

NORTH HAMPTON, NEW HAMPSHIRE

Management Letter

For the Year Ended June 30, 2014

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To the Board of Selectmen and Town Manager
Town of North Hampton, New Hampshire

In planning and performing our audit of the basic financial statements of the Town of North Hampton, New Hampshire as of and for the year ended June 30, 2014, 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 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 entity'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 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 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 it.

This communication is intended solely for the information and use of management, the Board of Selectmen, others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Melanson Heath

January 23, 2015

INTRODUCTION:

We would like to commend the Town for implementing many of our prior year recommendations during fiscal year 2014. The following section, however, includes prior recommendations that have not been fully implemented, that we feel are still worthy of consideration.

FOLLOW-UP ON PRIOR YEAR RECOMMENDATIONS:

1. Transition Other Funds to the General Ledger

Prior Year Recommendation:

In the prior year, we recommended the Town record all funds in the general ledger since many of the Town's special revenue and trust funds were not subjected to the Town's internal control procedures.

Current Year Status:

The Library and Cemetery funds have not yet been transitioned to the general ledger.

Further Action Needed:

We continue to recommend the Town record all activity in the general ledger. This will improve oversight and controls over all Town activity and will minimize the risk of error and irregularities occurring and going undetected.

Town's Response:

All Library and Cemetery funds maintained by the Trustees of the Trust Funds were recorded in the Town's general ledger in fiscal year 2014 and reconciled on a monthly basis. The checking, savings, and certificates of deposit accounts maintained by the North Hampton Public Library have not been transitioned to the Town's general ledger. The passbook savings account maintained by the Cemetery Trustees was recorded in the Town's general ledger at the beginning of fiscal year 2014 and reconciled at year-end. In fiscal year 2015 all Library and Cemetery funds will be recorded in the Town's general ledger and reconciled on a monthly basis.

2. Develop a More Formal Risk Assessment Process

Prior Year Recommendation:

In the prior year, we recommended that the Town implement a more formal risk assessment process that includes written identification of areas where potential fraud or material misstatements to the basic financial statements may occur.

Current Year Status:

The Town informally performs risk assessment for possible fraud or material misstatement through various policies and procedures and regular reviews of trends in the financial statements. Risk assessment is a management function designed to identify where an organization may be vulnerable to errors and/or irregularities. A complete risk assessment process involves a written description of risk areas identified by those charged with governance (management and elected officials) and a description of how the organization intends on responding to the risks. This process should be used by departments as guidance to help safeguard assets, to properly record transactions, and to provide a basis for continuing operations when turnover occurs in key financial departments.

Further Action Needed:

We continue to recommend that the Town implement a more formal risk assessment process that includes written identification of areas where potential fraud or material misstatements to the basic financial statements may occur. Particular attention should be given to potential related party transactions and conflicts of interest. Specific monitoring activities to address these risks should be implemented. Regular Department Head meetings could be used as a starting point for such risk assessment discussion.

Town's Response:

Regular Department Head meetings continue to be held semimonthly and sometimes more frequently depending on the relevant circumstances/needs that may exist. These meetings are used to facilitate discussions relative to current budget status, areas of concern from Department Heads, project updates, and updates relative to goals and objectives set by both departments and the Select Board. The meetings are also a forum for giving attention to potential conflicts of interest and related party transactions. We agree that written documentation of the assessment process can be improved. The Finance Director has drafted internal control policies and procedures to be distributed to all staff that provides a framework for conducting their business activities and specific monitoring activities to address identified risks.