SULLIVAN COUNTY, NEW HAMPSHIRE

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

For the Year Ended June 30, 2014

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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*

Independent Auditors' Report

To the Board of Commissioners
Sullivan County, New Hampshire

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sullivan County, New Hampshire, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 6, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the 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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs in items 2014-001 through 2014-005 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Melanson Heath

November 6, 2014

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Independent Auditors' Report

To the Board of Commissioners
Sullivan County, New Hampshire

Report on Compliance for Each Major Federal Program

We have audited Sullivan County, 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 the County's major federal programs for the year ended June 30, 2014. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirement of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

Basis for Qualified Opinion on Drug-Free Communities Support Program

As described in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding CFDA 93.276 Drug Free Communities Support Program as described in finding 2014-006 for Matching, Level of Effort, and Earmarking. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified Opinion on Drug-Free Communities Support Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Drug-Free Communities Support Program grant for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs in item 2014-006 that we consider to be significant deficiencies.

County's Response to Findings

The County's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sullivan County, New Hampshire as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial state-

ments. We issued our report thereon dated November 6, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Melanson Heath

March 9, 2015

Sullivan County, New Hampshire

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture		
Passed Through North Country Resource Conservation and Development Area, Inc.:		
Cooperative Forestry Assistance	10.664	$ 22,500
Total U.S. Department of Agriculture		22,500
U.S. Department of Housing and Urban Development		
Passed Through State of New Hampshire, Office of State Planning:		
Community Development Block Grants/Entitlement Grants	14.228	4,410
Total U.S. Department of Housing and Urban Development		4,410
U.S. Department of Justice		
Passed Through State of New Hampshire, Department of Justice:		
Residential Substance Abuse Treatment for State Prisoners	16.593	20,523
Public Safety Partnership and Community Policing Grants, Recovery Act	16.710	41,110
Enforcing Underage Drinking Laws Program	16.727	8,473
Total Passed Through State of New Hampshire, Department of Justice		70,106
Second Chance Act Reentry Initiative	16.812	141,967
Total U.S. Department of Justice		212,073
U.S. Department of Transportation		
Passed Through State of New Hampshire Department of Transportation:		
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	6,536
Total U.S. Department of Transportation		6,536
U.S. Department of Health and Human Services		
Passed Through State of New Hampshire, Department of Health and Human Services:		
Public Health Emergency Preparedness	93.069	72,444
Immunization Cooperative Agreements	93.268	5,250
Drug-Free Communities Support Program Grants	93.276	131,909
Block Grants for Prevention and Treatment of Substance Abuse	93.959	64,632
Total U.S. Department of Health and Human Services		274,235
Total Federal Expenditures		$ 519,754

This schedule was prepared on a modified accrual basis of accounting.

See accompanying report on requirements of OMB Circular A-133.

State identifying numbers were not available for the pass-through grants listed above.

SULLIVAN COUNTY, NEW HAMPSHIRE

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified
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:	
Second Chance Act Prisoner Reentry Initiative	Unmodified
Drug-Free Communities Support Program Grants	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:

CFDA Number(s)	Name of Federal Program or Cluster
16.812	Second Chance Act Prisoner Reentry Initiative
93.276	Drug-Free Communities Support Program Grants

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

2014-001. Improve Controls over Financial Reporting (Significant Deficiency)

Prior Year Issue
In fiscal year 2013, audit adjustments were required in order for the financial statements to be in accordance with Generally Accepted Accounting Principles (GAAP).

We recommended that the County review the audit adjustments that were required, and develop specific year-end closing procedures in order to address the issues noted and eliminate the need for future audit adjustments. This would improve the accuracy of financial reporting.

Current Year Status
Although some improvements were noted in fiscal year 2014, audit adjustments were still required.

Further Action Needed
We continue to recommend that specific year-end closing procedures be developed and implemented in order to reduce the number of required audit adjustments.

2014-002. Improve Controls over the Payroll Cycle (Significant Deficiency)

Prior Year Issue
During the fiscal year 2013 audit, we noted certain areas where improvements in the payroll cycle should be implemented. We recommended that the County address the issues noted and implement changes in the payroll cycle in order to reduce risk in this area.

Current Year Status
We understand that in fiscal year 2015, the County has addressed several of the prior year issues with the hiring of a new Human Resources Director and changes to controls. However, the following issues that were noted in fiscal year 2013 existed during fiscal year 2014:

- Individuals responsible for processing payroll should not have the ability to enter new employees into the payroll system. We recommend that the ability to perform this function be removed or that mitigating controls, such as a regular review of payroll master file changes by someone not involved in processing payroll, be implemented.
- Since checks are electronically signed by the payroll clerk, and payroll manifests signed after the payroll has been processed, detailed payroll reports should be reviewed and approved by someone independent of the payroll function prior to the Treasurer transferring funds and prior to check signing.
- During our testing of payroll disbursements, we noted several instances where time-sheets and supporting documentation did not include proper documented approval.
- During our review of manual time punches to the time keeping system, we noted several instances where missed punch forms had not been properly approved by the appropriate department head.

Further Action Required
We continue to recommend that the County address the issues noted above and implement changes in the payroll cycle in order to reduce risk in this area.

2014-003 Improve Controls over the Vendor Disbursements Cycle (Significant Deficiency)

Prior Year Issue
During the fiscal year 2013 audit, we noted certain areas where improvements in the vendor disbursements cycle should be implemented. The following is the status of those issues:

Resolved

- Reports showing changes made to the vendor master file should be reviewed and approved on a regular basis by an individual that is not involved in processing vendor disbursements. We understand that department heads now review new vendors added.
- All disbursements, including both checks and wire transfers, should be approved by the Commissioners prior to check release. We understand that in fiscal year 2014, all Registry transactions are reviewed and monitored by someone outside of that department.
- The approval log function for requisitions and purchase order approval should be turned on in the accounting software so that documented approvals will appear on the purchase order itself.
- In fiscal year 2013, we noted one travel reimbursement where the purchase order and approval to pay was approved by the individual receiving the reimbursement. We recommended that at least two separate individuals be involved with reimbursements.

Unresolved

- Purchase orders should only be approved by the department head responsible for the appropriation line item. Again, we noted several instances where purchase orders were not approved by the appropriate department head.
- Transactions related to the Sheriff's bank account should be reviewed by someone that is not involved in approving and processing those transactions. We recommend that the County consider implementing mitigating controls/procedures that are similar to those implemented in fiscal year 2014 related to Registry transactions.

Additional Issues Noted in Fiscal Year 2014

- Credit card purchases did not include documented approval.
- Missing receipt for credit card purchase.

Further Action Needed
We continue to recommend that the County address the unresolved issues noted above and implement changes in the vendor disbursement cycle in order to reduce risk in this area.

2014-004. Improve Controls over Departmental Receipts (Significant Deficiency)

Prior Year Issue

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. The County historically has relied on the independent auditor to perform these functions as part of the annual audit. This reliance, however, increases the risk that errors or irregularities could occur and not be detected by management in a timely manner.

We recommended that the County implement a regular internal monitoring process throughout the year, especially of decentralized departmental receipts (i.e., Sheriff's department, Register of Deeds, etc.). These internal audits should be performed by an individual not involved in the receipts process and should include reconciling of supporting documentation to bank deposits and posting in the general ledger.

Current Year Status

In fiscal year 2014, an individual in the Business Office began monitoring the activity that flows through the Registry of Deeds bank accounts, as a mitigating control. However, our testing of the cash out process during the fiscal year 2014 audit noted that there was no evidence that two individual were involved in that process.

Further Action Needed

We continue to recommend that other departments with decentralized receipts be monitored by someone that is not involved in the receipts process, including obtaining documented evidence that two individuals are involved in cashing out.

2014-005. Implement Other Control Improvements (Significant Deficiency)

Prior Year Issue

During the fiscal year 2013 audit, we noted several areas where improvements in controls should be implemented.

Resolved

- The monthly review of the Registry of Deeds reporting package should be formally documented.
- We noted in the Commissioner minutes that there was discussion of awarding employees gift cards as appreciation gifts. We recommend the practice be discontinued and that public funds not be used for gifts.

Unresolved

- We recommend that the County Treasurer and Deputy Treasurer be the only authorized signers on all County bank accounts. However, if not feasible, for accounts where there are authorized signers other than the Treasurer and Deputy Treasurer, additional procedures should be performed as mitigating controls. Specifically, the detailed transactions flowing through these accounts should be "audited" by someone that is not involved in the receipts or disbursements process.

This “audit” should be documented. Additionally, we recommend that the County Manager, Treasurer, or Deputy Treasurer be the second signer on accounts where there are other authorized signers.

- The County should consider documenting the policies, procedures and controls over key financial transactions, including cash, receivables, departmental receipts, purchasing vendor disbursements, employee benefit/payroll disbursements, and general ledger maintenance. This documentation could be used as guidance to help safeguard assets, to properly record transactions, and to provide a basis for continuing operations when there is turnover in key employee positions. 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.
- We recommend that journal entries be used in sequential order and not back-dated to a prior period.
- We noted significant differences between the inmate reconciled bank balance and the detailed inmate balance report. We recommend that these reports be reconciled on a monthly basis.
- Certain grant accounts reflected deficit fund balances at year end. These should be investigated and cleared.

<u>Additional Issues Noted in Fiscal Year 2014</u>

- Our testing of Nursing Home resident trust transactions found several disbursement requests that were not signed by the resident. Further, one disbursement tested did not have supporting documentation, such as a vendor invoice or receipt.
- The County may want to consider expanding upon the reports that are included in the “monthly financial reporting package” to the County Manager. Review of reports, including the balance sheet, budget versus actual, and other financial reports should be documented.
- Registry checks should be dated so that they correspond to the month they are posted to in the general ledger. Specifically, we noted a check that was dated July 1, 2014 that was reported as an outstanding check on the June 30, 2014 bank reconciliation.
- The County may want to consider developing a formal fund balance policy.
- We noted an individual in the Business Office is a signatory on the County’s HRA bank account. This individual should be removed as a signatory.
- The County may want to consider revising the current conflict of interest policy to include specific language related to nepotism.
- A formal policy that relates to the complexity of system passwords, as well as how frequently they should be changed, should be developed.
- Consider reducing the number of County bank accounts.
- Review fixed asset and depreciation schedule on an annual basis for accuracy, including impaired and/or disposed assets and appropriate useful lives.

Further Action Needed
We recommend that the County address the unresolved areas noted above in order to reduce risk in those areas.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2014-006. Improve Controls over Matching Requirements (Compliance Finding and Significant Deficiency)

Federal Program

CFDA Numbers	Name of Federal Program	Questioned Costs
93.276	Drug-Free Communities Support Program Grants	$50,000

Compliance Requirement

Matching, Level of Effort, Earmarking

Type of Finding

Compliance
Internal Control over Compliance - Significant Deficiency

Criteria

Grantees with matching requirements must provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions).

Condition and Context

We noted the source of matching contributions were not from an allowable source.

Cause

Weaknesses in the design and operation of controls.

Effect or Potential Effect

Due to the weaknesses in internal controls, there is a risk that costs incurred or in-kind contributions used as a matching source are not an allowable source in accordance with applicable cost principles, the A-102 Common Rule, OMB Circular A-110, program regulations, and terms of the award.

Recommendation

We recommend that the County addresses the weaknesses in internal control noted above in order to provide reasonable assurance that only allowable sources are used for matching requirements.

Responsible Official's Response and Corrective Action Planned

Upon notice of this deficiency, the County immediately changed its review process to require a monthly report of recommended matching funds to be submitted to and reviewed by the County Manager. With respect to fiscal year 2014, the County has identified an equivalent amount of appropriate matching funds and will amend its records to eliminate its reliance upon the unqualified funds noted above.

SECTION IV - SCHEDULE OF PRIOR YEAR FINDINGS

None.