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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 the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dover, New Hampshire as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Dover, New Hampshire's internal control over financial reporting (internal control) as a basis for designing audit 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 City of Dover, New Hampshire's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Dover, New Hampshire'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 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 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. 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:

#### **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 trial balance we were provided were out of balance. This discrepancy has since been corrected and the necessary adjustments have been made by the accounting department. The discrepancy appears to be as a result of manual journal entries that were made as part of the year-end closing process.

## Macpage LLC

30 Long Creek Drive, South Portland, ME 04106-2437 | 207-774-5701 | 207-774-7835 fax | cpa@macpage.com  
One Market Square, Augusta, ME 04330-4637 | 207-622-4766 | 207-622-6545 fax

macpage.com



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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. In addition, we recommend that at the end of each month, the accounting department should generate a report that lists all due to and due from accounts and review the report to determine that the accounts are in balance and correct any discrepancies.

#### **City's Response**

The City concurs with the recommendation. The Finance department has followed up with the software vendor and it has been confirmed that the financial software has an error checking feature for system generated journal entries such as payroll and accounts payables. The Finance department has also confirmed that the financial software has an error checking feature for manual adjusting journal entries. This error checking feature ensures that the manual entries are in balance by Fund, but does not have the added feature of ensuring that Due To/Due From accounts impacted by manual journal entries remained in balance between Funds. The Finance Director and Accounting Supervisor will review all manual entries to ensure impacts to Due To/Due From accounts are in balance. The Finance department has created a system generated report to assist in reconciling Due To/Due From accounts. The Finance department has also worked with the software vendor to develop an alternative process to perform routine error checks on Due To/Due From accounts utilizing the Transaction Inquiry function within the software system.

#### **Prior Period Adjustment to the Water Fund**

As a result of our audit procedures, it was discovered that a federal loan program grant for infrastructure improvements of \$335,191 had been incorrectly recorded as revenue for the year ended June 30, 2011. The amount should have been recorded as a liability, as stipulated in the grant agreement as the amount received will be paid back once the project has been completed. When a correction of an error is necessary that relates to the prior period, a prior period adjustment through net assets is required and it is considered to be significant deficiency in internal controls. The City should establish procedures to ensure that the accounting for grants in accordance with the provisions of the terms of the grant agreements.

#### **City's Response**

The City concurs with the recommendation. This adjustment is the result of the first reimbursement received from the State of New Hampshire Department of Environmental Services for the North End Water Pressure Zone project. The City has reviewed the grant application and acceptance process as defined by City Administrative Regulations. The City has created a quick reference flowchart to assist departments in ensuring compliance with the application and acceptance processes.

We will review the status of these comments and suggestions during our next audit engagement. We already have discussed 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.

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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.

*Macfoge LLC*

South Portland, Maine  
December 27, 2012