

INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE



**City of Manchester
City Treasury
Internal Controls and Compliance
Fiscal Year 2006**

**Prepared by
Office of the Independent Auditor**

**INTERNAL AUDIT REPORT
CITY OF MANCHESTER, NEW HAMPSHIRE
CITY TREASURY
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**City of Manchester
Office of the Independent City Auditor**

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*Committee on Accounts, Enrollment and Revenue Administration
City of Manchester, New Hampshire
Honorable Aldermen: Smith, Shea, Guinta, Osborne, and Thibault*

Dear Honorable Committee Members:

At the beginning of FY 2006 a risked based audit plan was developed. This is the third audit in that plan.

The audit originally was a financial and compliance audit that covered the 18 months ended December 31, 2005 and included an evaluation and testing of certain internal controls in place during the audit period. Due to other obligations the audit was put on hold and the audit period changed to fiscal year 2006. After preliminary analysis of the internal control structure in place at the agency it was decided that the audit would only test the internal control structure to determine if it was working as designed and test compliance with selected laws, rules and regulations.

The audit procedures began with a documentation and evaluation of the internal control structure in place during the audit period. The audit also looked at State and City laws and regulations in force during the audit periods and those that were determined to have a material effect on the office were tested for compliance. Samples of expenditure and revenue transactions were tested to determine if the control points noted in the preliminary evaluation were in place and working as designed during the audit period.

Financial information was only tested for reasonableness using analytic review procedures. Financial information was not audited in order to express an opinion of the financial activity of the department in this audit.

Conclusion

My test work revealed no instances of errors or irregularities or non-compliance with laws and regulations that would have a material affect on the financial statements. The internal control structure appears to be adequate to ensure that errors or fraud that could be material to the financial statements would be detected by employees in a timely manner during the normal course of their work.

The draft audit report was sent to the Interim Finance Officer for his review and comment. There were no written observations generated during the course of the audit. We appreciate the courtesy and cooperation of the staff and administration of the Finance Department on this assignment.

Kevin M, Buckley CPA
Independent City Auditor

November 2, 2006

INTRODUCTION

AUDIT BACKGROUND

At the January 2005 meeting of the Committee on Accounts, Enrollment & Revenue Administration it was requested that a financial related audit of the City Treasury be conducted. The Independent City Auditor of the City of Manchester has been designated by city charter and local ordinance with the authority to conduct such examinations and audits.

The audit was conducted in accordance with standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDIT SCOPE AND OBJECTIVES

The reporting entity and scope of this audit was The City Treasury for the fiscal year ended June 30, 2006. The primary objective of the audit was to express an opinion on the effectiveness of the internal control structure in place during the audit period as well as the Office's compliance with certain provisions of applicable State and City laws, rules, regulations and contract provisions.

The following report describes the results of the audit of the City Treasury.

The result of our testing and report on compliance and on internal control over financial reporting is included in the report that follows.

ORGANIZATION

The City Treasury is an office of the Finance Department that was established under the current charter section 3.02 and Code of Ordinances section 35.015. The Department is headed by the Finance Officer who is nominated and appointed by the Board of Mayor and Aldermen. The Finance Officer has no set term and can only be removed by a vote of 9 Aldermen. The Finance Officer is, by City Charter, the Treasurer for the City of Manchester. The Finance Officer has delegated these duties to a Deputy Finance Officer, who is an employee of the City of Manchester hired by the Finance Officer.

At June 30, 2006 in addition to the appointed Finance Officer, the Finance Department employed thirteen full-time employees and one part-time employee. Five of these employees work in the City Treasury. Average longevity with the City at June 30, 2006 was 9.02 years for the Finance Department as a whole and 11.66 years for the Treasury employees. The top three employees, Finance Director, Deputy Finance Director and Second Deputy Finance Director (Treasurer) have worked for the City 17.83, 22.08 and 42.83 years respectively. On October 27, 2006 the Finance Director retired and the Second Deputy Finance Director was appointed as the interim Director.

RESPONSIBILITIES

The Treasury Office is responsible for the following functions and activities:

- Custodian of all monies and funds belonging to the City
- Reconciliation of all bank funds and cash receipts
- Fosters good banking relationships for the City
- Analyze and manages short-term and long-term cash flow requirements
- Maximizes return of city investments
- Coordinates and monitors cash needs for investment and debt activity
- Develops long-term debt plan including arbitrage calculations, rating agency relations and disclosure reporting
- Prepares investment policy covering the management of all city funds
- Evaluates revenue projections for each revenue bond issue
- Acts as administrative oversight of trust funds and prepares regular reports of trust fund activity

FUNDING

The financial activity of the City Treasury is accounted for in the City's General Fund. A summary of the Office's revenues and expenditures for the Fiscal Year ended June 30, 2006 is shown in the schedule below.

Summary of Revenues and Expenditures Fiscal Year 2006

	General Fund
Revenues	\$ 11,749,762
Expenditures	\$ 437,281
Excess (Deficiency) Of Revenues Over (Under) Expenditures	<u>\$ 11,312,481</u>

REVENUES

During fiscal year 2006 the City Treasury collected a third of its revenue from the City's share of State revenue sharing and Room and Meals tax. During FY 2006 another third of its revenue was derived from the sale of capital assets, most of which came from the sale of the Center of New Hampshire garage. The sale of capital assets are deposited into a one-time revenue account used for the purchase of new capital assets.

EXPENDITURES

During fiscal year 2006 salaries and benefits make up 62% of all expenditures and management services make up an additional 28%.



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Auditor's Report on Compliance and On Internal Control over Financial Reporting

To the Committee on Accounts, Enrollment and Revenue Administration:

I have performed an examination of the internal control structure in place at the City of Manchester, City Treasury; an office of the Finance Department of the City of Manchester, for the fiscal year ended June 30, 2006 and has issued my report thereon dated November 2, 2006. I conducted my examination in accordance with auditing standards applicable to attestation engagements contained in *Government Auditing Standards*, Issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Manchester, City Treasury's internal control structure is sufficient to ensure that financial transactions are collected summarized and reported in accordance with managements intentions, I performed tests of its compliance with certain provisions of laws, rules, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial reporting objectives. However, providing an opinion on compliance with those provisions was not an object of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Manchester, City Treasury's internal control over financial reporting in order to determine my auditing procedures for the purpose of determining if the internal control structure is sufficient to ensure that financial transactions are collected summarized and reported in accordance with managements intentions and to provide assurance on the internal control over financial reporting. I noted no matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting

that, in my judgement, could adversely affect the Treasury Office's ability to record, process, summarize and report financial data consistent with the assertions of management.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control system that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This auditor's report on compliance and on internal control over financial reporting is intended for the information of the management of the City of Manchester, City Treasury and the Committee on Accounts, Enrollment and Revenue Administration and is not intended to be used by anyone other than these specified parties.

Kevin M, Buckley CPA
Independent City Auditor

November 2, 2006