

**Additional Offices:**

Nashua, NH  
Andover, MA  
Greenfield, MA  
Ellsworth, ME

To the Board of Commissioners  
Carroll County, New Hampshire

In planning and performing our audit of the basic financial statements of Carroll County, New Hampshire as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) 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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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, significant deficiencies or material weaknesses may exist that have not been 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. Significant deficiencies are noted in the comment headings.

The County'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, Board of Commissioners, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Melanson Heath*

October 17, 2017

## **STATUS OF PRIOR YEAR RECOMMENDATIONS:**

### **1. Implement a Fund Balance Policy (Significant Deficiency)**

#### Prior Year Recommendation

We recommended that the County implement a formal fund balance policy in order to avoid deficit fund balances that were encountered in 2014.

#### Current Year Status

The County implemented a fund balance policy in 2016. This recommendation has been resolved.

### **2. Improve the Treasury Function (Significant Deficiency)**

#### Prior Year Recommendation

Improvements should be made to the treasury function. Specifically, all bank accounts should be under the control of the County Treasurer or Assistant Treasurer and reconciled in a timely manner to the general ledger. Bank reconciliations prepared by the Finance Office or other individuals should be reviewed and approved by the County Treasurer, who is independent of the accounting function and County operations. This approval should be documented.

In addition, all decentralized bank accounts and funds should be included and accounted for in the County's general ledger. Further, the segregation of duties related to decentralized accounts and funds (noted above, as well as inmate and nursing home resident funds) should be improved. Specifically, we noted instances where one individual controlled multiple phases of a particular activity, which creates a lack of segregation of duties where errors or irregularities could occur and go undetected by management in a timely manner. Formal cash handling and receipts and disbursements policies and procedures should be implemented in order to address these risks.

#### Current Year Status

In 2016, the County addressed the prior year recommendation related to the Civil Writ, Execution, Drug Task Force, and Federal Seizure accounts. We continue to recommend the following accounts be under the control of the Treasurer:

- Petty Cash (Bank of New Hampshire)
- Gift Card
- Employee Benefit Fund
- Petty Cash (Citizens Bank)

#### County's Response

We have established a new policy/procedure and have separated the segregation of duties. Two different employees have been involved in the process for a few years now. One writes out the check and the other signs the check, and processes the invoice. The Nursing Home Administrator will now review and sign off on the transaction. The County has closed out the Petty Cash (Citizens Bank), and the Employee Fund accounts, and they are no longer utilized.

### **3. Improve Registry of Deeds Internal Controls (Significant Deficiency)**

#### Prior Year Recommendation

Improvements should be made to internal controls related to the Registry of Deeds including a better segregation of duties and mitigating controls.

#### Current Year Status

In 2016, improvements in internal controls were noted, including a better segregation of duties related to daily cash outs. In order to further improve controls, we continue to recommend that either the Registrar be removed as an authorized signer on Registry bank accounts, dual signatures be required, or additional mitigating controls be implemented.

#### County's Response

As mitigating controls have been implemented and accomplished since the end of 2016, the Registry of Deeds Office has been having two people sign the checks. One signature is the Deputy Treasurer. The County Treasurer reviews all transactions and will now sign off on the check register each month, for further review.

### **4. Improve Controls over Journal Entries (Significant Deficiency)**

#### Prior Year Recommendation

As journal entries can be a means for overriding an otherwise effectively designed and operating system of controls, a formal journal entry approval process should be implemented for non-system generated journal entries. This process should require the signature or initials of the initiator of the entry, as well as a documented approval by a second authorized individual.

#### Current Year Status

The issues noted in 2015 also existed in 2016. We continue to recommend that improvements to controls over journal entries be implemented in order to reduce risk.

County's Response

As a mitigating control, the County Administrator will review and sign off on all journal entries on a quarterly basis. The Carroll County Finance office is small and has few people in it, so certain employees have multiple duties and this is a way to mitigate any loss.

5. **Implement Formal Policies and Procedures for Nursing Home Receivables and Write-offs**

Prior Year Recommendation

Formal policies and procedures should be developed for monitoring Nursing Home receivables and recording write-offs. Specifically, a list of write-offs should be prepared at least annually by someone that is not involved with Nursing Home billings or collections and presented to the Commissioners for approval.

Current Year Status

The issues noted in 2015 also existed in 2016. We continue to recommend that formal policies and procedures be implemented, including the authorization of write-offs and calculation of the allowance.

County's Response

Carroll County has for the past two years reviewed with the Commissioners and County Delegation on a quarterly basis the uncollectible accounts in the Nursing Home. We are constantly watching and targeting the uncollectable revenue.

6. **Improve Year End Closing Process**

Prior Year Recommendation

As material audit adjustments were required in order for the financial statements to be in accordance with *Generally Accepted Accounting Principles*, we recommended that improvements be made with respect to year end closing, reconciliation, and reporting procedures.

Current Year Status

This issue has been resolved.

## **7. Develop Policies and Procedures**

### Prior Year Recommendation

In 2015, the County developed documented policies and procedures for certain key financial areas. We recommended that the following areas also be addressed:

- Procurement.
- Fixed asset management.
- Inventory management.
- Information technology.

In addition to documenting activity-level controls, the County should also implement and document entity-level controls related to the control environment, risk assessment, information and communication, and monitoring. A formal risk assessment process should be performed at least annually to review these areas, including the risks associated with related parties and potential conflicts of interest.

### Current Year Status

In 2016, the County implemented additional policies and procedures in order to address the recommendation.

## **8. Improve Year End Closing Process**

### Prior Year Recommendation

As material audit adjustments were required in order for the financial statements to be in accordance with *Generally Accepted Accounting Principles*, we recommended that improvements be made with respect to year end closing, reconciliation, and reporting procedures.

### Current Year Status

This issue has been resolved.

## **9. Monitoring of Controls and Processes**

### Prior Year Recommendation

Internal monitoring is 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. We recommended that the County implement a regular internal monitoring process throughout the year. This should include monitoring of decentralized funds and accounts and compliance with established policies and procedures.

#### Current Year Status

The issues noted in 2015 also existed in 2016. We continue to recommend that the County implement periodic internal monitoring of controls and processes.

#### County's Response

Currently, we believe that the decentralized accounts are being reviewed by the lieutenant and the Sheriff, with the Sheriff signing off on all transactions. We can make the control stronger by having the Treasurer review the transactions and sign off on the sheet monthly or quarterly.

### **10. Improve Controls over Disbursements (Significant Deficiency)**

#### Prior Year Recommendation

During our testing of controls over disbursements in 2015, we noted the following areas where improvements should be made:

#### **Vendor Disbursements**

- We noted multiple instances where supporting documentation for vendor disbursements did not include documented approval by the department head or other authorized individual.
- We noted that electronic payments are not submitted to the Commissioners for approval. All disbursements of the County should be approved by the Commissioners prior to check release or payment. Individuals that are involved in processing vendor or payroll disbursements, or with access to the general ledger, should be prohibited from making electronic payments or transfers.
- Disbursements reports/journals should be reviewed for accuracy with the actual bills/invoices by someone not involved in processing vendor disbursements, prior to payment. The review should include verification of the payee information, amount to be paid, account charged, and documented approval by the department head. This review should also be documented.
- Since the individual that is responsible for processing vendor disbursements also has the ability to enter new vendors, another individual that is not involved in processing disbursements should periodically review and approve changes to the vendor master file. This review should also be documented.

#### Current Year Status

We understand that in 2016, management developed a procedure for approval of electronic payments, added a requirement for signed approval by the Finance Director of all accounts payable manifests, and required petty cash checks to be written to a named payee.

As noted in 2015, we continue to recommend that the vendor master file, and any changes made to it, be reviewed on a regular basis (documented with a signature or initials on the report itself) by an individual that is not involved in processing vendor disbursements.

Our testing of 2016 vendor disbursements found improvements in documented support and approvals; however, several exceptions were still noted. Specifically, we continue to recommend that external supporting documentation, such as a vendor invoice, receipt, or bill be obtained for all vendor disbursements. Documented approvals by responsible department heads should also be required.

In addition, we noted missing bid documentation for one item tested, and recommend that all documentation that is required by the County's procurement policy be obtained and retained.

#### County's Response

The County Administrator will review and sign off on the vendor disbursement list on a quarterly basis. Currently all new vendor requests are approved by the County Administrator and all vendors are checked via the Secretary of State's office website for any issues and also a "Google Query" is done to prevent "Ghost Vendors". Reviewing the vendor list quarterly shall mitigate any control issues.

All electronic payments "although few in nature" will now have the Treasurer sign off on all transactions for mitigating circumstances.

#### **Payroll Disbursements**

- We noted the lack of documented rate agreements, for both salaried and hourly employees.
- Detailed payroll reports should be reviewed for accuracy with timesheets by someone not involved in processing payroll disbursements, prior to payment. This review should also be documented.
- Since the individual that is responsible for processing payroll disbursements also has the ability to enter new employees and make changes to rates and withholdings, another individual that is not involved in processing disbursements should periodically review and approve changes to the payroll master file. Further, the list of active employees should be reviewed periodically for accuracy against termination documentation/logs. This review should also be documented.
- Changes to procedures related to missed time punches should be improved. Specifically, supervisors should not be permitted to alter time



entered by employees in the timekeeping system. Instead, a form completed by the employee and signed by the supervisor should be provided to HR for entering into the timekeeping system.

#### Current Year Status

In 2016, a Payroll Coordinator position was added to the Finance Office staff. We understand that management has also implemented procedures to assure that there is review and oversight of the entire payroll process. As our testing of 2016 payroll transactions found similar issues as were noted in 2015, we continue to recommend that controls over payroll disbursements be improved.

#### County's Response

The County went through a DOL audit in late 2016 to July of 2017. All employee files have been reviewed thoroughly and been corrected. In January of 2018, the County has partnered with Checkmate Payroll Services for all payroll functions for the County. This will help mitigate any issues that the county may run into, as Checkmate will be handling any and all payroll reporting responsibilities including NHRS reporting.