

CITY OF CLAREMONT, NEW HAMPSHIRE

Management Letter

For the Year Ended December 31, 2009

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To the Mayor and City Council
City of Claremont, New Hampshire

In planning and performing our audit of the financial statements of the City of Claremont, New Hampshire as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Claremont's internal accounting 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.

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 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

During our audit we became aware of certain 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.

Additional Offices:

Andover, MA • Greenfield, MA • Ellsworth, ME • Manchester, NH

The City's written 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 it.

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

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
August 23, 2010

CURRENT YEAR RECOMMENDATIONS:

1. Gross-up Accounting Records

We noted that several of the City's general ledger accounts net revenues with related expenditures. As a result, certain activities, such as airport and CDBG grants, are difficult to ascertain actual revenues and expenditures. Generally accepted accounting principles do not permit the netting of revenues to expenditure accounts. Also, this methodology makes it more difficult to monitor expenditures against the budget to determine if actual overexpenditures exist.

We recommend the City not net revenues and expenditures. To accomplish this, the City should establish a corresponding revenue and expenditure accounts. This will improve the monitoring and tracking of these activities.

City's Response:

Recommendations initially come from CDBG on reporting of activities, and subsequent monitoring by that agency has not revealed any issues. The City will proceed with the establishment of separate accounts as recommended.

2. Improve Controls Over Petty Cash

During our review of petty cash funds, we noted a department that did not utilize standardized petty cash slips. Standardized petty cash slips would document the purpose for the disbursement, who requested the disbursement, and whether the disbursement was approved. As a result, we were unable to determine whether the disbursements from the petty cash fund were authorized; however, we did note that the disbursements were subsequently approved by the department head as part of the petty cash replenishment process.

We recommend the City utilize formal petty cash slips. This will result in improved documentation and control over disbursement of petty cash funds.

City's Response:

The City allows cash to be disbursed upon receipt of allowable expenses. The City shall reinforce this procedure with all departments.

3. Monitor Mill District TIF Deficit

The Mill District TIF Fund reflects a deficit fund balance of \$ (318,186) at December 31, 2009. In 2009, this fund relied on cash borrowings from another fund (The River Road TIF) in order to cover debt service and other related expenses. Future operating results are dependent upon whether the Mill District TIF facility can achieve improved occupancy.

We recommend the City continue to monitor the operating results of the Mill District TIF fund closely to assure that unfunded operating deficits do not occur. If revenue growth for the TIF does not improve, the City will need a plan to finance related debt from other sources, which ultimately may impact property taxes. These measures will help maintain the fiscal stability of the Mill District TIF, as well as the City's property tax rate.

City's Response:

The City is very aware of the current fiscal constraints of the Mill District and the economy as a whole, as it impacts our ability to grow that area. The City will continue to monitor the situation closely.