

**CITY OF KINGS MOUNTAIN  
NORTH CAROLINA**

**COMPLIANCE LETTERS**

**FOR THE YEAR ENDED JUNE 30, 2012**

# CITY OF KINGS MOUNTAIN, NORTH CAROLINA

## COMPLIANCE LETTERS FOR THE YEAR ENDED JUNE 30, 2012

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# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## **Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards***

To the Honorable Mayor and  
Members of the City Council  
City of Kings Mountain  
Kings Mountain, North Carolina

We have audited the basic financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kings Mountain, North Carolina, as of and for the year ended June 30, 2012, not presented here, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 10, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the City of Kings Mountain ABC Board, as described in our report on the City of Kings Mountain's financial statements. The financial statements of the City of Kings Mountain ABC Board and the Tourism Development Authority Board were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

Management of the City of Kings Mountain is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Kings Mountain'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 City of Kings Mountain's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, Responses, and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency, 2012-1 described in the accompanying Schedule of Findings, Responses, and Questioned Costs, to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Kings Mountain's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings, Responses, and Questioned Costs as items 2012-2, 2012-3 and 2012-4.

The City of King's Mountain's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Responses, and Questioned Costs. We did not audit the City of King's Mountain's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City Council, management, federal and State awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
December 10, 2012

# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

*"A Professional Association of Certified Public Accountants and Management Consultants"*

## **Report On Compliance With Requirements That Could Have A Direct And Material Effect On Each Major Federal Program And Internal Control Over Compliance In Accordance With OMB Circular A-133 And The State Single Audit Implementation Act**

### **Independent Auditors' Report**

To the Honorable Mayor and  
Members of the City Council  
City of Kings Mountain  
Kings Mountain, North Carolina

#### **Compliance**

We have audited the compliance of the City of Kings Mountain, North Carolina, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The City of Kings Mountain's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings, Responses, and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Kings Mountain's management. Our responsibility is to express an opinion on the City of Kings Mountain's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Kings Mountain's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Kings Mountain's compliance with those requirements.

In our opinion, the City of Kings Mountain complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

### **Internal Control Over Compliance**

The management of the City of Kings Mountain is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Kings Mountain's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weakness. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Kings Mountain, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the City of Kings Mountain, North Carolina's basic financial statements, and have issued our report thereon dated December 10, 2012, which contained an unqualified opinion on those financial statements. We did not audit the financial statements of the City of Kings Mountain, North Carolina ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us and, our opinion, insofar as it relates to the amounts included for the City of Kings Mountain, North Carolina ABC Board, is based solely on the report of the other auditors. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise City of Kings Mountain, North Carolina's basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act and is not a

required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal and State Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
December 10, 2012

**CITY OF KINGS MOUNTAIN, NORTH CAROLINA**

**SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**1. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency identified?	No
Non-compliance material to financial statements noted?	Yes

**Federal Awards**

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency identified?	No
Type of auditors' report issued on compliance for major federal programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133	No
Threshold for determining major programs	\$300,000

<b><u>Program Name</u></b>	<b><u>CFDA#</u></b>
Community Development Block Grant	14.228

# CITY OF KINGS MOUNTAIN, NORTH CAROLINA

## SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

### 2. Findings Related to the Audit of the Basic Financial Statements

#### **Finding 2012-1:**

**Criteria:** Management should have a system in place to reduce the likelihood of errors in financial reporting.

**Condition:** Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board requires a level of technical expertise not possessed by the City's personnel with regards to drafting full accrual, full disclosure financial statements.

**Effect:** The external auditor prepared a draft of the basic financial statements, all required note disclosures, and supplemental schedules.

**Cause:** The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above is cost prohibitive.

**Context:** City personnel cannot draft full disclosure GAAP financial statements.

**Recommendation:** The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears cost prohibitive. Therefore, the City should exercise due care in reviewing the financial statements drafted by the external auditor, as the City is responsible for the accuracy of the audited financial statements.

**Name of Contact Person:** Beverly Moschler, Finance Officer

**Corrective Action/Management's Response:** Management concurs and will diligently review financial data to ensure agreement with audited financial statements.

# CITY OF KINGS MOUNTAIN, NORTH CAROLINA

## SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

### **Finding 2012-2:**

**Criteria:** North Carolina General Statutes require that the King's Mountain Tourism Development Authority have policies and procedures in place to monitor budgetary compliance throughout the entire year.

**Condition:** Year-end accrual journal entries need to be completed prior to year-end to allow the Tourism Development Authority to make adequate time to make budget amendments.

**Effect:** The Tourism Development Authority has expenditures over budgetary appropriations.

**Cause:** Failure to adequately monitor budgetary appropriations and make amendments as necessary.

**Context:** During the drafting of the financial statements the external auditor identified expenditures that exceeded budgetary restrictions.

**Recommendation:** The Tourism Development Authority should implement additional policies and procedures to ensure that expenditures are within budgetary requirements at all times.

**Name of Contact Person:** Beverly Moschler, Finance Officer

**Corrective Action/Management's Response:** The Tourism Development Authority is going to amend their practices regarding budget amendments during the fiscal year and amend the budget as the need arises. The King's Mountain Tourism Development Authority will consult with auditors prior to year-end to discuss measures for developing estimates for year-end closeout.

# CITY OF KINGS MOUNTAIN, NORTH CAROLINA

## SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

### **Finding 2012-3:**

**Criteria:** North Carolina General Statutes require that the King's Mountain Tourism Development Authority have the finance officer covered under a surety bond for at least \$50,000.

**Condition:** The finance officer for the King's Mountain Tourism Development Authority was not covered under a separate surety bond.

**Cause:** Lack of review of component unit and segregated reporting requirements.

**Context:** While performing testing on the financial statements and inquiry on the classification of the King's Mountain Tourism Development Authority, we noted the condition as described above.

**Recommendation:** As part of the internal control structure, King's Mountain Tourism Development Authority management should incorporate a review of the fund structure and component unit classification each year to ensure that component units are properly classified.

**Name of Contact Person:** Beverly Moschler, Finance Officer

**Corrective Action/Management's Response:** Management concurs.

# CITY OF KINGS MOUNTAIN, NORTH CAROLINA

## SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

### **Finding 2012-4:**

**Criteria:** Management should have a system in place to reduce the likelihood that violations of General Statutes occur and go undetected.

**Condition:** In the current year, there was a violation of the General Statutes regarding funds operating in a deficit.

**Effect:** The City was in violation of certain North Carolina General Statutes.

**Cause:** Lack of monitoring over budgetary compliance

**Context:** While reviewing financial statements and budget reports, we noted the condition described above.

**Recommendation:** Implement additional monitoring controls, such as reviewing monthly budget to actual reports, to identify areas where transfers may be required to ensure that a fund is not operating in a deficit.

**Name of Contact Person:** Beverly Moschler, Finance Officer

**Managements Response:** Management concurs with the recommendation. Management also adds that this was a timing issue and was filed for reimbursement in the next fiscal year

### **3. Findings, Responses, and Questioned Costs Related to the Audit of Federal Awards**

None

**CITY OF KINGS MOUNTAIN, NORTH CAROLINA**

**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

None.

## CITY OF KINGS MOUNTAIN, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012

Grantor / Pass-through Grantor / Program Title	CFDA Number	Expenditures	
		Federal	State
<b>Federal Awards:</b>			
<b>U.S. Department of Housing and Urban Development:</b>			
Passed-through N.C. Department of Commerce: Community Development Block Grant/State's Program	14.228	\$ 401,524	
<b>U.S. Department of Health and Human Services:</b>			
Passed-through Isothermal Planning and Development Commission: Special Programs for the Aging - Title III B Grants for Supportive Services and Senior Centers	93.044	48,075	
<b>U.S. Department of Health and Human Services:</b>			
Passed-through the N.C. Department of Insurance: Centers for Medicare & Medicaid Services Research, Demonstrations and Evaluations	93.779	7,243	
<b>Department of Homeland Security:</b>			
Passed through FEMA: Assistance to Firefighters Grant	97.044	27,326	
<b>U.S. Department of Transportation FHWA:</b>			
Passed-through the N.C. Department of Transportation: Highway Planning and Construction	20.205	<u>18,139</u>	
<b>Total Federal Awards</b>		<u>502,307</u>	
<b>State Awards:</b>			
<b>N.C. Department of Cultural Resources:</b>			
State Aid - Library			\$ 10,759
<b>N.C. Department of Aging:</b>			
Senior Center General Purpose			16,273
<b>N.C. Department of Transportation:</b>			
Powell Bill			164,935
<b>NC Rural Economic Development Center:</b>			
Clean Water Partners Supplemental: Economic Infrastructure Program Grant			165,502
<b>NC Department of Commerce:</b>			
Industrial Development Fund			<u>94,287</u>
<b>Total State Awards</b>		<u>-</u>	<u>451,756</u>
<b>Total Federal and State Awards</b>		<u>\$ 502,307</u>	<u>\$ 451,756</u>

**CITY OF KINGS MOUNTAIN, NORTH CAROLINA****SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012****Notes to the Schedule of Expenditures of Federal and State Awards:****1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and State grant activity of the City of Kings Mountain and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, Non-Profit Organizations, and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Benefit payments are paid directly to recipients and are not included in the City's basic financial statements. However, due to the City's involvement in determining eligibility, they are considered federal awards to the City and are included on this schedule.