

## INTEROFFICE MEMORANDUM

**TO:** SELECTBOARD  
**FROM:** ELLEN BULLION AND ALEX TORPEY  
**SUBJECT:** FISCAL YEAR 2022 AUDIT UPDATE  
**DATE:** 01/22/24

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Although the FY 2022 audit is materially complete, there is one step remaining between one of our law firms and the auditors that is required to finalize the audit. In the meantime, this is an update on the key highlights.

To interpret the audit results, it's important to understand the purpose. From the New Hampshire Department of Revenue: **“Financial audits play a vital role in helping to preserve the integrity of public finance and maintain citizens’ confidence in their elected leaders. Audits provide independent assurance that financial information is reliable. Transparency and accountability in government is essential to show that public functions are being carried out efficiently, ethically, and equitably.”** The Town’s financial audits are performed by Plodzick & Sanderson and the process involves submission of preliminary financial reports, questionnaires, accounting entries, and supporting documents. In addition, a team of auditors from the firm spend a week on-site gathering additional information from the finance & accounting team and departments. Follow-up requests and discussion can stretch over several months.

The current major takeaways include:

- **Four Adverse Opinions (pages 1-2):**
  - **Context:** The adverse opinions were issued “because of the significance of the matters described in the ‘Matters Giving Rise to Adverse Opinions’ paragraphs (page 2), the financial statements do not fairly present the financial position of the governmental activities, business-type activities, and each major proprietary fun of the Town of Hanover as of June 30, 2022...” The cause of the adverse opinions is quite narrow, due to the capital assets that have not been updated fully since FY2021 and the related accumulated depreciation entries. The correction of this weakness is complicated by the ending FY2022 capital asset value that is not supported by the detail in the financial system.
  - **Corrective Action:** We are working with a consultant to identify assets that may not have been transferred from the financial system used prior to 2019 to reconcile the difference. Once we have a reconciled starting point, the records will be updated for FY2022 and 2023 and the deprecation entries created.

- **Two Material Weaknesses (pages 62-64):**
  - **Context:** The material weaknesses, with examples are as follows
    - Balance Sheet Reconciliations and General Ledger Maintenance
      - Lack of appropriate accounting policies and procedures.
      - Departure of long-term employees with accumulated undocumented institutional knowledge.
    - Capital Projects Tracking and Grants Maintenance
      - Multiple projects being accounted for in capital projects fund without individual project tracking.
      - Accounting for grants in the capital projects fund without properly recognizing related revenues and expenditures.
      - The lapse of bridge repair and renovation loan and improper accounting of funds that were drawn demonstrated this weakness.
  - **Corrective Action:** These material weaknesses required management responses which detail the action the Town will take to correct them. The responses are attached and can also be found on pages 63 and 64. The issues that led to the material weaknesses are broader than the cause of the adverse opinions and will take more effort to correct.
  
- **Correction to Property Tax Revenue:**
  - Analysis led to identifying an incorrect adjusting journal entry (AJE #8) that had resulted in the reduction of Property Tax Revenue (and therefore the Undesignated Fund Balance). This was due to miscommunication, the transition loss of legacy knowledge and the inability to explain to the auditors the difference in the year end Property Tax Receivables balance in our tax collector system and the general ledger. This was a timing difference but was interpreted as an overstatement of the receivables balance that led to the write off in FY2022. In fact, the payments were deposited on 7/1/2022, the first day of FY2023.
  - The reversal of this adjusting entry is reflected in the audit and resulted in an increase to the UFB of \$690K.

Once the auditors receive the outstanding legal letter it will take roughly 2-3 days before the representation letter and final audit documents are issued.

When the FY2022 audit is complete we will move quickly to complete the FY2023 audit. The auditors confirmed that as of today the Town has no outstanding FY2023 audit deliverables. It's important to note that corrective actions mentioned above are ongoing and we expect to have similar finding for the FY2023 audit.