



*Proven Expertise and Integrity*

November 4, 2010

Board of Selectmen  
Town of Fair Haven, Vermont  
Municipal Building  
3 North Park Place  
Fair Haven, Vermont 05743

We have audited the financial statements of the Town of Fair Haven, Vermont, for the year ended June 30, 2010.

In planning and performing our audit of the financial statements of the Town of Fair Haven, Vermont as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered The Town of Fair Haven, Vermont's internal control over financial reporting (internal control) 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of the 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 later in this letter, we identified certain matters or deficiencies in internal control that we considered necessary to mention.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the purposes described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did identify deficiencies in internal controls that we considered to be material weaknesses as defined above which are mentioned later in this letter.

These matters do not modify our opinion on the financial statements for the year ended June 30, 2010, where we expressed an unqualified opinion on our independent auditors' report dated October 26, 2010.

**Control deficiency:**

**Investment Policies:**

The Town does not have any written guidance to invest its excess cash dollars during the fiscal year. The Town can and does have excess cash at any time. We recommend the Town establish policies and procedures governing these dollars in order to comply with state and federal regulations ensuring the following standards of safety, liquidity and yield.

Subsequent to fiscal year end the Town will review its current investment policies and procedures and where necessary revise and/or develop and implement investment policies to meet its needs. These policies should then be given to the Town Selectmen for approval.

**Fund Balance Policy:**

As of discussion with the Town management on desired carryover or fund balance, we recommend that the Town develop a fund balance policy to meet the everyday needs of the Town. The policy should consist of a general fund balance policy which will include what the Town would maintain as undesignated fund balance, and then a reserve fund balance policy which would take into consideration all aspects of Town reserves including but not limited to, capital (by department), debt service, special ordinances, special request of the community, and other designations to meet the everyday and long term needs of the Town. These policies will also be necessary for the adoption of Governmental Accounting Standards Board Statement No. 54, "Fund balance reporting and governmental fund type definitions."

**Capital Plan:**

The Town should review its current capital and infrastructure needs short term and long term from all Town departments. By this we mean that the Town should create a list of major capital items it may need to replace in the upcoming years with an estimated replacement cost. We recommend that Town incorporate this into a formal five or more year plan, thus a Capital Plan. With a formal Capital Plan the Town should identify items needed based on priority and identify a means of paying for these items. We would recommend that the Town pay for these items with equal annual appropriations to a capital fund. Thus, when employed, would allow for the Town to pay for major items with a consistent effect on its tax rate and possibly prevent the Town from borrowing to pay for these items.

**Scale – Transfer Station:**

In performing our test work for the above mentioned year audited, we reviewed the controls at the transfer station. We noticed the transfer station did not have a scale. A scale can be a very useful tool by management in tracking product coming into the transfer station and product going out. It can also be very useful in determining the debris being processed for when the time comes when the transfer station cannot handle the product. Management should consider this investment.

**Cash Receipting – Transfer Station:**

In performing our test work for the above mentioned year audited, we reviewed the controls at the transfer station. We noticed the transfer station made weekly deposits and that there was really no formal process in collecting cash at inside the transfer station. The Town should review its transfer station cash collection policies and adjust where necessary. The Town should also perform more frequent deposits and consider a safe or another more secure method to keep the cash in at the transfer station.

**Credit – Transfer Station:**

While performing the audit for the above mentioned year end, it was noticed that the transfer station attendants are extending credit to contractors and the general public in paying there fees. While we do not discourage the practice of credit extension, we recommend the Selectmen be the ones authorizing credit and that the Town Manager and the Selectmen be given a list monthly of all outstanding balances owed to the Town for transfer station usage.

**Town and School Account Reconciliations:**

While performing the audit for the above mentioned year end we noticed that the Town and School District reconcile their books but not consistently and not in detail. We understand the School is a department of the Town which maintains a separate set of accounting records from the Town. The Town transfers all tax revenues received from the State of Vermont to pay all the school's general education warrants including grant expenditures. The Town should review and reconcile in detail within 15 days from month end all of its general ledger accounts including school revenue and expenditures fro all school funds.

**Bank reconciliations Town Clerk/Treasurer:**

The Treasurer/Town Clerk at the time of audit fieldwork was not reconciled with her bank account activity with Town business and State activity. We consider this area crucial in the Town's processing of accurate financial information. We recommend that the Town perform all cash reconciliations on its financial software within 15 days of month end.

**Journal Entries:**

While testing internal controls at the Town we noted that the person responsible for maintaining the Town's general ledger also approves then enters journal entries to update and correct this general ledger. Proper accounting controls require independent approval of all journal entries before entering in the general ledger. We recommend that the Town review its current fiscal staffing and consider restructuring duties and responsibilities to approve these important journal entries.

**Material Weaknesses:**

**Decentralized Bank Accounts:**

While performing the audit for the above mentioned year end we became aware of bank accounts in the Town's federal tax identification number but the activity is not accounted for daily on the Town's general ledger. This account is maintained by the Treasurer/Town Clerk. It should also be noted that the account had transactions which were not Town business presented on this account.

All accounts in the Town's name should be recorded in the Town's accounting system, and all disbursements on these accounts should be reviewed and approved by the Selectmen.

Furthermore, we recommend the Selectmen adopt a policy where only Town business is conducted with Town bank accounts.

**Cross Training:**

Currently, the Town has no back up for some of the financial duties being performed by the Treasurer. Furthermore there appears to be no deputy Treasurer in place at the Town. An unanticipated absence of certain key personnel could leave the Town unable to maintain basic fiscal operations. We believe that ability to maintain key fiscal operations during an employee's absence is vital to the Town and that the Town should cross train existing personnel within the Town office to each be knowledgeable and have abilities to perform additional financial functions when needed and appoint a Deputy Treasurer.

**General Ledger Reconciliations:**

All general ledger accounts should be reconciled on a monthly basis and when necessary to subsidiary ledgers. At the time of fieldwork various general ledger accounts did not reconcile between the Town maintained general ledger and the Town Clerk/Treasurer's general ledger. This is mainly being caused by the Treasurer/Town Clerk maintaining a decentralized accounting system. The Town should reconcile within 15 days from month end all general ledger accounts. Furthermore, we recommend the Town consolidate the Treasurer/Town Clerk receipting with the Town general ledger for reconciliation.

We would like to thank Serena, Jenny & Suzanne and all of the staff at the Town for all of their cooperation throughout this audit process.

If there are any questions regarding this letter, please do not hesitate to call.

Very Best,

***Ron***

Ron H.R. Smith, C.P.A.