

**COUNTY OF
ROCKINGHAM, NEW HAMPSHIRE**

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

For the Year Ended December 31, 2010

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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 Board of Commissioners
County of Rockingham, New Hampshire

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Rockingham, New Hampshire, as of and for the year ended December 31, 2010, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 11, 2011. 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 County'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 County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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.

Additional Offices:

Andover, MA • Greenfield, MA • Ellsworth, ME • Manchester, NH

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 10-1 that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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*.

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

This report is intended solely for the information and use of management, the Board of Commissioners, 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
July 11, 2011



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REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners
County of Rockingham, New Hampshire

Compliance

We have audited the County of Rockingham, New Hampshire's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The County'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 grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County'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 County'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 County's compliance with those requirements.

As described in items 10-2 and 10-3 in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding reporting and subrecipient monitoring that could have a direct and material effect on its JAG cluster programs. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the County complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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, each major fund, and the aggregate remaining fund information of the County of Rockingham,

New Hampshire as of and for the year ended December 31, 2010, and have issued our report thereon dated July 11, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the County'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.

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

This report is intended solely for the information and use of management, the Board of Commissioners, 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 14, 2011

County of Rockingham, New Hampshire
Schedule of Federal Expenditures of Federal Awards
For the Year Ended December 31, 2010

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	State Identifying Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
<u>Office of Community Planning and Development</u>			
Passed through the State of New Hampshire			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	09-408-CDED	\$ 477,000
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	08-408-CDPF	192,536
Recovery Act - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.255	09-408-CDHS R	<u>498,000</u>
Total U.S. Department of Housing and Urban Development			1,167,536
<u>U.S. Department of Justice</u>			
Passed through the State of New Hampshire			
Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program/ Grants to Units of Local Government	16.804	2009-SB-B9-2449	227,540
<u>Bureau of Justice Assistance</u>			
Bulletproof Vest Partnership Program	16.607	NA	3,750
Passed through the State of New Hampshire			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-0097	5,473
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-1129	62,656
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2007-DJ-BX-0637	30,344
<u>Violence Against Women Office</u>			
Passed through the State of New Hampshire			
Violence Against Women Formula Grants	16.588	2010W082	<u>30,000</u>
Total U.S. Department of Justice			359,763
<u>U.S. Department of Transportation</u>			
<u>National Highway Traffic Safety Administration</u>			
Passed through the State of New Hampshire			
State and Community Highway Safety	20.600	315-10A-042	4,029
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	308-10A-096	<u>1,590</u>
Total U.S. Department of Transportation			5,619
<u>U.S. Department of Homeland Security</u>			
Passed through the State of New Hampshire			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1812-DR-NH	<u>36,677</u>
Total U.S. Department of Homeland Security			<u>36,677</u>
Total Federal Expenditures			<u>\$ 1,569,595</u>

See Independent Auditors' Report on Compliance with OMB A-133.

This schedule has been prepared on the modified accrual basis of accounting.

COUNTY OF ROCKINGHAM, NEW HAMPSHIRE

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2010

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified? yes none reported

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

Community Development Block Grants Cluster	Unqualified
JAG cluster	Qualified

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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228, 14.255 16.804, 16.738	Community Development Block Grants Cluster JAG cluster

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

10-1

Implement Internal Control Improvements (Significant Deficiency)

The following is a list of internal control areas that were identified during the 2010 audit:

Consider Revising Policy With Respect to Prior Period Adjustments

During the 2010 audit, several immaterial prior period adjustments were made as a result of County policy that requires restatement of all prior amounts, if certain criteria are met. Further, some of the adjustments made did not meet the definition of prior period adjustments under Generally Accepted Accounting Principles as they did not exist at the time the financial statements were prepared. In order to comply with the required policy, the books were left open so that all restatements could be made. Since some of the information needed to prepare the restatements was not available for several months, this once again delayed the closing of the books and the issuance of the annual audited financial statements.

We recommend that the County consider revising the policy with respect to prior period adjustments in order to accelerate the year end closing process.

County's Response:

There is a policy in place that evaluates fund balance adjustments on an ongoing basis in accordance with GAAP. The process utilized ensures that the most accurate numbers are reported in the correct period and applicable laws are complied with (i.e. the County's transfer policy). While some of the adjustments may appear immaterial to the auditor, anything over-expending a budget line by \$ 1,000 is considered material based on a Resolution passed by the Delegation. We respect the resolution to hold the departments accountable to their budget by maintaining a low limit. Additional effort will be made to assess and resolve potential restatement items during financial statement preparation. Oversights and/or errors at this low level do occur despite the best attempts, and we have procedures in place to address them.

Improve Controls Over the Treasury Function

Although there are mitigating factors in several areas of the treasury function, additional controls should be considered in order to further improve the segregation of duties in this area. Specifically, the custody of, and signing authority on, County bank accounts (except for agency accounts) should reside with the County Treasurer, and not with an individual that is otherwise involved in the financial operations/accounting function of the County. Moving the custody of/control over departmental bank accounts (i.e., Sheriff, Registry of Deeds accounts, etc.) to the County Treasurer will not prevent these departments from performing their specific functions, as the departments will continue to be able to make deposits and authorize expenditures in accordance with the law.

(continued)

(continued)
Finding #

Finding/Noncompliance

However, this will improve controls over the County's cash accounts by shifting the ability to authorize withdrawals to individuals that are independent of those authorizing the related transactions and those involved the accounting function. Further, the County should consider reducing the number of bank accounts in order to improve efficiency within the treasury function.

County's Response:

We agree that there should be fewer checkbooks in the County. Additionally, discussion regarding the bank accounts was held with the auditor which resolves this issue. The County Treasurer and Finance Director are authorized signers on most of the County's bank accounts. Checks cannot be issued from the internal service accounts. The Treasurer's electronic signature is processed on A/P and payroll checks only. Additionally, we do not maintain pre-numbered check stock, and no one user has the ability to issue a check from start to finish based on established internal controls. Also, in order to issue wire transfers, the bank requires one user to initiate the transaction, and another user to approve/ execute it, using passwords and separate codes. The bank subsequently transmits confirmation of the wire to various County staff. The present procedures provide ample control and there is no need for an additional position.

Revise Procedures for Approval of Disbursements

During the 2010 audit, we noted that bills that have been approved by departments are presented to the Commissioners for approval each week. However, we noted that check run reports containing the actual disbursements are not signed off by the Commissioners. This process creates a situation where checks/disbursements could be generated from unapproved items that have been entered into the payables system. We recommend that the Commissioners also sign off on the check run reports that show the check number, payee, and amount. This will ensure that all disbursements are authorized by the Commissioners.

County's Response:

Additional internal controls and procedures not described in the management letter provide ample assurance regarding disbursements. Please note a reconciliation is performed after a biweekly check run is processed, which does reconcile the total of all checks disbursed that were approved by the Commissioners. We will review the process with the auditors during the 2011 audit.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
10-2	Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program/Grants to Units of Local Government 16.804	<p data-bbox="657 359 1179 422"><u>Prepare Reports Using a Consistent Basis of Accounting</u></p> <p data-bbox="657 457 1203 653"><u>Criteria:</u> OMB Circular A-110, Subpart C, Section 52 mandates that the Federal awarding agency shall prescribe whether financial reports are to be prepared on the cash or accrual basis of accounting.</p> <p data-bbox="657 695 1187 957"><u>Condition:</u> During our audit, we reviewed the quarterly financial reports and agreed them to the general ledger. Some of the reports tested were prepared using the accrual basis of accounting, while others appear to have been reported on the cash basis of accounting.</p> <p data-bbox="657 999 1203 1224"><u>Effect:</u> Since financial reports were not consistently prepared using the same basis of accounting, reporting procedures did not meet federal requirements. There are no questioned costs reported as this is a procedural requirement.</p> <p data-bbox="657 1266 1182 1528"><u>Recommendation:</u> We recommend that the County verify with the Federal awarding agency whether reports should be prepared on the accrual or cash basis of accounting. We further recommend that reports be consistently prepared on the basis of accounting that is required by the Federal awarding agency.</p> <p data-bbox="657 1570 1203 1694"><u>County's Response:</u> We concur. Steps are underway to train personnel with respect to Justice Assistance Grant program requirements.</p>	N/A

(continued)

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<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
10-3	Edward Byrne Memorial Justice Assistance Grant Program 16.738 Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program/ Grants to Units of Local Government 16.804	<u>Properly Monitor Subrecipients</u> <u>Criteria:</u> OMB Circular A-133, Subpart D, Section 400(d) requires that pass-through entities (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and the name of the Federal agency, (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity, (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved, (4) Ensure that subrecipients expending \$ 500,000 or more in Federal awards during the subrecipients' fiscal year have met the audit requirements of this part for that fiscal year, (5) Issue a management decision on audit findings within six months after receipt of the subrecipients' audit report and ensure that the subrecipient takes appropriate and timely corrective action, (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records, and (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statement as necessary for the pass-through entity to comply with this part. Further, Section 1512 (h) of the American Recovery and Reinvestment Act (ARRA) requires that the pass-through entity identify to first-tier subrecipients the requirement to register in the Central Contractor Registration (CCR), including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information.	\$ 310,751

(continued)

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<u>Finding #</u>	<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Cost</u>
		<p><u>Condition:</u> During our audit, we were unable to obtain sufficient documentation indicating that the County had monitored subrecipients' compliance with OMB Circular A-133. In addition, there was incomplete evidence that the County had required first-tier subrecipients of ARRA funds to register in the CCR and maintain currency of a DUNS number.</p> <p><u>Effect:</u> Subrecipient monitoring procedures did not meet federal requirements. Questioned costs reported total \$ 310,751.</p> <p><u>Recommendation:</u> We recommend that the County consistently monitor subrecipients in accordance with the guidelines required by OMB Circular A-133. We further recommend that the County comply with the requirements of Section 1512 with respect to subawards of ARRA funds.</p> <p><u>County's Response:</u> We concur. Steps are underway to train personnel with respect to Justice Assistance Grant program requirements. We will consider other actions to ensure that subrecipients are properly monitored.</p>	

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

There were no findings in the prior year.