

August 19, 2013

To the Board of Selectmen  
Town of Newton, New Hampshire

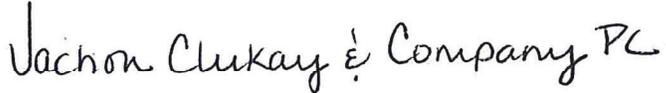
In planning and performing our audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Town of Newton, New Hampshire for the year ended December 31, 2012, we considered the Town's internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comment and suggestion regarding this matter. We previously reported on the Town's internal control structure in our report dated August 19, 2013. This letter does not affect that report or our report on the basic financial statements dated August 19, 2013.

We have already discussed this comment and suggestion with various Town personnel, and we will be pleased to discuss this in further detail at your convenience, to perform additional study of the matter, or to assist you in implementing the recommendation.

The purpose of this letter is to provide constructive and meaningful recommendations to you.

Sincerely,



Vachon Clukay & Company PC

## REDEMPTION NOTIFICATION

### *Observation*

As previously reported, we again noted that the tax collector's office did not notify the register of deeds of tax redemptions within the proper time frame required by State law.

### *Implication*

The Town is not in compliance with State law. Per RSA 80:33, the tax collector is to notify the register of deeds of any tax redemptions within thirty days of the redemption of tax liens. The failure to notify the register of deeds in a timely manner could create future problems should the property ownership be transferred.

### *Recommendation*

We recommend that the tax collector's office promptly forward tax lien release notices to the register of deeds to comply with State law. One suggestion is to institute a pop-up reminder on an electronic calendar, which would remind the tax collector to submit the necessary paperwork to the registry every month.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS**

To the Board of Selectmen  
Town of Newton, New Hampshire

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Newton, New Hampshire (the Town) as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Town's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the Town's internal control to be material weaknesses:

**GENERAL FUND ACCOUNTING**

***Observation***

The Town's General Fund is the main operating fund of the Town. The Town essentially maintains its accounting system on a "cash basis". However, the cash balance reflected on the bank reconciliation is not reconciled to the cash balance per the Town's general ledger. We were able to reconcile the general ledger cash balance within an immaterial amount of the Treasurer's reconciled cash balance at year end.

Audited financial statements are presented in accordance with generally accepted accounting principles for governmental units. As auditors, we proposed more than twenty entries to the Town's general fund accounting system. While some of these are normal entries that auditors propose in a routine audit, many of these adjustments reflect deficiencies in the current accounting system that need to be addressed.

### ***Implication***

Controls over the financial activities of the Town are weakened. The failure to reconcile the activity throughout the year increases the risk that errors may occur and remain undetected. In addition, the Board of Selectmen is making financial decision based upon inaccurate financial information.

### ***Recommendation***

The Town needs to take immediate steps to improve its internal accounting to more accurately reflect generally accepted accounting principles. We continue to recommend that all balance sheet accounts be reconciled on a monthly basis to detect any errors or omissions in a timely fashion. Any discrepancies should be identified and properly adjusted. It is essential that the Town's financial office personnel review the quantity and nature of the 2012 adjustments proposed by the auditors for the purpose of eliminating the need for such adjustments in the future.

## **SEGREGATION OF DUTIES**

### ***Observation***

The Town has a general ledger accounting system, which has the capabilities to account for the activity of more than one fund. Several funds have been established within the accounting system and some activity was recorded, but none of these funds have been reconciled to ensure that all activity was properly recorded. Essentially, only the activity of the General Fund is being actively recorded in the accounting system.

The Town's Treasurer is the authorized signature on various bank accounts in addition to those reported in the Town's General Fund. Two of the funds that are not being properly maintained within the accounting system have been earmarked to account for the activity of the Transfer Station Recycling and the Conservation Commission, which have a combined cash balance of approximately \$441,000 as of December 31, 2012. The only complete reporting of these funds is still being maintained by the Treasurer.

### ***Implication***

Controls over the financial activities of the Town are weakened as the accounting system is not being utilized to record all of the financial activity of the Town. The Town may not be in compliance with the accounting requirements of State laws and regulations. Additionally, there is no proper segregation of duties pertaining to these other bank accounts. The current procedures place sole reliance on the Treasurer to deposit monies, write checks, reconcile the bank accounts, and maintain a complete record of the activity.

### ***Recommendation***

We urge Town officials to fully utilize the accounting system to record the on-going activity in the additional funds. Although the Treasurer maintains records for these funds, the Town's finance personnel should also be tracking and reconciling the activity within the accounting software. Without any reconciliation procedures in place, the information within the computer is meaningless. Accordingly, we recommend that the general ledger balances in all funds be reconciled on a monthly basis to detect

any errors or omissions. This will ensure an accurate financial position of the Town will be available upon which the Selectmen and authorized Commissions may make sound business decisions. Sound internal controls provide for the distribution of duties to various personnel to reduce the risk of loss and to provide a system of checks and balances.

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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.

*Vachon Clukay & Company PC*

Manchester, New Hampshire  
August 19, 2013