

To the Honorable Mayor and City Council
City of Dover, New Hampshire
Dover, New Hampshire

In planning and performing our audit of the financial statements of City of Dover as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered City of Dover's internal 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.

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the following deficiency to be a significant deficiency in internal control:

Proper Accounting Cutoff for Expenditures and Accounts Payable

The City has an internal policy whereby any invoices processed after August 15th are to be recorded in the next fiscal period. While the intent of establishing this cutoff date may be to close the prior fiscal period and move forward with the next fiscal period, it does not comply with generally accepted accounting principles and has resulted in material misstatement of accounts payable.

We identified five invoices affecting the capital projects fund and the sewer fund that were not recorded in the correct accounting period. The services were performed prior to June 30, 2009 and should have been recorded in the respective funds as an expenditure and a liability in the fiscal year ended June 30, 2009. Instead, the expenditures were recorded in the fiscal year ending June, 30, 2010, based on when the disbursement was made to the vendor. We provided the accounting department with our proposed entry necessary to correct the transaction and it now has been recorded correctly in the June 30, 2009 financial statements. To improve internal control in this area, we recommend that significant disbursements made subsequent to year end be reviewed to determine if the proper accounting cutoff has been applied, based on when the goods or services have been provided to the City.

City's Response

The City concurs with the recommendation. The August 15th date was established as the closing date for the prior fiscal year. The City will review disbursements made subsequent to the August 15th date to determine if any disbursements are relevant to the prior fiscal year. Any disbursements identified as being applicable to the prior year will be accrued in accordance with generally accepted accounting principles. The City has incorporated this task into the year-end closing checklist.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control. We believe that the following deficiencies constitute material weaknesses.

Adhere to a Year-End Closing Schedule

This year's closing process and financial reporting was delayed. We did not receive a finalized trial balance and supporting reconciliations until near the end of the audit, which further delayed our ability to perform audit procedures and ultimately delayed issuance of the financial statements.

Significant journal entries were proposed by the City as the audit was occurring, and adjustments were proposed by us as well. Both of which cause management and the auditors to spend additional time to complete the audit.

We believe that the delay in the year-end closing process from the prior year and the current year also contributed to some of the difficulty in reconciling accounts this year.

The more significant reconciliation issues we found this year were as follows:

- Fund balance accounts did not agree to the fund balance figures reported in the prior year audit report. This was possibly due to journal entries being posted to June 30, 2008 by the City after the audit report had been issued. Other issues that may have caused the fund balance figures to be misstated include not reconciling between the prior auditors' figures and the City's figures.
- Interfund accounts receivable and accounts payable did not agree between funds.
- Interfund transfers did not agree between funds.

We understand that the City has developed a year-end closing checklist, however, have not been able to adhere to it. To utilize the checklist properly, closing procedures and essential tasks should be identified and monitored with specific due dates in mind. The closing process is a continual process, at each month-end as well as at year-end. When reconciliations are being prepared and monitored on a regular basis, issues will be identified earlier in the process and thus will be easier to correct rather than accumulating them until year-end.

In addition, it may be beneficial to review the accounting software capabilities and the responsibilities and the staffing level of the finance department to determine if personnel resources and technology are being efficiently used. There may be procedures being performed that can be done more efficiently. There may be reports or other information that is being produced that is time consuming to prepare, for which the end use of the information may not justify the time required to prepare it. We understand that the City is in process of implementing new accounting software, which may provide for better efficiency.

City's Response

The City concurs with the recommendation. The Finance Department will continue to utilize and appropriately modify the year-end closing schedule. In lieu of the year-end schedule solely being a checklist of items to be completed for the year-end audit, the year-end schedule will be utilized as a tool for monitoring monthly benchmarks such as monthly reconciliations of significant balance sheet accounts.

Prior-Period Adjustment Related to Capital Assets

As part of our procedures on capital assets we inquired about the City's practice for accounting for donated roads and related infrastructure. We found that since the year 2000, the City had not been accounting for donated roads and related infrastructure in the capital assets as required by generally accepted accounting principles. This resulted in a prior-period adjustment to the government-wide financial statements of approximately \$5,297,000 and to the business-type activities of approximately \$2,773,000. The City should develop procedures to identify and record all donated assets in accordance with generally accepted accounting principles. Since it is likely that most significant donated assets would be acknowledged by the acceptance of the City Council and would be documented in the minutes of the meetings, identifying the transactions from the meeting minutes may be a good place to start.

City's Response

The City concurs with the recommendation. The City's Finance Department, working with Community Services Department and Planning Department developed procedures to ensure that resolutions going before City Council for acceptance of roadways will include information to document the value of the donated roadway and related infrastructure. The approved resolutions will serve as documentation to record the donated capital asset in the City's financial records. In the year-end closing schedule a task has been created to review City Council meeting minutes and resolutions for acceptance of donated capital assets.

In addition, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated February 26, 2010, on the financial statements of the City of Dover, New Hampshire.

Improve Internal Control over the Collection of Vehicle Registration Fees

During our review of the cash receipts procedures related to vehicle registration fees it was noted that the Clerk Works software does not interface with Amase (the City's Accounting Module). The recording of vehicle registration fees into the accounting software is done manually and there is no formal reconciliation of the registrations issued/fees collected per Clerk Works to the revenue that is recorded in Amase. We believe that this creates the potential for errors or fraud to occur and go unnoticed. A fairly simple procedure which would improve internal control in this area would be to reconcile the amount of revenue recorded in Amase to the number of registrations times the fees charged as issued in Clerk Works. This should be done on a monthly basis to ensure timely identification of discrepancies.

We understand that the finance department is currently in the process of implementing new software which may eliminate the need to manually record vehicle registration fees. The efficiency of operations and internal controls will likely be improved as well if the new software is able facilitate an integration of Clerk Works and the accounting software. We strongly recommend implementing the new software to eliminate the duplication of effort that is necessary with the current system.

City's Response

The City concurs with the recommendation. The City Clerk/Tax Collection office is electronically archiving the daily Clerk Works' activity report and the Accounting office is utilizing these reports to validate the revenue recorded in the City's general ledger (Amase software) for motor vehicle registrations. The City is currently implementing a new financial software system and will determine if the new software is able to facilitate an integration of Clerk Works.

Implement the Capital Asset Software

Instead of an integrated accounting system that includes a capital asset accounting module, the City's capital assets are maintained on an Excel spreadsheet. As new assets are placed in service, they are entered into the spreadsheet and assets that are disposed during the year are manually removed. The process of maintaining the historical cost and accumulated depreciation is complicated and time consuming. We understand the City has acquired capital asset software to account for and monitor its physical assets and related depreciation. We want to stress the importance of converting from Excel to the capital asset software as soon as is possible. Implementing the software should improve the efficiency and accuracy over the accounting for capital assets.

City's Response

The City concurs with the recommendation. The City has acquired a new financial software system, which has capital asset accounting functions. The City is currently utilizing fiscal year ended June 30, 2009 audited capital asset data to populate a data conversion template. The new financial software system vendor will utilize the data conversion template to populate the new software with the City's capital asset data as of June 30, 2009. The City will manually update the new software with capital asset acquisitions for the period of July 1, 2009 through February 28, 2010. Effective March 1, 2010, the City will be utilizing the new financial software for Accounts Payable disbursements. Budget Sense (new software) will be configured to record capital asset purchases when invoices are paid and charged to certain function and object codes used by the City for capital outlay purchases and capital improvement projects.

Establish the Use of a Master Vendor File

The City does not maintain a master vendor file. Expenditures are paid based on approved invoices and purchase orders. Payees are not compared to a list of approved vendors. We recommend that a master vendor file be established by the purchasing department and be periodically reviewed. The use of a master vendor file will improve internal control by limiting opportunities for employee and vendor fraud and preventing duplicate payments to vendors with multiple locations.

City's Response

The City concurs with the recommendation. A significant number of purchases for the City are processed through the Purchasing office and the vendor approved for the purchase of certain goods and services is selected through a formal bid process. In the process of implementing the new financial software system, the vendor lists for the City and School District have been combined and reviewed to remove duplicate vendors and establish a vendor master file. The City's current procedure is to obtain a completed Form W-9, as required by the IRS, to establish any new vendor. The Purchasing Agent will oversee the City's master vendor file.

Deposit Cash Receipts on a Timely Basis

It is our understanding that some locations outside of city hall are not depositing cash receipts on a timely basis. The policy of the City is to deposit receipts on the day they are received. Some locations are taking up to a week before depositing cash receipts. As a result, not only is there a risk of loss from burglary, misplacement, or misappropriation, but the cash is not available for expenditures or investments. We recommend that deposits be made on a daily basis in compliance with the City's policy.

City's Response

The City concurs with the recommendation. In accordance with Administrative Regulation 3-1, Departmental Petty Cash, Collections and Deposits to Tax Collector, departments are to required to make deposits when collections total \$100 or more, collections totaling less than \$100 shall deposit moneys at a minimum of once per week. This policy will be reviewed with City departments to ensure compliance.

Improve Controls over Cash Receipts – School Lunch Program

During our testing of the school lunch program, we noted that the cashiers are not signing off on their daily cash out slips. Without appropriate documentation, completeness of these deposits can not be assured. We recommend that the cashier's verify daily their cash amounts with a signature or initials as evidence of authenticity.

City's Response

The City concurs with the recommendation. The School District has implemented corrective measures to strengthen internal controls for School Lunch Program cash receipts. These improvements to internal controls include cashiers verifying their cash drawers daily with signatures on a form to document their authenticity. The School District's Food Service Program Director has implemented the corrective measures effective with the start of the 2009-2010 school year.

Physical Inventory Count – USDA Food Inventory

It is our understanding that physical count of the food inventory only includes full, unopened cases. The government reporting requirement is based on case counts; however, the internal count should include partial cases. Currently, the partial cases are considered used which could cause a misrepresentation of the cost of meals for the period and could lead to misappropriation as the records are not in adequate detail. We recommend counting each individual unit as part of the physical count of inventory for the internal records.

City's Response

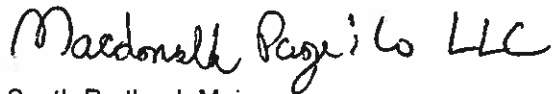
The City concurs with the recommendation. The School District performs an annual physical food inventory count. Based on guidance received from the NH Bureau of Nutrition Program, the School District will account for each individual unit as part of the physical count of inventory for their internal records. The School District's Accounting Manager and Food Service Program Director will be responsible for conducting the annual physical inventory count.

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We will review the status of these comments and suggestions during our next audit engagement. We already have discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The City's response 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 the City Council, management, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Macdonald Page & Co LLC". The signature is written in a cursive, flowing style.

South Portland, Maine
February 26, 2010