

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, 2013, 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:

Accrued Payroll Accounts not Reconciled Timely

We noted during our audit procedures that accrued payroll accounts had not been reconciled to the payroll supporting documentation in a timely manner. The risk of not reconciling accounts is that the financial statements could be misstated. A benefit of timely reconciliations is that errors do not accumulate but can be identified and corrected before too much time has passed. Timely preparation of complete and accurate reconciliations is a key to maintaining adequate control over payroll. These accrual accounts are a significant balance for the City and reconciliations should be performed timely and reviewed by someone other than the preparer. Therefore, we recommend that the City perform monthly reconciliations within 15 to 30 days of the month end and will ensure that general ledger balances are accurate and properly supported.

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City's Response

The City concurs with the recommendation. The City had identified two areas of reconciliation and payroll processing that required additional review and possible changes to the financial system software. One area that requires further attention for the City accrued payroll account and the School accrued payroll account is the fiscal year-end recording of the School department's summer payrolls and the postings of subsequent payment of those wages over the summer months. The year-end recording is properly posted to the school accrued payroll account, however, it appears that in some cases the payroll software processes the payment of the wages against the City accrued payroll account instead of the School accrued payroll account. The second area that requires further attention is the processing of payroll adjustments between two different funds when a correcting entry is required due to an account being incorrectly charged wages. In these situations the financial software is posting to the City accrued payroll account the inter-fund impact instead of properly posting the inter-fund impact to the Due To/Due From accounts within each affected fund. The Finance Department will be in contact with the software vendor to determine what changes need to be made to the payroll and general ledger software to ensure that the payment of the school's summer payrolls are posted only against the school accrued payroll account and that inter-fund impacts of payroll adjusting entries are posted against the Due To/Due From accounts. The Finance department has created a system generated report to assist in the reconciling the two accrued payroll accounts. The Finance department is utilizing the Transaction Inquiry function within the software system as an additional tool to perform timely reconciliations.

Reconciliation of Capital Reserve Accounts Receivable Accounts

During our audit we found that the accounts receivable for the capital reserve accounts were essentially unchanged from the prior year. The risk of not reconciling accounts is that the financial statements could be misstated. Upon subsequent research by the finance department it was discovered that the mapping for these accounts had been changed when the general ledger was converted to the new accounting software and as a result the receipt of funds had not reduced the account balances, as it should have. There is a corresponding liability account in the general fund which offsets these accounts receivable balances. The capital reserve accounts and the general fund liability account should be reconciled monthly and adjusted as necessary to ensure they are complete and accurate.

City's Response

The City concurs with the recommendation. The City performs monthly reconciliation of the entries (invoicing and receipt of payments) for the capital reserve account activity that is posted to the liability account in the general fund and the liability accounts within the respective capital reserve accounts. This ensures that the funds received by the City for the capital reserve accounts are properly transferred into the appropriate capital reserves. The City has identified the entries that were generated during the time of software conversion and are reconciling the invoicing activity from those entries against subsequent payment receipts to post necessary correcting entries to the proper liability accounts.

Segregation of Duties over Permit Revenue and Reconciliation of Permits Issued

We noted during our audit procedures that there is no segregation of duties within the revenue process for permits. The same individual that is responsible for completing the permit also receives the payments and completes the deposit paperwork. We also noted that permit revenue is not regularly reconciled to the number of permits issued including accounting for the sequence of permit numbers issued. The risk of not reconciling accounts is that the financial statements could be misstated. The primary benefit of regular reconciliations is that errors are not allowed to accumulate because they are identified and corrected on a timely basis. In this instance, regular reconciliations by an independent party would serve to establish oversight because of the limited segregation of duties and reduce the opportunity for fraud. Therefore, we recommend that an individual not directly involved in the issuance of permits and collection of revenue, perform a reconciliation of permit revenue to a sequential log of all permits granted on a monthly or quarterly basis, to help ensure that the general ledger balance is accurate and properly supported.

City's Response

The City concurs with the recommendation. The Finance Department will be working with the Building Inspection Services Division and the Fire & Rescue Department to review functions associated with processing the receipt of building permit revenues to improve segregation of duties and establish some reconciliation functions for permit revenues. The City already has some monthly processes in place that provide building permit data and presents that data in monthly statistics presented on the City website. The Finance Department believes that with this monthly data a reconciliation processes can be easily developed for permit revenues.

In addition, during our audit we became aware of a few 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 7, 2014, on the financial statements of City of Dover, New Hampshire

Deficit Fund Balances

As a result of our audit procedures, it was noted that the City's deficit fund balances in the special revenue funds and capital project funds are continuing to grow. The amounts and funds affected are disclosed in Note 2 to the financial statements. The expectation is that the deficits will be covered by future reimbursements or revenues. We believe that having a written plan on how the City plans to fund these deficits can help management with direction on how this goal can be attained. A well-developed plan can be beneficial to management to look at the long-term funding necessary by specifically indentifying where the resources will come from and a time table to cover the deficits. The funding plan will help management remain focused on the goals of reducing the deficit fund balances over time.

City's Response

The City concurs with the recommendation. The Finance Department will follow up with each department that administers grants accounted for in the City's special revenue funds to ensure that grant reimbursement requests are properly processed. In some instances grants cross-over from one fiscal year to the next and therefore expenditures made in the earlier fiscal year are not reimbursed until the grant obligations are completed and reimbursement request is made in the subsequent fiscal year. The City will continue to monitor all special revenue funds. The City recognizes that some of the deficits in the Capital Project Funds are the result of timing for bond issuance versus when actual project expenditures are incurred. The City is planning to issue a bond during FY2014, which should address many of the Capital Project Fund deficits. There is also timing differences for projects to be funded through Capital Reserve Accounts. The actual expenditure needs to be incurred before a transfer of funds from a capital reserve account is made. Therefore, in most cases the expenditure is made in an earlier fiscal year and the transfer from the capital reserve account is made in the subsequent year. The City will continue to monitor all capital project funds.

Reconciliation of Water and Sewer Fund Accounts Receivable

The accounting department has developed a manual process to reconcile transactions posted to accounts receivable for the water and sewer funds as a result of differences identified in how the software system account for receipts from customers. Revenue Sense (the billing and collection module) does not account for customer overpayments in a way that can be easily reconciled to the postings in Budget Sense (the general ledger package) and this has been identified as the most significant cause of the differences. The process to track and monitor differences between the two systems can be time consuming and because of the manual nature of the process is prone to errors. There is a risk that because of the issues with the accounting systems that the accounts receivable balances in the water or sewer fund could be misstated and the result of the misstatements could be difficult to timely identify and correct. We recommend that the accounting department continue to work with the software provider to provide enhancements to the systems that will allow for better reporting of information that will allow the tax collection department, working with the finance department to efficiently reconcile the water and sewer funds accounts receivable balances.

City's Response

The City concurs with the recommendation. The accounting personnel within the Finance department continue to work with the City's software providers to improve reporting capabilities for Water and Sewer accounts receivable data and the interface of the software systems (Utility Billing, Accounts Receivable and General Ledger). During Fiscal Year 2013 the accounting personnel worked with the software providers to improve transaction reports for activity processed through billing and accounts receivable and the corresponding entries posting to the General Ledger. This helped to improve the reconciliation process for the Tax Collection department. However, with the significantly large volume of transactions for Water and Sewer invoices and related payments the reconciliation remains challenging. The accounting personnel are working with the software providers to see if reports can be generated based upon billing codes, dates of service/transaction and segregated by each utility classification (Water versus Sewer).

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.

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The City's response to our comments and suggestions has 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.

Maerpage LLC

South Portland, Maine
January 7, 2014