

**REPORT ON INTERNAL CONTROL BASED ON
AN AUDIT OF BASIC FINANCIAL STATEMENTS**

To the Board of Selectmen
Town of Moultonborough, New Hampshire

In planning and performing our audit of the financial statements of the Town of Moultonborough, 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 Moultonborough, 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 Moultonborough, New Hampshire's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Moultonborough, New Hampshire's internal control.

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:

LIBRARY FUND***Observation***

During our audit of the Moultonborough Library Fund's 2008 records, we noted several deficiencies. Formal monthly bank reconciliations are not prepared for any of the Library Fund's active bank accounts (sixteen accounts in total), which total \$137,266 in cash and investments at year end. In addition, incomplete information was provided regarding the Library Fund's 2008 activity. The financial report provided for the audit by the Library Fund consisted strictly of information pertaining to the activity of the main checking account with the beginning and ending figures of the report not reconciling to the prior and current year end account balance. Information on the annual activity for the other fifteen bank accounts held by the Library Fund was not provided.

Implication

The controls over cash are weakened, failure to reconcile monthly activity increases the risk that errors or mispostings may occur and remain undetected. In addition, controls over the financial activities of the

Library are weakened as the accounting system is not being properly utilized to record the financial activities for all of the Library Fund's bank accounts.

Also, additional time was necessary to reconstruct the Library Fund's records in order to adjust them to be in accordance with generally accepted accounting principles.

Recommendation

We recommend that formal bank reconciliations are prepared on a monthly basis for all of the Library Fund's bank accounts. Also, it is imperative that an accurate annual financial report is compiled which includes the activity of all of the Library Fund's bank accounts.

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.

Vachon, Chukay & Co. PC

July 27, 2009