

Patrick T. Gothie, CPA
Richard M. Hoyt, Jr., CPA, PFS
Paul R. Filippetti, CPA
Terence J. Malaghan, CPA
K. Elise vonHousen, CPA

GOThIE, HOYT,
FILIPPETTI & MALAGHAN, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Susan K. Jones, CPA
Jason E. Cote, CPA
Dipti J. Shah, CPA
N. Alex Bancroft, CPA
Fiona J. LaFountain, CPA

MANAGEMENT LETTER

To the Operating Committee and Management of
Dunn's Corners Fire District
Westerly, Rhode Island

In planning and performing our audit of the financial statements of the Dunn's Corners Fire District (the District) as of and for the year ended May 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Dunn's Corners Fire District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Dunn's Corners Fire District's internal control to be material weaknesses:

MATERIAL WEAKNESSES

MW-12-1: REPORTING PERIODS

During our audit procedures, we noted that approximately \$44,000 of checks were entered into QuickBooks in the months of June, July, and August 2012, but were backdated to May 31, 2012. This caused both cash and accounts payable to be misstated at year-end.

Recommendation: The District should use the Accounts Payable module in QuickBooks so that bills received after year-end can be attributed to the prior year without misstating cash.

Management's response: The bookkeeper has been trained in this process and this recommendation is being implemented in fiscal year 2012-2013.

MW-10-1: SEGREGATION OF DUTIES – TAX COLLECTOR’S OFFICE

The District has made substantial improvements in internal controls with regard to the tax collector’s office. During our walkthrough procedures in connection with the planning of the audit, we noted that there was a remaining weakness in the segregation of duties with regard to the following functions:

- a) Receipt of tax payments
- b) Responsibility for follow up on delinquent accounts

Recommendation: The District should consider reallocating procedures and implementing safeguards within these areas to properly segregate duties. These safeguards and procedures should be documented in a manual as described in MW-10-3.

Management’s response: The District will work to modify its check handling processes to remediate any potential internal control matters.

This is a repeat finding from the prior year.

MW-10-2 FINANCIAL STATEMENT ADJUSTMENTS AND RELATED INTERNAL CONTROL OVER FINANCIAL REPORTING

The District currently maintains its financial reporting on the accrual basis of accounting. Material adjustments were required to present the District’s financial statements in accordance with accounting principles generally accepted in the United States of America. The following accounts required adjustments:

Modified Accrual Basis (Fund Financials)

- 1) Property taxes receivable
- 2) Deferred revenues
- 3) Accrued payroll
- 4) Cash
- 5) Accounts Payable

Accrual Basis (Government-wide Financials)

- 1) Capital asset additions and annual depreciation
- 2) Accrued expenses (interest)

Recommendation: The District should consider either maintaining its internal financial reporting in accordance with accounting principles generally accepted in the United States of America or converting its statements to such a basis for annual external reporting. This may require continuing education for financial personnel and management in order to become more knowledgeable in accounting principles generally accepted in the United States of America as it relates to local governments.

MATERIAL WEAKNESSES (Continued)

MW-10-2 FINANCIAL STATEMENT ADJUSTMENTS AND RELATED INTERNAL CONTROL OVER FINANCIAL REPORTING (Continued)

Management's response: The District will review this matter with the District bookkeeper to determine the time, effort and training required to implement the recommendation.

This is a repeat finding from the prior year.

MW-10-3 DOCUMENTATION OF THE COMPONENTS OF INTERNAL CONTROL

Internal controls are a coordinated set of policies and procedures that management uses to achieve their objectives and meet their fundamental responsibilities for effectiveness, efficiency, compliance, and financial reporting. The District has not documented such controls over its significant processes and accounts. It is possible for controls to change over time or not be completely understood by the individuals involved in the processes.

Recommendation: We recommend that the District make a listing of its significant processes and accounts. Controls in each area should be documented in a procedures manual. Each of the procedures should be reviewed to determine if controls are adequate. These controls should address the types of deficiencies noted previously as MW-10-1 and MW-10-2.

Management's response: The Administrative Assistant has been tasked with this project and is currently working on this matter.

This is a repeat finding from the prior year.

OTHER MATTERS

Fire Fighter Incentive Program

During the year ended May 31, 2012, the District paid a total of \$60,578 to firefighters under its "Firefighter Incentive Program." The intent of the District is to issue Forms 1099 to the firefighters after the end of the calendar year.

Recommendation: The Internal Revenue Service has indicated that payments to these firefighters may be classified as employee wages and therefore subject to social security, medicare, and unemployment taxes and reportable on Form W-2. The IRS has further stated that the term "volunteer" and the status of "being on call" have no relevance in this determination. We recommend the District consider placing its firefighters on payroll, subject to all applicable taxes as it does with its other employees.

OTHER MATTERS (Continued)

Fire Fighter Incentive Program (Continued)

Management's response: The Operating Committee does not believe that the volunteer firefighters are employees. Their time of participation is neither assigned nor controlled. They may choose to volunteer their time as it is available. This is a crucial factor in the determination of whether or not someone is an employee.

Dunn's Corners Fire Department – IRS Filings

From discussions with the District's management, it is our understanding that the Dunn's Corners Fire Department (Fire Department) located within the District currently does not submit any annual filings with the Internal Revenue Service.

Recommendation: We recommend that the Fire Department apply for tax exempt status with the Internal Revenue Service using form 1023. If tax exempt status is granted, the Fire Department will be required to file Form 990 annually or Form 990-N annually if its gross receipts are less than \$50,000. If tax exempt status is not granted, the Fire Department may be required to file Form 1120, the income tax return for corporations.

Management's response: The Operating Committee's response is that it will apply for tax exempt status for the Fire Department with the IRS.

Very truly yours,

Gothie, Hoyt, Filippetti & Malaghan, LLC

December 20, 2012