

**REPORT ON INTERNAL CONTROL BASED ON
AN AUDIT OF BASIC FINANCIAL STATEMENTS**

To the Board of Selectmen
Town of Newton, New Hampshire

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Newton, New Hampshire as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Newton, New Hampshire's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Newton, New Hampshire's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Newton, 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 Town's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Town's internal control to be material weaknesses:

GENERAL FUND ACCOUNTING

Observation

The Town's General Fund is the main operating fund of the Town. The Town essentially maintains its accounting system on a "cash basis". However, the cash balance reflected on the bank reconciliations is not reconciled to the cash balance per the Town's general ledger. We were able to reconcile the general ledger cash balance within an immaterial amount of the Treasurer's reconciled cash balance at year end.

Audited financial statements are presented in accordance with generally accepted accounting principles for governmental units. As auditors, we were required to make approximately thirty entries to the Town's general fund accounting system. While some of these are normal entries that auditors propose in a routine audit, many of these adjustments reflect deficiencies in the current accounting system that need to be addressed.

Implication

Controls over the financial activities of the Town are weakened. The failure to reconcile the activity throughout the year increases the risk that errors may occur and remain undetected. In addition, the Board of Selectmen is making financial decision based upon inaccurate financial information.

Recommendation

The Town needs to take immediate steps to improve its internal accounting to more accurately reflect generally accepted accounting principles. We continue to recommend that all balance sheet accounts be reconciled on a monthly basis to detect any errors or omissions in a timely fashion. Any discrepancies should be identified and properly adjusted. It is essential that the Town's financial office personnel review the quantity and nature of the 2010 adjustments proposed by the auditors for the purpose of eliminating the need for such adjustments in the future.

SEGREGATION OF DUTIES

Observation

The Town has a general ledger accounting system, which may have the capabilities to account for the activity of more than one fund. However, only the activity in the General Fund is currently being recorded in the accounting system.

The Town's Treasurer is the authorized signature on various bank accounts in addition to those reported in the Town's General Fund. These additional accounts have been earmarked to account for the activity of the following: Recreation Commission, Conservation Commission, Transfer Station Recycling, Police Forfeiture Funds, Police Special Details, Food Pantry, Ambulance, Planning Board accounts, and Impact Fees. There is no formal accounting system in place to keep track of the annual activity of these additional accounts. The only reporting of these funds is being maintained by the Treasurer.

Implication

Controls over the financial activities of the Town are weakened as the accounting system is not being utilized to record all of the financial activity of the Town. The Town may not be in compliance with the accounting requirements of State laws and regulations. Additionally, there is no proper segregation of duties pertaining to these other bank accounts. The current procedures place sole reliance on the Treasurer to deposit monies, write checks, reconcile the bank accounts, and maintain a record of the activity.

In accordance with the State's regulations for "Financial Accounting for Cities and Towns" (Rev 1700), Special Revenue Funds are to account for the specific revenue sources that are legally restricted to expenditure for specified purposes. In addition, agency funds are to account for assets held by the Town for individuals.

Recommendation

We urge Town officials to fully utilize the accounting system. The current software may have limitations in the number of different accounts that may be created. However, other options are available to record and maintain the on-going activity in other Town-held funds. This will ensure an accurate financial position of the Town will be available upon which the Selectmen and authorized Commissions may make sound business decisions.

This communication is intended solely for the information and use of management and the Board of Selectmen and is not intended to be and should not be used by anyone other than these specified parties.

June 27, 2011

Vachon, Chute & Company PC