

CITY OF CLAREMONT, NEW HAMPSHIRE

Independent Auditors' Reports Pursuant  
to Governmental Auditing Standards  
and The Single Audit Act Amendments of 1996

For the Year Ended December 31, 2007

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Claremont, New Hampshire, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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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 deficiencies described in the accompanying schedule of findings and questioned costs, as items 07-1, 07-2, and 07-3, to be significant deficiencies in internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that of the significant deficiencies described above, items 07-1 and 07-2 are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain other matters that we reported to management of the City in a separate letter dated December 31, 2008.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Manager and City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Melanson, Heath + Company P.C.*

Nashua, New Hampshire  
December 31, 2008



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the City of Claremont, New Hampshire, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

## Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in a City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Claremont, as of and for the year ended December 31, 2007, and have issued our report thereon dated December 31, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, City Manager and City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Melanson, Heath + Company P.C.*

Nashua, New Hampshire  
December 31, 2008

CITY OF CLAREMONT, NEW HAMPSHIRE  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2007

<u>Program Title</u>	<u>State Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through NH Community Development Finance Authority (CDFA)			
Pleasant Valley Estate	03-222-CDED2	14.228	\$ 271,796
Green Mountain Childcare	05-222-CDPF	14.228	59,137
Historic Mill District	B-04-SP-NH-0456	14.246	321,185
Historic Mill District	B-05-SP-NH-0169	14.246	<u>444,450</u>
Total Department of Housing and Urban Development			1,096,568
 <u>U.S. Department of Transportation</u>			
Passed through NH Department of Transportation			
Sugar River Pedestrian Bridge	X-A 000 (089)	20.705	1,177,397
Hazard Beacons	3-33-0002-10	20.106	6,000
Airport Drainage and Beacon Repairs	3-33-0002-15	20.106	210
Airport Improvements - Hangers	3-33-0002-16	20.106	275,103
Parallel Taxiway Grant	NH-SBG-02-01-7008	20.106	<u>4,740</u>
Total Department of Transportation			1,463,450
 <u>Environmental Protection Agency</u>			
Passed through NH Department of Environmental Services			
SRF Loan Program	CS-330001-03	66.458	168,294
SRF Loan Program	CS-330114-11	66.458	2,645,126
Drinking Water SRF Loan Program	NH-041010-01	66.458	<u>4,089,903</u>
Total Environmental Protection Agency			<u>6,903,323</u>
Total Federal Expenditures			<u>\$ 9,463,341</u>

This schedule was prepared on a modified accrual basis of accounting.

See Independent Auditors' Report on Schedule of Expenditures of Federal Awards.

CITY OF CLAREMONT, NEW HAMPSHIRE

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2007

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiencies identified that are not considered to be material weakness(es)?

yes  no

yes  none reported

Noncompliance material to financial statements noted?

yes  no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiencies identified that are not considered to be material weakness(es)?

yes  no

yes  none reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes  no

Identification of major programs:

CFDA Number(s)

14.228  
14.246  
20.705  
66.458  
66.458

Name of Federal Program or Cluster

Pleasant Valley Estate/Green Mountain Childcare  
Historic Mill District  
Sugar River Pedestrian Bridge  
SRF Loan Program  
Drinking Water SRF Loan Program

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

yes  no

## SECTION II - FINANCIAL STATEMENT FINDINGS

### Finding #

### Finding/Noncompliance

07-1

#### Improve Segregation of Duties in Finance Department (Material Weakness)

During our review of controls in the Finance Office, we noted the following situations whereby duties were not segregated in a manner to minimize the risk of errors or irregularities occurring and going undetected.

#### Departmental Receipts:

Although most departments post and deposit their own receipts, certain departments do not. Instead, they remit their receipts to the Finance Department for posting and deposit. Because the Finance Department also controls the general ledger and reconciles cash, this results in an inadequate segregation of duties.

We recommend each department post receipts to the general ledger, prepare deposit slips and remit money in a sealed bag to the Account Assistant in the Finance Department to deposit the funds at the bank. We also recommend that the Munismart posting report be signed by two individuals from each department.

Also, at least monthly, the Treasurer should continue to reconcile the deposit to the general ledger posting, and supporting documentation.

#### General Ledger Posting:

The Treasurer, who is responsible for reconciling cash, also has the ability to post entries to the general ledger.

We recommend the Treasurer not have the ability to post to the general ledger. This will minimize the risk of inappropriate activity occurring and going undetected.

#### Cash Reconciliations:

The monthly bank reconciliations currently are not summarized on a single spreadsheet to prove balances to the general ledger.

We recommend the monthly bank reconciliations be summarized on a standard consolidated report that documents bank balances, deposits in transit, outstanding checks and the reconciled balance for each account, as well as a proof to each respective general ledger account. This spreadsheet should be signed by both the Treasurer and Finance Director. This will improve documented oversight to prove bank balances reconcile to general ledger records.

07-2

#### Improve Segregation of Duties - Tolles Home (Material Weakness)

The same individual that maintains the accounting records for the Tolles Home is also an authorized check signer. This increases the risk of irregularities occurring and going undetected.

We recommend the Tolles Home bookkeeper be removed as an authorized check signer. We also recommend any expense reimbursements made to either the bookkeeper or to the check signer be approved by another authorized official. This will improve oversight and control over Tolles Home resources.

**Finding #**

**Finding/Noncompliance**

07-3

**Consider Implementing Internal Control Improvements (Significant Deficiency)**

In accordance with a new generally accepted audit standard (SAS 112), independent auditors must now report issues (called "significant deficiencies") to the governing body.

SAS 112 specifically requires that certain situations, if present in the municipality, must be reported as a significant deficiency. Although these conditions may not be new to the municipality, and may be very common practices for New Hampshire municipalities, they must now be reported in the management letter. The governing body of the City should evaluate the cost/benefit of these issues to determine whether corrective action is warranted.

The following summarizes certain of the current and past practices in the City that meet the new criteria of significant deficiencies:

**Establish Internal Controls over the Preparation of Audited Financial Statements:**

Although the City maintains its accounting records in accordance with standards established by the State statutes, and is able to prepare reports for internal and State purposes, historically, the annual financial statements have been drafted by the independent auditor. Because the City must take full responsibility for the accuracy and disclosure of the financial statements, it must, either internally, or through the use of a qualified outside party (other than the independent auditor), review the financial statements and related footnote disclosures, to assure compliance with generally accepted accounting principles, and to verify that no material misstatements exist. Relying on the independent auditor to perform these functions is considered a control deficiency.

**Corrective Action to be Considered:**

The City should obtain additional staff training in the area of preparing financial statement prepared under the GASB 34 reporting model to ensure material misstatements are not present.

**Establish Internal Audit Function:**

Internal audits are an important control measure to provide some assurance that procedures are actually being performed in accordance with management's assertions, and that assets actually exist and are properly safeguarded. The City historically has not performed these functions. This increases the risk that errors or irregularities could occur and not be tested or detected by management.

**Corrective Action to be Considered:**

The City should consider, as part of its documented internal control procedures, establishing an internal audit function to properly monitor operations and assess risk of misstatement of the financial statement caused by either errors or irregularities.

### SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no findings.

### SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

<u>Finding #</u>	<u>Finding/Noncompliance</u>
06-4	The prior year finding 06-4 was related to the Community Development Block Grants/Entitlement (14.218) program, which was closed out in the prior year. This issue, however, was tested in the current year for the Pleasant Valley Estate (14.228), Green Mountain Childcare (14.228), and Sugar River Pedestrian Bridge (20.705) programs, without exception. <b>This issue is considered resolved.</b>