

INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE



**City of Manchester
Office of the Tax Collector
For the Six Months Ended December 31, 2009**

**Prepared by
The Office of the Independent Auditor**

**INTERNAL AUDIT REPORT
CITY OF MANCHESTER, NEW HAMPSHIRE
OFFICE OF THE TAX COLLECTOR
FOR THE SIX MONTHS ENDED DECEMBER 31, 2009**

TABLE OF CONTENTS

LETTER OF TRANSMITTAL2

INTRODUCTION4

AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING6

AUDITOR’S REPORT ON MANAGEMENT ISSUES.....8

MANAGEMENT ISSUES COMMENT

OBSERVATION 1 – OVERSTATEMENT OF MOTOR VEHICLE DECAL INVENTORY10

INDEPENDENT AUDITOR’S REPORT11

FINANCIAL STATEMENTS13

NOTES TO THE FINANCIAL STATEMENTS15



**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: Ouellette, DeVries, Long, O'Neil, Roy*

Dear Honorable Committee Members:

On December 31, 2009 I was informed by the Tax Collector that she was retiring effective January 15, 2010. She informed me that State law required that an audit be conducted upon retirement of the tax collector. While the State law is only applicable to towns and the City Charter does not have such a requirement I felt an audit was warranted due to the Tax Collector being responsible for the collection of two major revenue sources for the City.

The audit was a financial and compliance audit that covered the six months ended December 31, 2009 and included an evaluation and testing of certain internal controls in place during the audit period. It also was designed to test the procedures followed over the retiring Tax Collector as well as the procedures followed over the appointment of the acting Tax Collector.

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 period 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 account and period.

The payout to the retiring Tax Collector as well as the pay increase to the acting Tax Collector were recalculated and tested for compliance with City rules and regulations. Testing was also conducted to ensure that all required elements of the transfer of duties were done timely.

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. We did note one minor instance that required reporting under *Government Auditing Standards* that is presented in the report that follows.

The draft audit report was sent to Tax Collector for her review and comment. The observation generated and the auditee written response is included on page 10. The auditee response indicates general agreement with the report recommendation and states that corrective action will be or has been taken. We appreciate the courtesy and cooperation of the staff and administration of the Office of the Tax Collector on this assignment.

Kevin M, Buckley, CPA
Independent City Auditor

April 6, 2010

INTRODUCTION

AUDIT BACKGROUND

On December 31, 2009 I was informed by the Tax Collector that she was retiring effective January 15, 2010. I was informed that State law required that an audit be conducted upon retirement of the tax collector. While the State law is only applicable to towns and the City Charter does not have such a requirement it was felt that because the Tax Collector is responsible for the collection of two major revenue sources for the City an audit was warranted. The Office of 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.

Government Auditing Standards require that a peer review be conducted every three years for an audit organization reporting under the standards. The Office of the Independent City Auditor has not had a peer review in accordance with those standards.

Except for the matter noted above, 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.

AUDIT SCOPE AND OBJECTIVES

The reporting entity and scope of this audit was the revenues and expenditures of the Office of the Tax Collector for the six months ended December 31, 2009. The primary objective of the audit is to express an opinion on the fairness of the presentation of the Statement of Activities and the Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) of the City of Manchester, Office of the Tax Collector, a department of the City of Manchester, for the six months ended December 31, 2009. 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 certain financial activity of the Office of the Tax Collector.

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.

BACKGROUND OF AUDITEES

The Office of the Tax Collector was established under the current charter section 3.02 and Code of Ordinances section 36.30. The Office is headed by the Tax Collector who is nominated by the Mayor and confirmed by a vote of eight Aldermen. The Tax Collector has no set term and can only be removed by a vote of 9 Aldermen. The Tax Collector also serves as the custodian of tax deeded property.

At December 31, 2009 the Office employed two part time and ten full time employees with one vacant position.

The Office is responsible for the collection of taxes, central business service district assessments, and delinquent wastewater bills and shall record liens on the delinquent real estate as authorized by law. The Office also administers motor vehicle registrations and other duties as prescribed by federal, state and local law.



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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 Statement of Activities and the Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) of the City of Manchester, Office of the Tax Collector, a department of the City of Manchester, for the six months ended December 31, 2009 and have issued my report thereon dated April 6, 2010, which was qualified with respect to the lack of presentation of the financial position of the Office.

Government Auditing Standards require that a peer review be conducted every three years for an audit organization reporting under the standards. The Office of the Independent City Auditor has not had a peer review in accordance with the standards.

Except for the matter noted above, 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 Tax Collector'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 Tax Collector'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. My testing revealed no 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 judgment, could adversely affect the Tax 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. However, I did not detect any reportable conditions and as such did not detect any 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 Tax Collector 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

April 6, 2010



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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 Statement of Activities and the Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) of the City of Manchester, Office of the Tax Collector, a department of the City of Manchester, for the six months ended December 31, 2009 and have issued its report thereon dated April 6, 2010, which was qualified with respect to the lack of presentation of the financial position of the Office.

Government Auditing Standards require that a peer review be conducted every three years for an audit organization reporting under the standards. The Office of the Independent City Auditor has not had a peer review in accordance with the standards.

Except for the matter noted above, 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.

In planning and performing my audit of the financial statements of the City of Manchester, Office of the Tax Collector for the six months ended December 31, 2009, I noted an issue related to the operation of the Tax Collector'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 issue that I believe merits management consideration but does not meet the criteria of a reportable condition or noncompliance is described in observation No. 1 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 Tax Collector 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

April 6, 2010

Management Issues Comment

Observation No. 1 – OVERSTATEMENT OF MOTOR VEHICLE DECAL INVENTORY

Observation:

During the reconciliation of the motor vehicle decal inventory it was noted that a range of decal numbers were in the AVITAR motor vehicle system that did not match any numbers in the year end physical inventory. Upon investigation it was discovered that these were decals that were entered in error when the Tax Office switched over to the new computer system on December 8, 2008. The decals were 2009 single decals that were entered as 2010 single decals in error. The next time a clerk tried to issue one of these 2009 decals the system showed them as not existing in the system so they were entered in the system as 2009 decals without noticing that they were also in the system as 2010 decals.

At June 30, 2009 the Office performed a complete inventory of decals. They appropriately counted all decals and looked in the system to ensure that all counted decals were in the system. They then did not do a test to ensure that all decals in the system were included in the inventory and missed the extra decals.

This overstated the number of decals in the system by 32 decals. There is no monetary impact from this overstatement.

Recommendation:

The Tax Office should change year-end inventory procedures by adding an extra step to print out the range of decals in the system and comparing that to the physical count.

Auditee Response:

In the Tax Collector's Office, we have always appreciated both City and State audits for the opportunities they provide to find errors, inconsistencies in procedures, and/or "loopholes" in our systems. We are in complete agreement with the City Auditor's findings and recommendation with regard to the extra step that needs to be added to our year-end decal and plate inventory procedures. From this point forward, at the close of the last business day of June, we will print out the range of both open decals and open plates in our system and compare that list to the actual decals and plates remaining in our physical inventory.



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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 Statement of Activities and the Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) of the City of Manchester, Office of the Tax Collector, a department of the City of Manchester, for the six months ended December 31, 2009. These financial statements are the responsibility of the Office of the Tax Collector's management. My responsibility is to express an opinion on these financial statements based on my audit.

Government Auditing Standards require that a peer review be conducted every three years for an audit organization reporting under the standards. The Office of the Independent City Auditor has not had a peer review in accordance with the standards.

Except for the matter noted above, 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 Tax Collector in the government-wide or fund statements.

As further discussed in NOTE 1, the financial statements of the City of Manchester, Office of the Tax Collector 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 the Office of the Tax Collector. They do not purport to, and do not, present fairly the financial position of the City of Manchester as of December 31, 2009 and the changes in its financial position for the six months 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 fourth and fifth paragraphs, the financial statements referred to above present fairly, in all material respects, certain financial activity of the City of Manchester, Office of the Tax Collector for the six months ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, I have also issued a report dated April 6, 2010 on my consideration of the Office of the Tax Collector'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, CPA
Independent City Auditor

April 6, 2010

**CITY OF MANCHESTER, NH
OFFICE OF THE TAX COLLECTOR**

**STATEMENT OF ACTIVITIES
FOR THE SIX MONTHS ENDED DECEMBER 31, 2009**

	Program Revenues			Net (Expenses)
<u>Expenses</u>	<u>Charges For</u>	<u>Operating</u>	<u>Revenues and</u>	<u>Change</u>
<u>Governmental Activities</u>	<u>Services</u>	<u>Grants and</u>	<u>In Net Assets</u>	<u>In Net Assets</u>
<u>Governmental Activities</u>		<u>Contributions</u>		
<i>General Government</i>				
(Departmental Activities)	376,949	4,205	-0-	(372,744)
Total Governmental				
Activities	376,949	4,205	-0-	(372,744)
<u>General Revenues</u>				
Property Taxes				90,648,604
Auto Registration Fees				6,580,065
Other				401
Total General Revenues				97,229,070
Change in Net Assets				96,856,326

The accompanying notes are an integral part of this financial statement

**CITY OF MANCHESTER, NH
OFFICE OF THE TAX COLLECTOR**

**STATEMENT OF REVENUES AND EXPENDITURES BUDGET TO
ACTUAL (BUDGETARY BASIS)
FOR THE SIX MONTHS ENDED DECEMBER 31, 2009**

	BUDGET	ACTUAL	VARIANCE
<u>Revenues</u>			
Property and Other Taxes	\$ 88,380,192	\$ 90,648,604	\$ 2,268,412
Assessments and Fees	13,731,000	6,580,065	(7,150,935)
Charges For Service	7,800	4,205	(3,595)
Other Revenue	3,000	402	(2,598)
	<hr/>		
Total Revenues	102,121,992	97,233,276	(4,888,716)
 <u>Expenditures</u>			
Salaries and Benefits	609,802	347,912	261,890
Other Expenditures	85,462	29,037	56,425
	<hr/>		
Total Expenditures	695,264	376,949	318,315
	<hr/>		
Excess (Deficiencies) Revenues / Expenditures	\$ 101,426,728	\$ 96,856,327	\$ (5,207,031)

The accompanying notes are an integral part of this financial statement

**CITY OF MANCHESTER, NH
OFFICE OF THE TAX COLLECTOR**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Office of the Tax Collector 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 Tax Collector 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 Tax Collector.

The financial activity of the Office of the Tax Collector 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 Tax Collector, 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 Tax Collector 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 Tax Collector 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 Tax Collector. 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 is 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.

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 judgments are recorded only when a payment is due.

D. Financial Statement Presentation

The City of Manchester and the Office of the Tax Collector 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 Tax Collector 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 2010 totaled \$602.

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 December 31, 2009 totaled \$9,175.

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 Tax Collector'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 Tax Collector's Statement of Activities include Property Taxes and Motor vehicle 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 Tax Collector 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.

F. Budgetary Reporting

The Office of the Tax Collector's annual budget is prepared principally on a modified cash basis and adopted for governmental funds. The "actual" results column of the Statement of Revenues and Expenditures – Budget and Actual (Budget Basis) 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.

For a statement prepared at an interim date such as the one presented on the page 14 the budget is presented for the whole year compared to the actual revenue and expenditure for six months usually causing a negative revenue and positive expenditure variance.

The large positive variance of \$2,268,412 displayed in Property Tax is due to the entire year's property tax revenue being recognized when the warrant is issued and the lack of year-end adjustments which will result in lower revenues.

NOTE 2 – TAXES AND ABATEMENTS

The principle tax of the City of Manchester is the real property tax collected by the Office of the Tax Collector. The State of NH has no cap or limit as to the rate or amount of tax a municipality may raise. The municipality's annual property tax rate is established by the Commissioner of the Department of Revenue Administration of the State of NH, based on reports filed with the State. A single tax is levied for general, county and school purposes. The "assessment year" for taxing purposes runs from April 1 to March 31 of the following year.

The City bills and collects property taxes in two installments. The levy dates are June 1 and November 1 and the due dates for these semi-annual tax billings are July 1 and December 1. Property taxes are recorded as a receivable when billed, net of the estimated allowance for abatements. Property tax revenues have been recorded using the modified accrual basis of accounting.

Real Property (Land and Buildings) is subject to a lien for the taxes assessed upon it (subject to any paramount federal lien and subject to bankruptcy and insolvency laws). The City places a lien on delinquent property taxes prior to the end of May of the following assessment year. From the date of the tax lien, a two year period of redemption is allowed to the owner, during which time payment of taxes, interest and costs will be accepted and the lien released. Interest is charged at 12% from the due date to the date of payment and at 18% during the period of redemption.

Beyond the period of redemption the City has the right of foreclosure. Properties are deeded to the City unless the City has sold the lien, or the City has notified the Tax Collector that it will not accept the deed. Tax liens take precedence over all other liens and Tax Collector's deeds are free and clear of all encumbrances.

**CITY OF MANCHESTER, NH
OFFICE OF THE TAX COLLECTOR**

**SCHEDULE OF BUDGETARY COMPONENTS
GENERAL FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 2009**

	ORIGINAL BUDGET	SUPPLEMENTAL BUDGET	FINAL BUDGET
<u>Revenues</u>			
Property and Other Taxes	\$ 86,689,192	\$ 1,691,000	\$ 88,380,192
Motor Vehicle Tax & Fees	14,431,000	(700,000)	13,731,000
Charges for Services	7,800	-0-	7,800
Other Revenues	3,000	-0-	3,000
	<hr/>		
Total Revenues	101,130,992	991,000	102,121,992
<u>Expenditures</u>			
Salaries and Benefits	609,802	-0-	609,802
Other Expenditures	85,462	-0-	85,462
	<hr/>		
Total Expenditures	695,264	-0-	695,264
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Excess (Deficiencies) Revenues / Expenditures	\$ 100,435,728	\$ 991,000	\$ 101,426,728
	<hr/>		