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June 27, 2011

To the Board of Selectmen
Town of Newton, New Hampshire

In planning and performing our audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Town of Newton, New Hampshire for the year ended December 31, 2010, we considered the Town's internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comment and suggestion regarding these matters. We previously reported on the Town's internal control structure in our report dated June 27, 2011. This letter does not affect that report or our report on the basic financial statements dated June 27, 2011.

We have already discussed this comment and suggestion with various Town personnel, and we will be pleased to discuss it in further detail at your convenience, to perform additional study of the matter, or to assist you in implementing the recommendation.

The purpose of this letter is to provide constructive and meaningful recommendations to you.

Sincerely,

Vachon Clukay & Company PC

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PERFORMANCE DEPOSITS

Observation

The Town holds various performance deposits for on-going projects as required by the Planning Board. Separate passbooks have been established to hold these funds until the projects have been completed and the monies may be released. We noted that several passbooks had not been updated during the year ending December 31, 2010 since the newly elected Treasurer was unaware that these accounts existed.

Implication

The controls over cash are weakened. The Town is exposed to an increased risk that funds could be lost or misplaced.

Recommendation

We recommend that the Town's Treasurer regularly update all passbook bank accounts. The balance of all performance deposit accounts should be reviewed with the Planning Board to ensure that all monies are properly accounted for. These accounts should also be reconciled with the balances in the general ledger.

EXPENDABLE TRUST FUNDS

Observation

At the 2010 annual Town meeting, the Town voted to appropriate and transfer $10,000 into the Emergency Operations Center Expendable Trust Fund. The funding source of this appropriated amount is the unreserved fund balance of the General Fund from the previous calendar year. As of December 31, 2010, these monies had not been transferred to the Trustees of Trust Funds.

Implication

The Town is not in compliance with State law (RSA 35:11) which requires that appropriated funds that are to be funded from any accumulated surplus, be turned over to the Trustees of Trust Funds within 10 days of the approved appropriation.

Recommendation

We recommend that all future expendable trust fund authorizations be transferred to the Trustees of Trust Funds within the time limitations as outlined in the State statutes.

CREDIT CARD PURCHASES

Observation

As part of every audit engagement, our firm examines credit card purchases for proper documentation and propriety of expenditures. We noted that purchase receipts for credit card charges applicable to the fire department are not being remitted to the town's bookkeeper.

Implication

Improper expenditures may be made using the Town's credit card which may go undetected without adequate controls.

Recommendation

We recommend that all employees be instructed to attach the detailed purchase to monthly credit card statements. The supporting documentation should indicate what was purchased and that the purchase was approved by the proper officials. If an employee or department continues to disregard the town's policy for credit card purchases, the privilege of using a town credit card should be restricted to those employees that do comply with town policy.

LIBRARY DISBURSEMENTS

Observation

As part of our audit of the separately maintained Library Fund, we selected a sample of disbursements paid during the year. As previously reported, our audit procedures disclosed that none of the invoices tested had any formal documentation to indicate that the payments had been approved.

Implication

The controls over cash are weakened as unauthorized payments may be written out of the library account. The lack of a formal approval by the library trustees places too much reliance on the Library Treasurer. Sound business practices require a secondary formal approval for disbursements to maintain the proper level of business controls.

Recommendation

We recommend that a library trustee be designated to approve all invoices for payment in the future. The secondary approval is similar to the Board of Selectmen approval of expenditures out of the General Fund.

TOWN BANK ACCOUNTS

Observation

Our audit procedures include sending bank confirmations to the various financial institutions that hold town funds. We noted that one returned confirmation included an account that no town official could identify, and inquiries from the banking institution were denied. Accordingly, the Town does not have access to this account, and the activity of this account is not reflected in these financial statements.

Implication

Internal controls over the financial activities of the Town are weakened when outside entities are allowed to establish bank accounts using the Town's tax identification number.

Recommendation

We recommend that any outside organization that wishes to perform fundraising activity not be allowed to establish bank accounts with the Town's tax identification number. We further recommend that notices be provided to local banking institutions to contact the town prior to creating a new account using the Town's tax identification number.

INVESTMENT POLICY

Observation

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. Currently, the Town has no investment policy for assurance against custodial credit risk.

Implication

The Town is not in compliance with state law (RSA 41:9 and RSA 35:9) which requires an investment policy be adopted and reviewed on an annual basis by the Selectmen and by the Trustees of Trust Funds.

Recommendation

We recommend that the Town comply with state law and adopt an investment policy. Although the majority of funds are currently held by a banking institution that provides full insurance for deposits in excess of FDIC limits, the Town needs to document its policy and update it on an annual basis.