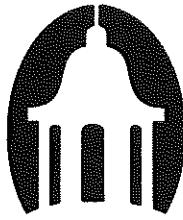
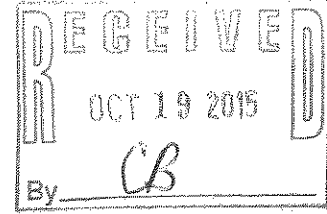


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October 15, 2015

Board of Selectmen
Town of Allenstown
16 School Street
Allenstown, NH 03275

Ronald O'Keefe, Risk Management Manager
Property-Liability Trust, Inc.
PO Box 2008
Concord, NH 03302

To the Allenstown Board of Selectmen and Property-Liability Trust, Inc. re Business Operations Assessment (BOA):


As you know, Property-Liability Trust, Inc. has engaged Municipal Resources, Inc. to conduct a review of the business operations of the Trust's clients. The content of this review has been designed specifically to assist cities, towns, and districts to identify the strengths and weaknesses of their business/financial operations, and as appropriate, to provide direction for the development of methods and procedures to make improvements to those operations.

We have completed our Business Operations Assessment for Allenstown and provide the attached report for your review. During the Assessment, we interviewed the key people in your organization, reviewed various policies and procedures, and observed your typical business/financial operations. While we believe the attached report to be a valid and useful evaluation of your business/financial operations, you should bear in mind that this is a limited assessment of general business/financial operations in your municipal government.

This report is not a financial audit and is not intended to discover errors, irregularities, or evidence of illegal acts. However, had we identified any significant issues or irregularities, we would have immediately reported them to the Board of Selectmen.

We will be happy to review our results and recommendations with you at your request.

Sincerely,


Donald R. Jutton
President

enc.



BUSINESS OPERATIONS ASSESSMENT

TOWN OF ALLENSTOWN, NH

OCTOBER 2015

Background of Allenstown

The Town of Allenstown is located in southeastern Merrimack County, in the south-central part of New Hampshire. To the north, it borders the towns of Epsom and Pembroke; to the west, Bow; to the south, Hooksett; and to the east, Deerfield. The Town is traversed north to south on its western side by US Route 3, and from north-central to southwest by NH Highway 28. The Suncook and Merrimack Rivers form part of the north and west borders of the Town. Driving time to Boston is about an hour-and-a-half, and driving time to Manchester, New Hampshire, a little less than half-an-hour. The US Census estimated population for 2013 was 4,318 persons, with an estimated work force of 2,496 persons. Less than 10% of those working are employed in Town, and thus, about 90% of employed persons are commuting out-of-Town. Allenstown's population makes it a middle-sized New Hampshire community, but it has a lower population density than the New Hampshire average due to the presence of Bear Brook State Park, which occupies more than half of the Town's land area. Between 2000 and 2010, Allenstown's population decreased by nearly 11%. The population, and the Town's infrastructure, is concentrated in the suburban west of the Town, while the eastern and northern parts are much more rural or wooded. Allenstown's relatively high ratio of manufactured housing to conventional housing, and its large proportion of non-taxable property, combine to produce a low assessed valuation, and thus a high tax rate. Allenstown, like many New Hampshire communities, is constantly struggling to balance rising demands for service and regulatory compliance, with limited monetary resources.

Allenstown was granted in 1721 as one the towns established by Massachusetts during the early 18th century, and was named for Samuel Allen, a former provincial governor. The Town was incorporated in 1831, when the population had grown sufficiently to warrant a more formal government.

The Town is governed by its three-member Board of Selectmen (BOS), under the general laws for New Hampshire towns (it has adopted SB2 and the MBA). The BOS is

assisted in governance by a Town Administrator, elected officials, Town Hall staff, and various department heads. Allenstown's 2015 Town Budget is \$3,847,352, not including \$2,100,024 in Sewer Department enterprise fund appropriations. The Town's support of education (local schools and tuition to Pembroke High School) for the 2015-16 school year is \$9,499,224.

Concept of Business Operations Assessments

As a part of its risk management program, **Property-Liability Trust, Inc.** has contracted with **Municipal Resources, Inc.** (MRI) to perform **Business Operations Assessments** (BOA) of its member municipal government organizations.

Business Operations Assessments build from the idea that all organizations exist to achieve purposes. It is the role of management (the BOS and staff) to see that plans for the application of the organization's resources to its purposes are made and carried out. Assessing management's success in its role involves determining the organization's:

1. **Effectiveness:** Are objectives being met, results achieved?
2. **Efficiency:** Are objectives met on time, within budget?
3. **Compliance:** Are statutes, regulations, policies, and standards fully incorporated into the organization's policies and operations? It should be noted that there are significant compliance-liability risks in Financial Reporting, Human Resources, Plant Operations and Maintenance, and Waste Disposal, as well as other operations which deal with the Town's resources.
4. **Financial Reporting:** Are accurate, complete, and understandable financial reports available to leaders and managers at the time when this information is needed?

It is important to keep in mind that the four elements outlined above are inter-related. Efficiency and effectiveness must be considered together. For example, a program may accomplish its objectives, but be so expensive that it robs other important programs of necessary resources, or; a program may accomplish its objectives but those objectives may not help accomplish the organization's mission. Compliance is central to any organization's mission, and may consume considerable resources. Financial reporting is a critical concern for most business decisions, since knowledge of current resource availability is an important part of most decision making.

An important examination which is incorporated into the BOA is an assessment of the internal controls framework established in the organization to ensure that leadership and management are carrying out their responsibilities. A good reference for this

framework is *Evaluating Internal Controls*, by Stephen J. Gauthier, a publication of the Government Finance Officers Association. This work outlines 5 evaluation points:

1. Establishing a favorable control environment: Is management knowledgeable about internal controls? Is management committed to establishing and maintaining internal controls in the organization? Does management communicate its support for internal controls throughout the organization?
2. Continually assessing risk: Is management continuously thinking about where loss could occur, and planning to minimize the risk of loss?
3. Establishing and maintaining internal control policies and procedures: Does management provide specific guidance on official/employee conduct and integrity, financial processes, and approvals?
4. Effectively communicating information: Do the governing body and management communicate standards and expectations to the right individuals, at the right time, and in the right format?
5. Monitoring and feedback: Does management follow-up and follow through on internal control problems, including policy modification where required?

The methodology employed in a Business Operations Assessment (BOA) incorporates the following:

1. Interviews with many of an organization's leaders, administrators, and managers, and an interview with some members of the organization's governing body.
2. A review of financial reports, audits, policies, written procedures, communication channels, bank statements, and other documents.
3. Research in state agency records and other information sources as necessary.
4. Evaluation and analysis of the information and data assembled during the assessment by highly qualified management professionals.
5. The preparation of a report of the findings of the assessment and recommendations for remediating those findings where necessary. In general, findings identify changes or corrections which need to be made to be in compliance with statutes, GAAP, and good practice standards. Additionally, observations are included to identify things which should be considered in context with the municipality's established practices. In

terms of weight, findings require action, while observations require consideration.

Scope of the Allenstown Assessment

The field work for this assessment took place on August 4-5, 2015. The attached interview schedule shows the 12 interviews which were conducted. The MRI consultant was made to feel very welcome by Allenstown's administrators, managers, and employees. The staff was prompt and very cooperative in furnishing the materials or documents requested. The MRI consultant was particularly impressed with the morale and commitment of the Town Administrator and Town Hall staff; everyone in Allenstown seems to take pride in their work, and the people with whom they work. The Town Administrator, Finance Director, and Town Clerk/Tax Collector displayed outstanding professionalism during their interviews.

The following documents were examined on-site or after the field work:

1. Audit reports for 2012, 2013, and 2014.
2. Recent Town-generated income and expenditure reports, trial balances, budget summaries, and reconciliations. The Board does not review a periodic balance sheet.
3. Town policies.
4. Job descriptions for employees.
5. Town organization chart and office hours.
6. Listing of communications means used to provide information to the public.
7. Copies of these recent reports made to the State of New Hampshire: MS-1; MS2; MS4; MS7, MSDT, MS9, MS10, MS61, Town meeting minutes, treasurer's report, and budget summaries.
8. Various other documents such as bank statements and related financial/administrative records.

Other references include telephone calls between the Town Administrator and Mike Everngam, Senior Consultant at MRI. Several e-mails were exchanged during scheduling and preparation for the field work. Reference was also made to information available on the New Hampshire website www.NH.gov under the Departments of Revenue Administration, Labor, and Education.

FINDINGS AND RECOMMENDATIONS

Finding 1

MRI conducted two previous internal controls (business operations) assessments in Allenstown, one in September 2004 and one in November 2008. Except where the note “(recurring)” appears after Findings in this report, the Findings and Recommendations found in these earlier assessments have been adopted or the problems have been eliminated. These prior assessments noted significant need for improvement in written policy, revenue collections, physical security, financial operations, information technology, and human resources practices. Mr. Mulholland and Ms. Demers deserve special recognition for their hard work and perseverance in making the many improvements in the Town’s operational and financial management which have eliminated most of the past findings. Efforts to provide good physical security for the Town offices have resulted in excellent security for money and personnel. The establishment of a central collections office in the Town Clerk/Tax Collector’s office is a giant step forward in control and security of financial assets.

Finding 2

Allenstown’s accounting system/software is being operated as a general/subsidiary ledger accounting system suitable for producing financial management information and financial reporting. Known expenditures are booked as encumbrances so that expenditure reports reflect available balances. The board reviews revenue and expenditure information regularly. Areas where improvements could be made are listed below:

1. The Treasurer has formally delegated the reconciliation of the bank statement, treasurer’s book, and accounting system to the Finance Director, reserving the review and final approval of the reconciliation to herself.
2. There is an established, budget-oriented process for reviewing, controlling, and approving receipts, disbursements, account adjustments, and journal entries. Separation of function is well established in business office procedures. This process has not been recorded in writing (recurring). Written procedures are important to training, retraining, and quality control.
3. The annual financial statements are prepared by staff with recommendations by the auditor.

Recommendations – Finding 2

1. The intent of the law regarding town treasurers is to establish a record of transactions, based on BOS orders and town receipts, which is separate from the accounting system and the employees of the town. The independence of the treasurer from the town's accounting processes is central to this separation. The monthly reconciliation assures all stakeholders that the bank, the treasurer, and the town's accounting system tie-out to a proved balance. The present arrangement makes it imperative that the review process is complete and well documented, and it is important that it be periodically reviewed by an outside person.
2. The established budget-oriented process for reviewing, controlling, and approving receipts, disbursements, account adjustments, and journal entries should be recorded and formalized with "screen shots" depicting each step in all processes. This will be very important as the Town installs its new accounting system. The written record thus created will serve to standardize procedures, thus improving evaluation, training and/or retraining, and quality control. Moreover, as the capabilities of the new accounting system are brought into use, it will be important to have written procedures to cross-train other employees in the use of the new system.
3. The roles and responsibilities associated with production of annual financial reports and audit preparation should be discussed with the auditor during the engagement process to be sure the requirements of SAS 115 are met.
4. Allenstown should design and implement a periodic internal audit program to examine the internal controls and operations of all expenditure programs, including any decentralized programs.

Finding 3

Allenstown's policies are generally excellent. The following specific notes are provided:

1. The Personnel Policy is thorough and comprehensive, and includes most of the policies which good practice standards require.
2. There appears to be no policy on Ethics and Code of Conduct for elected officials (recurring).
3. There is no written Internal Controls Policy, although many of the policy concepts of internal controls are covered in financial policies (recurring). RSA 41-9 requires the Town to have an Internal Controls policy.

4. The Town is working to develop and implement an asset control and inventory program (GASB 34).

Recommendations – Finding 3

1. Policies (and regulations) are needed to establish the basic rules each town uses to conduct routine business, and to lay out a vision for how the town should serve its residents. Elected official policies must consider not only fact, but also appearance, so that situations which could be construed as conflicts of interest are identified and avoided before they become problems. The goal of the Town's work on policies should be to produce clear and straightforward guidance for routine Town governance that has been adopted or readopted by the BOS within the previous 5 years.
2. Prepare and implement policies on Ethics and Code of Conduct for elected and appointed officials and employees.
3. Prepare and implement an Internal Controls policy.
4. Amend the existing Fixed Asset Management policy to include a clear statement on control, inventory, and disposition of property. The final policy should prescribe a system for describing the value and location of property, where property and materials are stored when not in use, how property and materials are inventoried and accounted for, and how disposition of unneeded or worn out property is carried out. The policy should also describe the process for accounting for the Town's Capital Asset accounts, including infrastructure, per GASB 34.

Finding 4

The relationship between the Town Library and the Town government appears to be cool, most likely resulting from past disagreements about funding. While the law envisions the Library to be a semi-independent body, it is counterproductive for the Town and the Library not to work cooperatively and share services where economies of scale and mutual assistance can be realized:

1. The Library Trustees are accounting for the Library's non-lapsing library account internally, rather than through the Town's accounting system. The Town's system and finance personnel could handle the Library's non-lapsing account bookkeeping needs with little impact on Town operations, thereby freeing library personnel to spend more time on library work, and centralizing all accounting as good practice standards require. This move would improve Library security, reduce the possibility of loss due to fraud, and improve transparency. Under such an arrangement, the Trustees

would surrender no control over the monies in the non-lapsing account since only it can authorize transactions in that account.

2. It is the practice for the Town to transfer any unexpended end-of-year funds appropriated for the support of the Library to the Library Trustees, who place these appropriated funds in an account to be expended at some point in the future. Special care must be exercised in continuing this practice to be sure that there is no violation of RSA 32-7.

Recommendations – Finding 4

1. The Library and finance office should make an early effort to explore the concept of the Town finance office performing all accounting for the Library.
2. The expenditure of Library funds must be carefully managed to avoid inadvertently violating statutory limitations.

Finding 5

The Road Agent's shop and storage areas have a significant number of compliance and good practice deficiencies and shortcomings in safety, materials/chemicals storage, environmental contamination prevention, pilferable items security, and general housekeeping. While the resource constraints in Allenstown are clear, the high cost, in both money and resident satisfaction, of large failure-to-comply fines from OSHA/EPA/DES must be considered.

Recommendations – Finding 5

1. The Town should immediately seek advice and assistance from the Property-Liability Trust, Inc. and the NHMA to identify existing problems in the Road Agent's shop and storage areas.
2. Develop a detailed plan to correct and/or mitigate these problems on a phased, priority-of-need basis.
3. Provide leadership and resources to carry out the plan.

Finding 6

The Sewer Commission provides wastewater management and disposal services to Allenstown, Pembroke, and independent New Hampshire septic haulers. The wastewater treatment facility was brought online in 1977, and is well beyond its expected service life of 20 years. Wastewater operations are funded through service

fees paid by users into an enterprise fund appropriated in the Allenstown budget. Billings for municipal services are carried out by the Commission's staff, with one collection being received by the Town, and the remaining collection(s) being received by the Commission's staff. Bookkeeping and financial operations are performed by the Commission's finance/administrative staff.

Recommendations – Finding 6

1. The Commission should continue its efforts to maintain and improve the wastewater facility's infrastructure, including seeking grants, loans, and technical assistance from all related federal/state agencies.
2. The Sewer Commission's separate bookkeeping and collections operations could easily be transferred to the Town's finance department and the Town Clerk/Tax Collector's office. This transfer could reduce the Commission's administrative budget significantly, freeing up monetary resources for facility operations/improvements.
3. The Town's installation of a new accounting software system, which includes a utilities program as one of its modules, should be viewed by the Commission as an opportunity to buy into a much improved financial management tool at minimal cost.

Observation 1

There is a net upward trend in Net Government Assets reflected in the audit reports. This would be considered a positive if the Town was seeking to borrow or issue a bond.

Observation 2

The Town Clerk/Tax Collector's office needs a Deputy to provide for backup coverage for the Town Clerk/Tax Collector's office.

Schedule: (# Interview at RA shop)

Allenstown Business Operations Assessment - 4 & 5 Aug 2015						
Start	End	Town Officer	Name	Interviewer	Date	Length
9:00	10:00	Town Admin'tor	Shaun Mulholland	Mike Everngam	4-Aug	1.00
10:00	12:00	Document Review	Shaun Mulholland	Mike Everngam	4-Aug	2.00
1:00	2:00	Finance-Accounting	Diane Demers	Mike Everngam	4-Aug	1.00
1:00	2:00	Town Clerk/Tax Collector	Kathleen Rogers	Mike Everngam	5-Aug	1.00
3:00	3:30	Chair, Trstees of Trust Fds	Larry Anderson	Mike Everngam	4-Aug	0.50
9:00	9:30	Assessing Clerk	Donna Severance	Mike Everngam	5-Aug	0.50
9:30	10:00	Welfare	Diane Demers	Mike Everngam	5-Aug	0.50
3:30	4:00	Fire Chief	Dana Pendergast	Mike Everngam	4-Aug	0.50
4:00	4:30	Bldg Insp/Health Off	Dana Pendergast	Mike Everngam	4-Aug	0.50
10:00	10:30	Librarian/Library Trustee	Pauline Boutin no show	Mike Everngam	5-Aug	0.50
11:30	12:00	Treasurer	Carol Anderson 340-8812	Mike Everngam	5-Aug	0.50
10:30	11:30	Road Agent #	Ronnie Pelissier	Mike Everngam	5-Aug	1.00
2:30	3:00	Recreation	TA manages	Mike Everngam	5-Aug	0.50
2:00	2:30	Information Tech	Mike Lavelle 286-1210	Mike Everngam	5-Aug	0.50
2:00	3:00	Sewer Business Admin	Andrea Martel	Mike Everngam	4-Aug	0.50
3:30	4:30	Selectmen	Jeffrey Gryval	Mike Everngam	5-Aug	0.50

