

**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, each 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, 2010, 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 our auditing procedures 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 deficiencies 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: Hazardous Materials Fund, Beautification Fund, Chandler Reservation Fund, Conservation Commission Fund, William D. Davis School Fund, Planning Board Fund, and Timber Bond 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

Controls over the financial activities of the Town are weakened as the accounting system is not being utilized to record all of the financial activity of the Town. The Town may not be in compliance with the accounting requirements of State laws and regulations.

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 all other Town-held funds. Although the Treasurer maintains records for these other 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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Town's internal control to be a significant deficiency:

POLICE ASSOCIATION FUNDS

Observation

During the audit, we noted a savings account included on a "summary of accounts" included with the Town's December 2010 bank statement. We were able to identify all of the accounts listed, except for one account. It was later determined that this account was established for the police association. This account has a value of approximately \$900 as of December 31, 2010 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.

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

Vachon Aubrey & Company PC

March 14, 2012