

macdonaldpage & co llc

Certified Public Accountants and Management Advisors

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, New Hampshire as of and for the year ended June 30, 2011, 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 opinions 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 was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in City of Dover, New Hampshire's internal control to be significant deficiencies.

Lack of Accounts Payable Reporting in New Accounting Software

The new accounting software does not have the ability to produce an accounts payable aging report. As a result, there is not an effective and efficient method to monitor or reconcile accounts payable. The accounting department had to manually develop the report to support the year-end balance. The manual preparation of the accounts payable report took considerable time and effort. There also is a risk that the financial statements could be misstated and a risk that the payment of vendors is not managed properly. We recommend the City contact the software provider to request this functionality be provided in the software.

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City's Response

The City concurs that the new financial software does not have the ability to produce an accounts payable aging report. The City has submitted an enhancement request to the software provider to develop and implement this functionality. The City has a manual step in place to ensure that the payment of vendors is properly managed absent a report produced by the software system for accounts payable aging. A manual report is maintained to track accounts payable invoices input into the system but scheduled for payment on a later check disbursement date than the current week's check disbursement date. The City recognizes the software's current limitation and will be performing regular reconciliations of the accounts payable account in the General Ledger.

Reconcile the General Ledger Balance for Property Taxes and Water and Sewer Accounts Receivable with the Subsidiary Ledger

At the time of our audit procedures, which began in October, the water and sewer accounts receivable detail and property tax accounts receivable detail had not been reconciled to the general ledger control accounts. It is our understanding that the tax collectors office is responsible for performing these accounts receivable reconciliations. Not performing timely reconciliations caused discrepancies to accumulate throughout the year. The discrepancies have since been identified and the necessary adjustments have been made, however, the task was more difficult and time consuming to correct since the reconciliations were only performed after year-end. We recommend that reconciliations of the accounts receivable detail to the general ledger be made at the end of each month and that any reconciling items be investigated and corrected promptly. Additionally, personnel in the accounting department should review the reconciliations to determine accuracy and agreement with the general ledger. Also, procedures for the accounting for these accounts should be reviewed and modified to help ensure that the discrepancies do not continue to occur going forward.

City's Response

The City concurs with the recommendation of performing timely monthly reconciliations of property tax and utility accounts receivable detail subsidiary ledgers to the general ledger. The reconciliation of activity in the accounts receivable detail subsidiary ledgers was completed through the beginning of May 2011 in order to ensure data being imported into the City's new billing/accounts receivable software agreed to the City's legacy system. The City went live with the new billing/accounts receivable software on May 16, 2011. The new billing/accounts receivable software exports posted activity into a data-interface that allows accounting personnel to post the exported data into the General Ledger. The challenge that has been created through this automated process is that the posting of billing/accounts receivable data into the General Ledger is by journal reference and provides lump sum amounts instead of detail reflected in the accounts receivable software. City personnel are working through this challenge and have submitted requests to the software provider to provide better reports that will provide the necessary information to complete reconciliations between the general ledger and billing/accounts receivable software in an easier manner. City accounting and tax collection personnel have discussed the challenge that currently exists and are scheduling regular meetings to evaluate the reconciliation process on a monthly basis to improve the reconciliation process.

Accounting for Amounts Due to and Due From Other Funds

In governmental fund accounting, cash is typically pooled in the general fund. When cash is received or paid from the general fund and the transaction relates to another fund, the accounting for this transaction requires an amount payable and receivable between the funds that agree. When the transactions are recorded properly, the due to and due from other funds accounts will net to zero. The due to and due from other funds accounts in the initial trial balance we were provided was in balance. When we were provided with the revised trial balance, the due to and due from other funds accounts were out of balance by approximately \$558,000. This discrepancy has since been corrected and the necessary adjustments have been made by the accounting department. We were informed that the discrepancy was a result of the new accounting system setup and the result of manual entries to record year-end transfers that did not affect the due to and due from other funds accounts as expected. Some governmental accounting software packages have an error checking feature that will not allow the posting of an unbalanced transaction affecting the due to and due from accounts. The accounting department should work with the software provider to improve the usefulness of the software by installing or adding an error checking feature to the accounting for due to and from accounts.

City's Response

The City concurs with the recommendation. The Finance Department will follow up with the software provider to determine if the software has an error checking feature that will ensure that entries impacting a due to and due from account are in balance. In the interim, the Finance Director and Accounting Supervisor will review all manual entries to ensure impacts to due to and due from accounts are in balance. All system generated entries for posting of payroll, accounts payable, cash receipts and billings are automated to properly post with due to and due from accounts in balance.

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 January 30, 2012, on the financial statements of City of Dover.

Ambulance Receivable Collections and Abatement Procedures

During our testing of ambulance receivables, we found that approximately \$825,000 of the account balance of \$1,370,000 were over one year past due. Furthermore, approximately \$480,000 of those accounts is aged three years and older. The future collection of any accounts that are older than three years is barred by NH RSA 508:4, Statute of Limitations. The allowance for doubtful accounts is increased each year to offset these uncollectible accounts receivable; however, the full balance of the accounts receivable continues to be reported in the general ledger account. We recommend that the City follow its collection and write-off policy dated January 30, 2008 and periodically write-off the ambulance receivables considered uncollectible.

City's Response

The City concurs with the recommendation. The Finance Director will meet with the Fire & Rescue Chief to review the January 2008 Standard Operating Guideline (collection policy). The Finance Director and Fire & Rescue Chief will meet with the City's contracted ambulance billing service to review billing functions and determine when accounts are deemed uncollectible and recommended to be written off. Accounts recommended to be written off will be provided to the City Manager for approval in accordance with the Fire & Rescue standard operating guideline.

Review of Water and Sewer Usage Reports

The water and sewer usage reports are reviewed by the billing clerk in the accounting department for inaccurate meter readings and the clerk identifies meter readings that appear to be inaccurate and orders a re-read of the meter. The billing clerk then makes adjustments to the usage amounts as necessary, which is the source to prepare the bill from. The usage information and a list of re-read meters is provided to the Finance Director by the billing clerk in an excel spreadsheet which is downloaded from the billing software. The excel spreadsheet can be easily changed or manipulated increasing the risk that errors or inappropriate adjustments to the usage information can be made and would go undetected. We recommend that the reports used by the Finance Director for the review of usage and meter re-reads be direct system downloads that are not able to be changed or manipulated. This procedure should help reduce the risk of errors or that the usage amounts and, thus water and sewer revenues could be changed.

City's Response

The City concurs with the recommendation. The Utility Billing bookkeeper will provide the Finance Director with a system generated meter-read load error report. This report will be compared to the excel spreadsheet utilized by the bookkeeper to track re-read meter data. Once the bookkeeper performs the tentative billing computation, the system generated exception report will be provided to the Finance Director. This exception report, along with the meter-read load error report, will be used to perform a post audit of manually updated usage entries to confirm that amounts of usage being billed in the system agree to the documentation maintained by the bookkeeper on the excel spreadsheet.

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 City Council, management and others within the City, and federal awarding agencies, state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macdonald Page & Co LLC

South Portland, Maine
January 30, 2012