls require that journal entries should be reviewed by another individual with knowledge of the transaction in order to assure an appropriate segregation of duties and oversight. Additionally, our audit disclosed that adjustments were needed with respect to the following audit areas:

- The accounting of the City's compensated absences (earned but unused time) did not include a summary or a statement of hourly wages and resulted in the City recording an estimate of this liability.
- Capital assets were understated, and the depreciation of assets required journal entries to correct account balances.
- General ledger cash balances were changed after the original reconciliation were performed, however, the original reconciliation were not updated.

We recommend that the City re-establish controls over journal entries and the various accounts noted above to ensure that future closings and reporting are complete and accurate.

City's Response:

The City acknowledges instances whereby adjustments to general ledger accounts were prepared and reviewed by the same individual but notes that this is not standard practice. Almost every instance of this practice occurred in the first few chaotic months following the passing of the City's Finance Director. Since this time, procedures have stabilized and the practice no longer occurs. The City will more closely monitor the processing of adjustments to ensure that all transactions are properly recorded and updated.

2. Improve Trust Fund Accounting

Our audit disclosed the following with respect to the City's various trust and agency funds:

- The City's annual MS9 form was not complete and accurate when compared with bank records.
- General Ledger Trust funds (numbers 48, 82 and 83) were incomplete and required adjustments.
- Student Activity Funds (number 68) were incomplete and essentially unchanged from the prior year.

We recommend that the City re-establish controls over the various trust and agency funds noted above to ensure that future closings and reporting are complete and accurate.

City's Response:

The City acknowledges an issue with the accounting of various Trust accounts dating back to 2015 and will continue to review and improve the reporting of transfers.

3. Improve Controls Over Payroll

Our sample testing of City payroll disclosed the following:

- The wage scale used for seasonal or temporary employees should be approved by the City Manager or City Council.
- Employee Action Forms for Library employees did not contain all information needed to readily re-calculate payroll.
- One school employee was overpaid by two hours.
- Another school employee was paid at the prior fiscal year rate.

We recommend that the City review all wage scales used to ensure that they are current, accurate, and properly approved by management.

City's Response:

The City will review all wage scales to ensure that they are current, accurate, properly approved and implemented.

4. Address the Deficit in the Internal Service Fund

The City's internal service fund (an accounting mostly of interfund activity) is reporting a cash deficit of approximately \$600,000 at June 30, 2019 indicating that the fund is not operating in a break-even manner or that the City is not billing City Departments (primarily general fund departments, water fund and sanitary sewer fund) on a regular and timely basis.

We recommend that the City investigate the reasons for the fund's cash deficit and implement corrective action accordingly.

City's Response:

The City acknowledges this long-standing condition and is taking steps to remedy the situation, with the understanding that implementing a lasting solution must occur over a period of several years.