

**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 Town of Warner, New Hampshire as of and for the year ended December 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Warner, New Hampshire's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Warner, New Hampshire's internal control.

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the following deficiency to be a significant deficiency in internal control:

SEGREGATION OF DUTIES

Observation

The Town has a general ledger accounting system, which may have the capabilities to account for the activity of more than one fund. However, only the activity in 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. In addition to there being no formal accounting of these funds, we also noted that deposits lacked supporting documentation and disbursements were issued without any authorization. We noted an instance in which an item was ordered by the Treasurer, shipped to the Treasurer, and paid by the Treasurer from one of the above referenced funds without any formal review or approval by another individual.

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. Without sufficient documentation to substantiate a deposit, the Town is exposed to an increased risk that funds could be lost or misplaced. The Town is also exposed to an increased risk that unauthorized disbursements will be made and go undetected.

Recommendation

We urge Town officials to fully utilize the accounting system to record the on-going activity in all other Town-held funds. This will ensure an accurate financial position of the Town will be available upon which the Selectmen may make sound business decisions. We also recommend that an individual other than the Treasurer formally approve all disbursements. 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.

Town Response

Since the 2008 budget year, the Town Treasurer has retired and a new Treasurer is now in place. Our new Treasurer utilizes financial software to track receipts and disbursement of all the funds/accounts outside of the General fund. Any disbursements that in the past have not already approved by the Selectmen will be reviewed and a change will be made with regard to what Board or Committee will be responsible for such approvals.

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. However, this report is a matter of public record, and its distribution is not limited.

Wachon Clulley & Company PC

March 3, 2010