

# INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE



**City of Manchester  
Office of the City Clerk  
For the Fiscal Year Ended June 30, 2005**

**Prepared by  
Office of the Independent Auditor**

**INTERNAL AUDIT REPORT  
CITY OF MANCHESTER, NEW HAMPSHIRE  
OFFICE OF THE CITY CLERK  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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Office of the Independent City Auditor**

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*Committee on Accounts, Enrollment and Revenue Administration  
City of Manchester, New Hampshire  
Honorable Aldermen: Pinard, Osborne, Devries, Long and Thibault*

Dear Honorable Committee Members:

At the January meeting of the COA, an audit plan was accepted by the Committee. The first audit of that plan, an audit of the Office of the City Clerk, is presented tonight.

The audit was a financial and compliance audit that covered the fiscal year ended June 30, 2005 and included an evaluation and testing of certain internal controls in place during the audit period.

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 they were correctly calculated and posted to the correct accounts and period.

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. I did note five minor instances that in my opinion require reporting under *Government Auditing Standards* that are presented in the report that follows. I also have included two management letter comments reported in the report that follows.

The draft audit report was sent to City Clerk for his review and comment. The observations generated and the auditee written responses are included on pages seven through eighteen. The auditee responses indicate general agreement with the report recommendations and states that corrective action will be or have been taken. We appreciate the courtesy and cooperation of the staff and administration of the Office of the City Clerk on this assignment.

Kevin M, Buckley CPA  
Independent City Auditor

November 30, 2005

## **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 Office of the City Clerk 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 and audit report is The Office of the City Clerk for the fiscal year ended June 30, 2005. The primary objective of the audit is to express an opinion on the fairness of the presentation of the financial statements. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, the effectiveness of the internal control structure in place during the audit period was tested 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 financial activity of The Office of the City Clerk.

The results of our testing, recommendations and observations, reports on compliance and on internal control over financial reporting and on management issues, the independent auditors report and the financial statements are included in the report that follows.

### **ORGANIZATION**

The Office of the City Clerk was established under the current charter section 3.02 and Code of Ordinances section 30.18. The Office is headed by the City Clerk. Charter Section 3.07 provides that the City Clerk is an officer of the City and appointed by the Board of Aldermen. The City Clerk is nominated and confirmed by a majority vote of the Board of Aldermen. The City Clerk has no set term and can only be removed by a vote of nine Aldermen.

At June 30, 2005 in addition to the appointed City Clerk the Office employed thirteen full-time and one part-time employees and five Security Officers, three of who are part-time and one is out on military leave. The office also hires approximately 180 temporary and contract employees for data entry, clerical and election duties.

## RESPONSIBILITIES

The Office is responsible for the following functions and activities:

### ARCHIVES AND RECORDS MANAGEMENT

Official repository of all government records of permanent value to the City of Manchester.

### ADMINISTRATION

- In charge of all accounting, personnel/payroll and procurement activity of the agency.
- Responsible for voter registration, voter checklists and the conduct and certification of elections in the City.
- Legislative support to the board of Mayor and Aldermen as well as committees of the Board.
- Facilities Management of the entire City Hall complex including security and facility access.

### VITAL RECORDS AND LICENSING

License and track the following:

- Birth, Death, Marriage Records
- UCC Filings
- Dog Licenses
- Alarm Permits
- Taxi License
- Business Licenses

The office is also responsible for inspections and investigations of compliance with rules and regulations governing licensure in the City.

## FUNDING

The financial activity of the Office of the City Clerk 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, 2005 is shown in the schedule below.

### Summary of Revenues and Expenditures Fiscal Year Ended June 30, 2005

	<b>General Fund</b>
<b>Revenues</b>	\$ 1,830,292
<b>Expenditures</b>	\$ 1,352,079
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	\$ 478,213

## **REVENUES**

The Office of the City Clerk collects 63% of its revenue from the collection of cable television franchise fees. The remainder comes from the collection of fees, permits and license revenue (32%) and charges for services (5%).

## **EXPENDITURES**

Salaries and benefits make up 75% of all expenditures. Contract Manpower makes up another 4% of expenditures. As noted in observation #1, the City Clerk hired 16 people in FY 2005 as contract manpower instead of as an employee. There is disagreement between the City Auditor and the City Clerk as to if these individuals should be classified as employees or contract manpower. The remainder of the expenditures are for normal business office expenditures and equipment purchases.



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**Office of the Independent City Auditor**

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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 audited the financial statements of the City of Manchester, Office of the City Clerk, a department of the City of Manchester, for the fiscal year ended June 30, 2005 and have issued my report thereon dated November 30, 2005 which was qualified with respect to the lack of presentation of the financial position of the Office. I conducted my audit in accordance with auditing standards applicable to financial audits 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, Office of the City Clerk's financial statements are free of material misstatement, 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 statement amounts. 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, Office of the City Clerk's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider being 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 Tax Office's ability to record, process, summarize and

report financial data consistent with the assertions of management. The reportable conditions are described in Observations No. 1 through No. 5 of this report.

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. However, we believe that none of the reportable conditions referred to in the preceding paragraph are 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, Office of the City Clerk 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 30, 2005

## Internal Control Comments Reportable Conditions

### **Observation No. 1 – EMPLOYEES CLASSIFIED AS INDEPENDENT CONTRACTORS**

*Observation:*

The classification of a worker as either an independent contractor or an employee is a confusing and difficult decision. There are several standards that determine if a worker is to be classified as an independent contractor or an employee. The repercussion of misclassification can be large in penalties, back pay or taxes. There are three main standards commonly used by the courts and agencies to determine independent contractor status.

- 1) The Internal Revenue Service uses a 20-factor analysis for coverage under federal withholding requirements.
- 2) The Department of Labor uses the “economic reality” test to determine coverage under the Fair Labor Standards Act’s overtime and minimum wage provisions.
- 3) Many courts use the “right to control” test to administer discrimination and benefit statutes.

All three tests share several common factors, the most important being the amount of control an employer has over the work relationship. In general to be considered an independent contractor the worker is usually engaged in a distinct occupation or business that is usually done by a specialist without supervision. The worker is generally paid by the job, supplies their own tools and supplies, has a right to make a profit or loss and can hire their own assistants to carry out some functions of the job if required. The hirer usually exerts little control over how the job is done or the hours of operation. The relationship ends when the task is complete and is not a continuing relationship.

The Office of the City Clerk contracts with several people every year as independent contractors. These employees sign a contract to provide services, are reimbursed at an hourly rate for services rendered, reimbursed for their out-of pocket expenditures, use City owned assets to do their jobs, and do many of the same jobs done by existing employees. A few of these workers are former employees who have been rehired as independent contractors. Their hours and work are closely supervised and set by management. They are required to submit a timecard weekly to receive payment. We have noted instances where hours in excess of 40 per week were worked and paid at straight time. These workers are issued a form 1099 at the end of the year and are responsible for reporting to the IRS and paying the payroll taxes.

During FY 2004 19 workers were hired as independent contractors and were paid \$52,546. During FY 2005 16 workers were hired as independent contractors and were paid \$ 44,683.

It would appear that several of these workers are employees and not independent contractors. As employees they are entitled to the same benefits and protection as any City employee. As such the City is responsible for the payment of the employer’s share of Social Security and Workers’ Compensation as well as the withholding of the employee’s share of taxes and benefits.

*Recommendation:*

The Independent City Auditor has asked for a City Solicitor's opinion on the status of these employees. If it is determined that they are employees the City should contact the IRS, explain the situation and work out a plan to pay any taxes that may be owed. In addition any hours in excess of 40 hours per week should be paid at time and one half to the affected workers.

*Auditee Response:*

**The City Clerk addressed this item with the Human Resource/Insurance Committee and subsequent action by the Board of Mayor and Aldermen has corrected the problem by allowing prior contractual workers for elections and special projects to be hired under a temporary status in the future. It is our understanding that the former comments by this office with regards to this matter were forwarded to the City Solicitor. No request has been received by this office from the Solicitor to take any further action.**

**Observation No. 2 – HIGH VEHICLE COST PER MILE**

*Observation:*

The City Clerk's office maintains two vehicles for its use, a 1999 Ford Taurus wagon and a 2001 GMC courier van. The wagon had approximately 26,600 miles as of June 30, 2005 and the van had approximately 37,800 at June 30, 2005. The Taurus was driven about 9 miles a business day during FY 2005 and the van about 52 miles a business day. The van is a special use vehicle and is needed to deliver mail between City Departments. The Taurus is used mainly for license enforcement activities. Both vehicles are garaged at employee's houses and used for commuting to and from work.

The Ford Taurus appears to be underutilized and not efficient to operate. The average cost per city mile used in FY 2005 was calculated to be approximately \$1.00. The IRS rate currently in effect for personal vehicle use is \$.405/mile. It would be more efficient to pay employees to use their own cars and reimburse them based on this calculation. The rate per mile is calculated by using the formula:

$$\frac{((\text{Purchase cost}-5\%)/10 \text{ years}) + \text{operating costs}}{\text{City used miles}}$$

- Purchase cost less 5% is the price paid for the vehicle less the residual value regained upon sale or trade-in.
- This is divided by 10 years, which is the average age of passenger vehicles when surplused by the City.
- City miles are total miles less commuting miles. Based on a two-mile round trip from home times 236 workdays per year.

My testing has also revealed that 15 employees received mileage reimbursement for business use of their personal vehicles. Total miles reimbursed was approximately 9,100 miles and cost \$3,516. Seven of these employees received 89% of the mileage some getting reimbursed for over 1,000 miles in FY 2005.

*Recommendation:*

The City Clerk's Office should either eliminate the Ford Taurus and reimburse employees for the use of their cars for the small amount of City business they perform or use the Taurus as a pool car and gain some efficiencies by using the Taurus more and reimbursing employees less. If half of the miles reimbursed to employees in FY 2005 were instead used by the Taurus the cost per mile of the Taurus would drop to approximately the IRS rate of \$.405. The net savings in FY 2005 would have been over \$1,000.

*Auditee Response:*

- **The Ford Taurus (wagon) presently has 28,800 miles on it.** It is true that the GMC courier van is utilized more frequently than the wagon. The courier has a definitive route that the vehicle is utilized for except during vacations and breakdowns. During vacations/sick leave of the courier the wagon is used by other staff for mail delivery.
- **The primary purpose of the Ford Taurus wagon is for licensing inspections and enforcement.** Licensing enforcement and inspections are frequently in areas of the City that staff, for a variety of reasons, will not bring personal vehicles into and leave parked while conducting the City's business. Additionally, if a personal vehicle is utilized for a regular business function of the City it is not covered by the City's insurance and the employee is forced to pay additional premiums for that type of coverage which is not reimbursed by the City. Some insurance companies are very strict and do not cover the personal vehicle or liability of the insured if the car has been used for business purposes, particularly pick up and delivery. Employees carrying on city business should not have to take on this type of personal risk.
- **A secondary use of the Ford Taurus is for pick up and transport of election and archival supplies/equipment.** This was the reason for a wagon. The van is not conducive for this activity for two reasons. One, it is not available on a daily basis for instance to go to Concord and pick up archival boxes, or transport machines or other items from storage to City Hall. Secondly, the internal design of the van creates more trips than the wagon does.
- **While the vehicle is driven to and from work by an employee who pays under the IRS standards for use of the vehicle, the vehicle is taken to and from for safety and efficiency purposes.** If the vehicle were parked at MTA we would in essence be paying for a supervisory salary travel time from City Hall to MTA daily. I think we are well aware of the repercussions of vandalism to city vehicles parked in the downtown area if we were to leave it in this vicinity. It has not been vandalized or broken into while parked at the employee's home.

- **Mileage reimbursement is frequently used due to multiple employees traveling on city business to different locations.** Several employees have traveled to and from Concord, some daily, especially over the last year. Time conflicts with employees attending different training sessions and meetings in different locations in Concord renders it impossible to utilize one vehicle without an increased cost in manpower hours and lack of coverage in the office for the vital records area (public counter) as well as the administrative staffing areas. Alternatively, it would also leave employees, in essence, stranded at the conclusion of their training or meeting.
- **Multiple projects have created need for multiple options, and sometimes larger substantial travel by employees.** This office has been involved over the last year with several municipal/state issues and projects. Involvement has been diverse resulting quite a bit from federal legislation that has had tremendous impacts on New Hampshire's state and local processes. The so-called 9-11 issues have resulted in some changes to vital records administration as well. Staff have attended and participated in planning, training, and legislative sessions at various levels relating to centralized voter registration systems, vendor selection processes for voting machines and voter systems, state planning to meet federal regulations, implementation of on line vital records, and substantial amounts of legislative hearings on numerous bills impacting the City. Employees must be reimbursed for use of their vehicles to attend. The results of attending the various meetings have resulted in great savings to the City.
- **It is the City Clerk's opinion that both vehicles need to remain with the department.**

**Observation No. 3 – OVERSTATEMENT OF BUILDINGS AND EQUIPMENT**

*Observation:*

My capital asset testing has revealed three overstatement errors and one understatement error on the June 30, 2005 property and equipment balances in the HTE Continuing Property Record (CPR) module.

The following items were incorrectly included in the module at June 30, 2005.

040-000677	C600 Pitney Bowes Copier	\$ 13,001
L&B000006BU	Pearl Street School	\$ 18,700
L&B000006BU01	Pearl Street School-Improvements	<u>\$ 71,604</u>
Total Overstatement		\$103,305

The Pitney Bowes Copier was physically transferred to the Mayor's Office and the Pearl Street School has been sold.

It is City Policy that all equipment purchased with a value in excess of \$5,000 be included in the Continuing Property Records (CPR) module of the HTE accounting system. My testing has revealed that one item, a Sharp AR-650 copier that would have had a value over the \$5,000 threshold was not included in the CPR module.

*Recommendation:*

The records should be changed to reflect the current status of all capital assets. The City Clerk's Office should conduct a physical inventory of capital assets at year end and compare it to reports printed from the CPR module as part of their year-end procedures.

*Auditee Response:*

- **The AR-650 copier was entered into the CPR records on September 29, 2005.**
- **To our knowledge we do not have the ability to print a capital asset inventory report and have not received one from Finance in recent history.** We could however request one in the future as part of year-end procedures.

**Observation No. 4 – EXPENDITURES POSTED TO THE WRONG ACCOUNTING PERIOD**

*Observation:*

During FY 05 the basement of the City Hall was flooded when a pipe broke. The associated clean up was completed during the fiscal year and the first billing for the service was presented and posted correctly to FY 2005. The second billing for the work was paid in July of 2005 and posted to FY 2006. This understated FY 2005 expenditures by \$84,036. The Office of the City Clerk also purchased computer equipment with a cost of \$3,588 that was incorrectly posted to FY 06.

In addition the test of expenditures has revealed one payment, Building Maintenance Division \$8,839, that was recorded in FY 2005 and should have been reported as an expenditure in FY 2004. This understated FY 2004 and overstated FY 2005 expenditures by \$8,839.

NET UNDERSTATEMENT OF FY 2005 EXPENDITURES \$78,785

*Recommendation:*

These errors should have been caught by the Finance Department and posted to the correct year. CGL Insurance payments originate in the Risk Manager's Office and the City Clerk's Office has very little control over the posting of the expenditure. The two overstatement errors were clearly FY 2004 expenditures and should have been picked up by the Finance Department during their year-end procedures.

*Auditee Response:*

CITY CLERK

**As stated in the audit recommendations, the City Clerk's office has no control of the entries, which originate in Risk Management and are reviewed by Finance and provide no comment on this observation.**

FINANCE DEPARTMENT

The City does not have centralized accounting. Each department is responsible for their respective department's entries into the financial system. This responsibility translates to the departments being accountable for entering their transactions into the correct accounting period and fiscal year.

At the end of a fiscal year, the Finance Department has a two-tiered review to ensure that transactions are posted correctly. As the invoices are processed by the departments, there is one individual in the Finance Department who reviews the bills and makes date corrections to get the invoices posted to the correct period. This process is not perfect and relies on departments entering the invoices using the correct time schedule (FY05 by June 30<sup>th</sup>, FY06 on July 1<sup>st</sup> or later) and utilizing the purchase orders correctly. This step is taken for both the July and August check runs. For those two check runs this year, there were over 2,000 checks which translates to about 10,000 invoices. For one person to review that many documents, there are bound to be required corrections missed. The current decentralized accounting system has resulted in a proliferation of accounting positions within departments to accommodate and initiate a higher volume of transactions but not providing centralized staff at the Finance Department to review and handle the increasing number and complexity of transactions.

The second step is to generate a listing of all disbursements over \$25,000 and have a second review for proper postings. This review varies as to its timing, but for FY05 took place mid-September. For FY05, the review realized 17 invoices that had been posted incorrectly. One of the invoices was the \$84,036 as noted by the Internal Auditor, and the correcting entry had already been made.

Below is a specific response to each of the invoices identified by the Internal Auditor as being posted to the incorrect fiscal year.

\$84,036-insurance reimbursement

This amount was a combination of two invoices (\$6,200 and \$77,836) both for water damage at City Hall. The actual damage and payments to the contractors were made during 2004, FY05. The payments were processed by Building Maintenance Division (BMD). In FY 05, BMD invoiced the City's insurer for reimbursement. The payment from the insurer to BMD was processed in FY 06 and should properly have been processed in FY 05. As noted above, this error was identified as part of the normal annual review process and the correcting entry was made.

\$8,839-insurance reimbursement

The date of loss was in FY04. An invoice to the insurer was processed in FY05 by BMD. This item was not identified as part of the annual review. Due to the immateriality of the amount, it was not reviewed during the second step. A more timely billing by the injured department to the City's insurer would provide a better opportunity to ensure that the cost of losses were recorded in the proper fiscal year.

**Observation No. 5– BUSINESS LICENSE ISSUES**

*Observation:*

For my testing of understatement of business licenses, twenty businesses from across the city were selected to determine if they were issued a business permit or if they were correctly excluded from obtaining a permit. In General, only businesses that are open on Sundays are required by State Statute to obtain a business license from the City. There are also several State Statutes that allow the City to require a license or permit from certain businesses. From our sample of 20 businesses randomly selected four were not open on Sundays and one was exempt by State Statute and therefore not required to be licensed. Out of the remaining 15 one business, Spring Hill Suites on North Perimeter Road did not have a license to operate on Sundays. This is a new building that only recently opened for business.

*Recommendation:*

In addition to working on elections and various other duties there is one employee in the City Clerks Office responsible for tracking and inspecting businesses to ensure that they are operating in accordance with City regulations. The City issues thousands of licenses and permits annually for Sunday operations, amusement devices, taxi licenses, second hand stores, alarms, and peddlers. This one person is responsible for ensuring that these businesses are in compliance with all the regulations governing the permits and licenses. It appears that he has very little time to devote to inspecting businesses. The City Clerk's Office should consider the benefits of hiring another employee in the licensing division to ensure that all businesses are properly licensed to do business in the City. The City Clerks office should be notified of all new building permits for businesses so they can ensure that the proper permits are issued prior to the start of business.

*Auditee Response:*

We agree that the Business Licensing Division is understaffed. As the role of the office has expanded over the past several years, it has been difficult to ensure a more consistent presence within the business community. In addition to the thousands of licenses and permits issued by the office and the complaints generated by those licenses, we also handle all complaints from residents regarding Comcast, as required by contract. While each and every complaint received by this office is fully investigated and resolved, the Statutes and ordinances by which we license businesses do not require all business activities to be registered with City Hall. Subsequently, many complaints require far more time to be expended than necessary.

Recently, the office has followed through with the desire of the Board to look into a universal Business License/Registration process for the City of Manchester. This would allow City departments to have immediate access to accurate and updated information for all local businesses. This proposed enabling legislation currently resides with the State Senate awaiting further action.

In the meantime, the office attempts to overcome staff shortages in different ways. During the past several years, we have developed a system whereby all the departments responsible for permitting/licensing businesses communicate both electronically and through written signoff. This system has received moderate success. We agree, however, that a more uniform notification from the Building Department should exist. Additionally, the office continues the cross training of our Customer Service Representatives to assist in inspections of certain businesses as well as service our front counter.

The unlicensed business noted in the auditor's observation, Spring Hill Suites, is currently being processed by the Business Licensing Division.



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Office of the Independent City Auditor**

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**Auditor's Report on Management Issues**

*To the Committee on Accounts, Enrollment and Revenue Administration:*

The Office of the Independent City Auditor has audited the financial statements of the City of Manchester, Office of the City Clerk, a department of the City of Manchester, for the fiscal year ended June 30, 2005 and has issued its report thereon dated May 24, 2005.

I conducted my audit in accordance with auditing standards applicable to financial audits contained in *Government Auditing Standards*, Issued by the Comptroller General of the United States. Those Standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing my audit of the financial statements of the City of Manchester, Office of the City Clerk for the fiscal year ended June 30, 2005, I noted two issues related to the operation of the City Clerk's Office that merits management consideration but does not meet the criteria of a reportable condition and was not an issue with laws, regulations or contracts.

The issues that I believe merit management consideration but do not meet the criteria of reportable condition or noncompliance are described in observation No. 6 and observation No. 7 of this report.

This auditor's report on management issues is intended for the information of the management of the City of Manchester, Office of the City Clerk 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 30, 2005

## Management Issues Comment

### **Observation No. 6 – INTERGOVERNMENTAL TRANSFERS**

#### *Observation:*

My expenditure testing revealed two instances where the City Clerks Office was billed by another department for services rendered and payment was made by check to complete the transaction. Every time a check is written it costs the City money to print the check, process the payment and reconcile the account at month end. Employees at the sending department have to post the invoice as an account payable and the receiving department has to post the payment as revenue then prepares the deposit. Besides the cost of check stock and the labor involved, the city is also on positive pay and incurs a charge based on the amount of checks processed. It would seem to be more efficient to process these payments electronically rather than continually printing checks from and to the same account. During FY 2005 over 400 checks were printed for interdepartmental expenditures.

An informal poll of other governmental units revealed that 8 out of 10 governments responding processed intergovernmental billings using a Journal Voucher (JV) to electronically transfer the funds with no check being processed. About half of them had a mechanism where the Department to be billed had a paper invoice sent to them that needed approval prior to Central Accounting processing the JV. One jurisdiction processed checks and one had an interdepartmental billing module as part of their accounting package.

#### *Recommendation:*

The City Finance Department should develop procedures to process intergovernmental billings electronically and avoid the time and cost of processing checks. The process should incorporate an approval by the department prior to processing the transaction. It is possible to process these expenditures through the AP module without printing a check.

#### *Auditee Response:*

#### CITY CLERK

- **The City Clerk's office agrees with the recommendation set forth by the auditor.** The issue was brought up by Robin Descoteaux formerly of the Finance Department at a training session a few years ago but no other information has been received to date.

## FINANCE DEPARTMENT

On numerous occasions the Finance Department has initiated discussions with various departments in an attempt to either eliminate or reduce the number of invoices and checks going between different departments. The attempts have never been successful for a number of reasons. First, by Charter, department heads are responsible for the expenditures from within their respective budgets and are adamant about not allowing another department to cross-charge. Second, some departments are responsible for certain types of purchases (Information Systems for computers), but the funds are located in the individual departmental budgets. Third, over the years all of the City's various external audit firms have adamantly agreed that journal entries (JE) weaken internal controls and therefore have recommended that JE should be limited to the Finance Department staff for control purposes. Fourth, and perhaps most important, the Board of Mayor and Aldermen (BMA) has not approved either of the central contract administration or central accounting initiatives proposed by the Finance Department and external auditors. In the absence of an efficient central accounting organization, city accounting resources remain inefficiently spread among departments. Consequently, periodically there is not sufficient staff within the Finance Department to monitor or process these transactions through an alternative means.

As has been frequently repeated, The Finance Department makes a very inefficient system work as efficiently as possible. Short of centralized accounting and resolving the other three barriers, the current arrangement, including the minimal banking fees incurred, is as efficient as possible and provides adequate but not always exceptional internal control.

### **Observation No. 7 – ACCOUNTS RECEIVABLE ISSUES**

#### *Observation:*

Based on testing of accounts receivable at the City Clerk's Office the following errors were noted:

- False alarm fees and alarm citations are tracked on the Police Departments CPLIMS software, This system does not interface with the HTE City financial reporting software. Because of this, the receivable at year-end is not posted to the City financial statements. This causes revenues to be posted in the wrong period in violation of the Government Accounting Standards Board (GASB) revenue recognition policies. I was unable to obtain a report from the system to show the amount of the receivable at year-end so the magnitude of misstatement is unknown. The amount however, is most likely immaterial as the overstatement at the beginning of the year would most likely offset the understatement at the end of the year.
- Cash collections from June 30, 2005 of \$7,492 were posted to HTE in FY 2006 understating FY 2005 revenue and overstating 2006 revenue. The amount is not determined to be material.

*Recommendation:*

At year-end the City Clerk's Office should run a report to show the amount of all outstanding alarm fees and fines as of June 30<sup>th</sup> and report the amount to the Finance Department.

All revenue collected on the last day of the fiscal year should be reported in the correct fiscal year regardless of when the revenue was deposited in the bank.

*Auditee Response:*

CITY CLERK

- **It is agreed that all revenue collected on the last day should be reported in the correct fiscal year, even if the amount is not determined to be material.**
- **CPLIMS is being replaced with another system over the coming year. The new system we believe will interface at some level with HTE. This office, Police, and the Alarm Review Board should review the matter of which alarm revenues are account receivables and how they can be better reported or interfaced.**



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

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## **Independent Auditor's Report**

*To the Committee on Accounts, Enrollment and Revenue Administration:*

The Office of the Independent City Auditor has audited the accompanying financial statements of the City of Manchester, Office of the City Clerk, a department of the City of Manchester, for the fiscal year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of The Office of the City Clerk's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards applicable to financial audits contained in *Government Auditing Standards*, Issued by the Comptroller General of the United States. Those Standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in NOTE 1, the financial statements referred to above are not intended to present the financial position of The Office of the City Clerk in the government-wide or fund statements.

As discussed in NOTE 1, the financial statements of the City of Manchester, Office of the City Clerk are intended to present certain financial activity of only that portion of the governmental activities of the City that is attributable to the transactions of Office of the City Clerk. They do not purport to, and do not, present fairly the financial position of the City of Manchester as of June 30, 2005 and the changes in its financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In my opinion, except for the matters discussed in the third and fourth paragraphs, the financial statements referred to above present fairly, in all material respects, certain financial activity of the City of Manchester, Office of the City Clerk for the fiscal year ended June 30, 2005 in conformity with accounting principles generally accepted in the United States of America.

The Office of the City Clerk has not presented the management discussion and analysis that the Government Accounting Standards Board has deemed necessary to supplement, although not required to be part of, the financial statements.

The Budget to Actual (Non-GAAP Budgetary Basis) Schedule on page 21 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued a report November 30, 2005 on my consideration of the Office of the City Clerk's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, rules and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Kevin M Buckley  
Independent City Auditor

November 30, 2005

**CITY OF MANCHESTER, NH  
OFFICE OF THE CITY CLERK**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<b>Program Revenues</b>			<b>Net (Expenses)</b>
<b><u>Expenses</u></b>	<b><u>Charges For</u></b>	<b><u>Operating</u></b>	<b><u>Revenues and</u></b>	<b><u>Change</u></b>
<b><u>Governmental Activities</u></b>	<b><u>Services</u></b>	<b><u>Grants and</u></b>	<b><u>In Net Assets</u></b>	<b><u>In Net Assets</u></b>
<b><u>Governmental Activities</u></b>		<b><u>Contributions</u></b>		
<i>General Government</i>				
(Departmental Activities)	\$ 1,352,079	\$ 87,867	\$ -	\$ (1,264,212)
<b>Total Governmental</b>				
<b>Activities</b>	\$ 1,352,079	\$ 87,867	\$ -	\$ (1,264,212)
<b><u>General Revenues</u></b>				
CABLE FRANCHISE				
FEE				\$ 1,157,554
OTHER FEES AND				
PERMITS				\$ 459,460
LICENSES				\$ 125,412
<b>Total General Revenues</b>				<b>\$ 1,742,425</b>
<b>Change in Net Assets</b>				<b>\$ 478,213</b>

The accompanying notes are an integral part of this financial statement

**CITY OF MANCHESTER, NH OFFICE OF THE CITY CLERK  
 COMBINED STATEMENT OF REVENUES AND EXPENDITURES  
 GOVERNMENTAL FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<b>General Fund</b>
<u>Revenues</u>	
CABLE TV FRANCHISE FEES	\$ 1,157,554
OTHER FEES AND PERMITS	459,460
LICENSES	125,412
CHARGES FOR SERVICES	87,867
<b>Total Revenues</b>	<b>\$ 1,830,292</b>
<u>Expenditures</u>	
SALARIES AND BENEFITS	\$ 1,009,364
OFFICE EXPENSES	99,908
OTHER EXPENDITURES	59,029
CONTRACT MANPOWER	52,318
PRINTING, PUBLISHING AND BINDING	50,762
EQUIPMENT	42,566
GENERAL OFFICE SUPPLIES	19,130
RENTALS AND REPAIRS	19,001
<b>Total Expenditures</b>	<b>\$ 1,352,079</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>\$ 478,213</b>

The accompanying notes are an integral part of this financial statement

**CITY OF MANCHESTER, NH  
OFFICE OF THE CITY CLERK**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Office of the City Clerk have been prepared in accordance with the Governmental Accounting Standards Board (GASB), which is the primary standards-setting body for establishing governmental accounting and financial reporting principles.

**A. Financial Accounting Entity**

The Office of the City Clerk is an organization of the primary government of the City of Manchester, NH. The accompanying financial statements report the financial activity of the Office of the City Clerk.

The financial activity of the Office of the City Clerk is accounted for and reported in the City's General Fund in the City of Manchester New Hampshire's Comprehensive Annual Financial Report (CAFR). Assets, liabilities and fund balance are reported by the fund for the City as a whole in the CAFR. The Office of the City Clerk, as a department of the primary government, accounts for only a small portion of the General Fund and those assets, liabilities and fund balance as reported in the CAFR that are attributable to the Office of the City Clerk cannot be determined. Accordingly, the accompanying financial statements are not intended to show the financial position or change in fund balance of the Office of the City Clerk in the General Fund.

**B. Government-wide and Fund Financial Statements**

*Government-wide Financial Statements*

The Statement of Activities reports information on the activities of the Office of the City Clerk. As none of the agency's activities are business-type, the activities reported in the statement are all governmental. Business-type activities rely significantly on fees and charges for support. Governmental activities are normally supported through taxes and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not meeting the definition of program revenues, including resources that are dedicated internally, are reported as general revenues. Certain indirect costs are included in program expenses reported for individual functions.

### **C. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectable within the current period or soon enough thereafter to pay the liabilities of the current period. For this purpose, the City generally considers non-grant revenue to be available if it is collected within 60 days of the end of the current fiscal period. Grant revenue that the City earns by incurring obligations is recognized in the same period the obligations are recognized. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to debt service, compensated absences, and claims and judgements are recorded only when a payment is due.

### **D. Financial Statement Presentation**

The City of Manchester and the Office of the City Clerk uses funds to report on their financial position and the results of their operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Office of the City Clerk reports its financial activity in the fund described below:

#### Governmental Fund Type

*General Fund:* The General Fund accounts for all financial transactions not specifically accounted for in any other account. All revenues of governmental funds, other than certain designated revenues, are credited to the General Fund. Annual expenditures that are not allocated by law to other funds are charged to the General Fund.

Unexpended balances of appropriations at year-end will lapse to undesignated fund balance and be available for future appropriations unless they have been encumbered, which means the balances are reported as reservation of fund balance. The balance of unexpended encumbrances is brought forward into the next fiscal year. Encumbrances brought forward into FY 2005 totaled \$115,138

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. Upon receipt of the goods or services, the encumbrance is liquidated and the expenditure and liability are recorded. Encumbrances at June 30, 2005 totaled \$23,769.

## **E. Revenue and Expenditures**

In the government-wide Statement of Activities, revenues and expenses are listed by activity type (government or Business-type). Additionally revenues are classified between program and general revenues. The Office of the City Clerk's program revenues consists of charges for services provided. In general, resources not dedicated to a program, as well as resources that are internally dedicated are reported as general revenues rather than program revenues. The general revenues reported on the Office of the City Clerk's Statement of Activities include cable television franchise fees collected by the Office but are not dedicated for use by the Office.

In the governmental fund financial statements, revenues are reported by source. All revenues collected by the Office of the City Clerk are general-purpose revenues that are available to fund any activity accounted for in the fund and are not restricted to any specific purpose.

In governmental fund financial statements, expenditures are reported by type.

**CITY OF MANCHESTER, NH  
OFFICE OF THE CITY CLERK  
REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGET TO ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<b>BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE</b>
<u>Revenues</u>			
CABLE TV FRANCHISE FEES	\$ 1,000,000	\$ 1,157,554	\$ 157,554
OTHER FEES AND PERMITS	422,700	459,460	36,760
LICENSES	107,750	125,412	17,662
CHARGES FOR SERVICES	86,125	87,867	1,742
<b>Total Revenues</b>	<b>\$ 1,616,575</b>	<b>\$ 1,830,292</b>	<b>\$ 213,717</b>
<u>Expenditures (General Government)</u>			
SALARIES AND BENEFITS	\$ 1,062,236	\$ 1,009,364	\$ 52,872
OFFICE EXPENSES	59,778	99,908	(40,130)
OTHER EXPENDITURES	74,530	59,029	15,501
CONTRACT MANPOWER	35,000	52,318	(17,318)
PRINTING, PUBLISH & BINDING	80,815	50,762	30,053
EQUIPMENT	37,476	42,566	(5,090)
GENERAL OFFICE SUPPLIES	26,556	19,130	7,426
RENTALS AND REPAIRS	23,455	19,001	4,454
<b>Total Expenditures</b>	<b>\$ 1,399,846</b>	<b>\$ 1,352,079</b>	<b>\$ 47,767</b>
<b>Excess (Deficiencies) Revenues / Expenditures</b>	<b>\$ 216,729</b>	<b>\$ 478,213</b>	<b>\$ 165,949</b>

The accompanying note is an integral part of this schedule.

**Note To The Required Supplementary Information – Budgetary Reporting**

The Office of the City Clerk’s annual budget is prepared principally on a modified cash basis and adopted for governmental funds. The “actual” results column of the Budget to Actual Schedule is presented on a “budgetary basis” to provide a meaningful comparison to budget.

For reporting purposes the budget is composed of the initial operating budget, plus any balances brought forward, supplemental appropriations and transfers made throughout the audit period.

The variance column on the Budget to Actual Schedule highlights difference between the final budget and actual revenues and expenditures. For revenue, these variances are caused by actual revenue exceeding budget, generating a favorable variance, or being less than budget generating an unfavorable budget. For expenditures, a favorable variance results from actual expenditures being less than the amount budgeted for the audit period, and unfavorable variances represent actual expenditures for the reporting period exceeding the amounts budgeted for the audit period.

**CITY OF MANCHESTER, OFFICE OF THE CITY CLERK  
SCHEDULE OF BUDGETARY COMPONENTS  
FISCAL YEAR 2005**

	<b>ORIGINAL BUDGET</b>	<b>TRANSFERS</b>	<b>BUDGET REDUCTION</b>	<b>BALANCE FORWARD</b>	<b>FINAL BUDGET</b>
REVENUES					
<b>TOTAL REVENUE</b>	\$ 1,616,575	-0-	-0-	-0-	\$ 1,616,575
EXPENDITURES					
Salaries & Benefits	\$ 1,062,236	-0-	-0-	-0-	\$ 1,062,236
Printing, Publishing & Binding	45,000		(6,250)	42,065	80,815
Other Expenditures	48,000	12,513	(6,500)	20,517	74,530
Office Expenses	55,685	3,925	(5,750)	5,918	59,778
Equipment	5,000	-0-	(2,500)	34,976	37,476
Contract Manpower	35,000	-0-	-0-	-0-	35,000
General Supplies	22,750	-0-	(3,383)	7,189	26,556
Rentals & Repairs	20,482	-0-	(1,500)	4,473	23,455
<b>TOTAL EXPENDITURES</b>	\$ 1,294,153	-0-	(25,883)	115,138	\$ 1,399,846