

January 30, 2013

To the Board of Selectmen
Town of Warner, New Hampshire

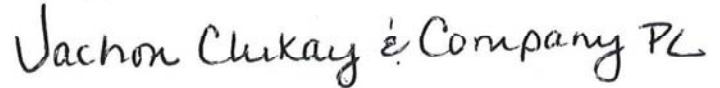
In planning and performing our audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Town of Warner, New Hampshire for the year ended December 31, 2011, we considered the Town's internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. We previously reported on the Town's internal control structure in our report dated January 30, 2013. This letter does not affect that report or our report on the basic financial statements dated January 30, 2013.

We have already discussed these comments and suggestions with various Town personnel, and we will be pleased to discuss it in further detail at your convenience, to perform additional study of the matters, or to assist you in implementing the recommendations.

The purpose of this letter is to provide constructive and meaningful recommendations to you.

Sincerely,



Vachon Clukay & Company PC

POLICE ASSOCIATION FUNDS

Observation

During the audit, we noted that a savings account was listed within a “summary of accounts” included with the Town’s December 2011 bank statement. We were able to identify all of the accounts listed within this summary, except for one account. It was later determined that this account was established for the police association. This account has a value of approximately \$1,100 as of December 31, 2011 and was not included in the scope of the annual audit.

Implication

Internal controls over the financial activities of the Town are weakened when outside entities are allowed to establish bank accounts using the Town’s tax identification number.

Recommendation

We recommend that the Town’s treasurer obtain a complete listing of all of the Town’s cash accounts from the bank on a regular basis to ensure that no accounts were opened using the Town’s tax identification number without the proper authorization. We also recommend that any outside organization that wishes to perform fundraising activity not be allowed to establish bank accounts with the Town’s tax identification number.

UNINSURED DEPOSITS

Observation

The collateralization of Town funds provided to us during the 2011 audit is insufficient to secure the town’s deposits as of December 31, 2011. As a result, the Town is exposed to custodial credit risk at year end in the amount of \$169,363.

Implication

The Town is not in compliance with its investment policy which states that all funds in excess of the applicable Federal Deposit Insurance limits are to be secured by collateral.

Recommendation

We recommend that the Town require its financial institution to regularly provide a statement indicating the collateralized securities held on its behalf. This would enable the Town to review the amount of collateral that is held and access whether the amount is sufficient.

QUARTERLY PAYROLL REPORTS

Observation

We noted that the information reported on the quarterly payroll reports (Form 941) was inconsistently prepared during 2011. For three of the reports, we noted that the wages paid to employees subject to

federal taxes were reported on Line 2. However, for the quarter ending September 30, 2011, we noted that the total gross wages were reported on Line 2.

Implication

As a result of the inconsistent reporting, there is an increased possibility that the Internal Revenue Service will contact the town in the future to inquire about the differences. The Town will then need to research the payroll records in order to reconcile the difference.

Recommendation

In order to avoid receiving notices from the Internal Revenue Service, the wages per the quarterly 941's should be reconciled to the wages per the W-3's. We recommend that a reconciliation between these amounts be done. If necessary, a revised quarterly report (Form 941c) will need to be completed.

FUND BALANCE POLICY

Observation

Per inquiry, the Town has not adopted a fund balance policy. In accordance with GASB Statement #54, the Town is recommended to adopt a policy to formally designate who has the authority to commit or assign any fund balance at year end.

Implication

Without a formally adopted fund balance policy, the classification of fund balance at year end may not be reported within the financial statements as intended by the Town.

Recommendation

We recommend that the Town consider establishing and formally adopting a fund balance policy. Additional items should be addressed within the fund balance policy such as a spending prioritization policy and the Town's policy regarding any deficit fund balance in other governmental funds. As a member of the Local Government Center, the Town has access to many sample policies that have been drafted by other governmental organizations.