

(DATE)

Selectboard
Town of Charlotte, Vermont
P.O. Box 119
Charlotte, Vermont 05445

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Charlotte, Vermont as of and for the year ended June 30, 2016 and have issued our report thereon dated (DATE). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in “Government Auditing Standards”, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the Town of Charlotte, Vermont’s internal control over financial reporting (internal control) as a basis for designing our audit 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 of Charlotte, Vermont’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Charlotte, Vermont’s internal control.

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 of Charlotte, Vermont’s financial statements will not be prevented or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the second 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. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

However, we have noted other matters during our audit, as indicated in the accompanying Schedule of Recommendations, that may be opportunities for strengthening internal control and operating efficiency. We have discussed the recommendations with the staff during the course of fieldwork and some of the recommendations may be in the process of being implemented.

This communication is intended solely for the information and use of management, the Selectboard and others within the Town of Charlotte, Vermont and is not intended to be and should not be used by anyone other than these specified parties. If you would like to discuss any of the recommendations further, please feel free to contact us.

We would like to take this opportunity to thank the staff of the Town of Charlotte, Vermont for their assistance and cooperativeness throughout our audit. It has been a pleasure working with you.

Respectfully submitted,

SULLIVAN, POWERS & CO.
Certified Public Accountants

Fraud Risk Assessment

The Town has not performed a fraud risk assessment. A fraud risk assessment is important because it identifies the Town's vulnerabilities to fraudulent activities and whether those vulnerabilities could result in material misstatement of the financial statements. The fraud risk assessment would also identify processes, controls, and other procedures used to mitigate the identified fraud risks.

We recommend the Town perform a fraud risk assessment to reduce the possibility of fraudulent activities.

Cash Register

The Town does not use a cash register. The Town utilizes a log sheet to track cash received. A cash register would allow the Town to reconcile the register tape to the daily deposits to ensure that all cash recorded in the cash register is included in the deposit. A cash register would also provide a safeguard over cash assets.

We recommend that the Town consider the purchase of a cash register so better control over cash can be achieved.

Investment and Banking Policy

The Town does not have a formal investment and banking policy. This policy is extremely important in establishing and maintaining cash management in accordance with Selectboard directives. This policy should include general guidance for the Treasurer in the areas of bank selection, types of investments and policies for minimizing the risk of losses.

We recommend that the Selectboard and the Treasurer work together to establish guidelines for the Treasurer in the areas of cash management and investing.

Documentation of Internal Control System

A solid understanding of internal control is essential to a well run organization. An organization must continually assess their internal control systems to evaluate financial health, ensure accurate financial reporting and comply with laws and regulations. As part of this process, management should formally document its control systems.

This will provide management with an understanding of the systems related to financial reporting and the controls over relevant assertions related to all significant accounts, disclosures in the financial statements, antifraud programs and controls over selection and application of accounting policies.

TOWN OF CHARLOTTE, VERMONT
SCHEDULE OF RECOMMENDATIONS
JUNE 30, 2016

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We recommend that the Town document the internal control process. This should break out the internal control process into the following five areas:

1. Control Environment – Sets the tone of an organization and is the foundation for all other components.
2. Risk Assessment – Identification and analysis of relevant risks to achieve its objectives, forming a basis for how risks should be managed.
3. Control Activities – The policies and procedures that help ensure management directives are carried out.
4. Information and Communication – The identification, capture and exchange of information in a form and timeframe that enables people to carry out their responsibilities.
5. Monitoring – The process that assesses the quality of internal control performance over time.

Budgeting for Unanticipated Expenses

The Town budgets a separate line item for unanticipated expenses. These unanticipated expenses should be recorded by their type and/or purpose and in the appropriate departments.

We recommend that the Town not charge any amounts to the unanticipated expenses line item.