

**REPORT ON INTERNAL CONTROL BASED ON  
AN AUDIT OF BASIC FINANCIAL STATEMENTS**

To the Board of Selectmen  
Town of Warner, New Hampshire

In planning and performing our audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Town of Warner, New Hampshire (the Town) as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in the Town's internal control to be a material weakness:

**SEGREGATION OF DUTIES**

***Observation***

The Town has a general ledger accounting system, which has the capabilities to account for the activity of more than one fund. However, as previously reported, only the activity of the General Fund is currently being recorded in the accounting system.

The Town's Treasurer is the authorized signature on various bank accounts in addition to those reported in the Town's General Fund. These additional accounts have been earmarked to account for the activity of the following: Chandler Reservation Fund and Conservation Commission Fund. There is no formal accounting system in place to keep track of the annual activity of these additional accounts. The only reporting of these funds is being maintained by the Treasurer.

***Implication***

The internal controls over cash receipts and cash disbursements are weakened. There is no proper segregation of duties pertaining to these other bank accounts. The current procedures place sole reliance on the Treasurer to deposit monies, write checks, reconcile the bank accounts, and maintain a record of the activity.

***Recommendation***

We urge Town officials to fully utilize the accounting system to record the on-going activity in funds previously mentioned. Although the Treasurer maintains records for these funds, the Town's finance personnel should also be tracking the activity with the accounting software. This will ensure an accurate financial position of the Town will be available upon which the Selectmen may make sound business decisions. Sound internal controls provide for the distribution of duties to various personnel to reduce the risk of loss and to provide a system of checks and balances.

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This communication is intended solely for the information and use of management, the Board of Selectmen, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Wachon Aubrey & Company PC*

Manchester, New Hampshire  
January 29, 2014