

To the Board of Selectmen
Town of Charlotte
Charlotte, VT

We have audited the financial statements of the governmental and the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Charlotte ("Town") for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2013.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with the employed management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

The following issues were found during our audit:

Cash receipts and disbursements

Internal controls over cash disbursements should be strengthened with clearly defined and communicated policies and procedures, standardized forms, and enforced compliance, with clearly defined and communicated policies and procedures for non-compliance. Examples of weak internal controls include cleared checks with no supporting invoice or receipt, invoices without supporting documentation (i.e. charge slips, receipts), charge slips with no detail, a payment approval form (Library) that does not require any evidence of approval (i.e. signature line), hand written notes with no evidence of review/approval used as proxy for standardized expense reimbursement request form evidencing review and approval.

In addition, cash deposits and disbursements made post-reconciliations and post-year-end were back-dated to year-end. This is not a good practice and results in misstatements of year-end balances. The practice should be discontinued. Cash receipts undeposited at year-end should be posted to "undeposited funds" (or similar account). Payments made to vendors post-year-end should not be back-dated; those amounts should remain and be reflected in accounts payable at year-end.

Charge accounts

Internal controls over charges to Town vendor accounts should be strengthened with clearly defined and communicated policies and procedures, standardized forms, and enforced compliance, with clearly defined and communicated policies and procedures for non-compliance. Lack of internal controls has made defalcation of Town assets not only possible, but evidence suggests it has likely occurred. All purchases and usage of inventory and assets (i.e. small tools, equipment, and materials) should be accounted for, tracked, and physically secured.

Payroll

Payroll is processed on various days of the week and paychecks reflect the day of processing. Paychecks are then held in the safe until payday. Paychecks should reflect pay date, not processing date.

All hourly employee timesheets should be reviewed and approved by a supervisor/manager, with approval evidenced by the supervisor/manager's signature. This internal control is not routinely or consistently practiced.

General issues

The Ski program fund should stand alone, and not be consolidated with the Thompson Point Fund. The Thompson Point Fund is an enterprise fund, receiving fees and should be segregated in a fund of its own. As the Ski Program is considered a Non-Major Fund, it can be grouped with the Conservation Fund, as presented in the financial statements.

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

Sincerely,

Batchelder Associates, PC
Barre, Vermont
August 8, 2013
VT License #945