

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

To the Board of Selectmen
Town of Littleton, New Hampshire

In planning and performing our audit of the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Littleton, New Hampshire (the “Town”), as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Town’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Town’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies 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 Town’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the Town of Littleton, New Hampshire’s internal control to be material weaknesses:

GENERAL LEDGER MAINTENANCE

Observation

During our review of the Town’s general journal adjusting entries, we noted numerous adjustments, often of a significant value, posted to the general ledger. In many cases these entries were made to reconcile account balances or record previously unrecorded activity. Through communication with management throughout the course of our audit, it was noted that these entries were often made several months subsequent to the period of activity. These entries impacted a wide range of balance sheet accounts, including cash, receivables, and interfund balances. Finally, it was noted that limited documentation had been retained to support these transactions.

Implication

Failure to reconcile account balances on a timely basis increases the likelihood that decisions will be made based on incorrect or incomplete financial information. Additionally, this led to an increased number of proposed audit adjustments necessary for the Town's financial statements to be presented in accordance with GAAP and reduction in the ending fund balance of the General Fund alone of approximately (\$555,000). Finally, failure to clearly document the purpose and intent of general ledger adjustments increases the risk that misstatements may occur and remain undetected as a result of fraud or error.

Recommendation

We recommend management develop and implement a process to reconcile balance sheet account balances on an ongoing and timely basis, for example monthly. Furthermore, we recommend that cash balances be reconciled to the bank statement in as timely a manner as possible in order to identify transactions not captured through the ongoing day to day financial process, or transactions that may be inappropriate or unusual, in order to promptly address them. Finally, we recommend that adequate support be retained for all manual general ledger adjustments in order to allow for periodic review such that the reviewer is able to assess the appropriateness and purpose of the entry.

CASH RECONCILIATION PROCESS

Observation

During the course of our audit, it was noted that the cash reconciliation process was not being performed on a monthly basis, but rather was performed in large batches, often several months subsequent to the period of activity. Reconciliations provided to us for purposes of the audit were dated as late as June 2021 for monthly periods occurring during 2020.

Implication

Failure to reconcile the cash balances on a timely basis increases the risk that financial decisions will be made based on incomplete or inaccurate information. Additionally, failure to complete these reconciliations in a timely manner creates a systemic weakness in internal controls due to the reconciliation of cash being a critical step across multiple internal control systems.

Recommendation

We recommend that cash balances reported on monthly bank statements be reconciled to the balances reported within the general ledger on a monthly basis. Additionally, we recommend that this reconciliation process be completed in as timely a manner as possible upon receiving monthly bank statements from the Town's financial institutions. Finally, we recommend that any unknown or unidentified differences be investigated and resolved immediately in order to maintain an effective internal control system.

PAYROLL

Observation

During the course of our audit, we noted multiple deviations from the Town's established controls over the payroll transaction process. These included instances of employee rates of pay and hours worked not being documented in accordance with the documentation standards as required under State of New Hampshire RSA 275:49 and New Hampshire Administrative Rules Chapter LAB 803.03, amounts paid based on hours worked and rates of pay which differed from amounts reported on supporting documentation, and payroll transactions which lacked formally documented approval. Additionally, we noted numerous payroll transactions that were not processed through the Town's standard payroll process and were instead processed as a manual check to the employee.

Implication

As a result of the above referenced observation, the Town is not in compliance with the provisions of state statute and department of labor administrative rules which require documentation of rates of pay, including employee acknowledgment of said rates, and time worked. Additionally, failure to accurately process payroll based on supporting documentation increases the risk of both wage claims from employees, as well as fines or penalties from state or federal agencies. Furthermore, failure to document review of payroll manifests increases the risk that manifests may not be reviewed and as a result increases the Town's risk of loss due to fraud or error. Finally, failure to process all payroll transactions through the Town's payroll system increases the risk that Town and employee tax and benefit liabilities and withholdings and associated reporting may be prone to error.

Recommendation

We recommend that the Town review its policies and procedures relating to documentation of employee rates of pay and hours worked. Additionally, we recommend that each employee receive written notification of their rate of pay, and that a copy of the written notification including the employee's signature, be retained within the employee's personnel file. Furthermore, we recommend that the Town evaluate its process for review and approval of payroll manifests to ensure that all manifests are reviewed and approved by the Board, which may include options or processes for electronic review and approval. Finally, we recommend that the Town evaluate the need to revise its payroll tax and benefit reporting for those transactions identified.

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. We consider the following deficiency in internal control to be a significant deficiency.

PROJECT MANAGEMENT

Observation

During the course of our audit, it was noted that the recording of infrastructure project related revenues and expenditures within the general ledger did not allow for a clear reconciliation of activity by project funding source or grant award. Additionally, it was noted that the initial recording of financial resources/revenues and their related expenditures were distributed across multiple funds and were not consistently tracked

within the same fund. While adjustments were made to the information prior to making it available for audit, the information in the Town's general ledger as it was reported throughout the period did not provide an accurate representation of the ongoing status of project activity.

Implication

Failure to account for project expenditures within the same fund as the applicable revenue source, increases the risk that charges may be misapplied. This can result in project expenditures being funded by unintentional revenue sources. Additionally, it increases the risk that matching fund requirements may not be properly identified or satisfied when accounting for grant funded projects. Furthermore, a lack of accurate financial reporting, including the proper allocation of revenues and expenditures between funds, limits the ability of management and those charged with governance to make informed decisions while performing their day-to-day responsibilities.

Recommendation

We recommend that the Town's policies and procedures over project management and accounting be evaluated. We also recommend that a reconciliation process be developed for all major ongoing infrastructure and construction projects to allow for the tracking of funding sources/revenues and expenditures. This reconciliation should detail the expenditures incurred, funding received, outstanding receivables for reimbursements not yet received, and the relationship of the activity to the general ledger.

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

Vachon Clukay & Company PC

Manchester, New Hampshire
February 28, 2022