

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2013, not presented here, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 10, 2013. The financial statements of the City of Kings Mountain ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Kings Mountain's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Kings Mountain's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Kings Mountain's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, responses, and questioned costs, we identified deficiencies in internal control 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 reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings, Responses, and Questioned Costs as items 2013-001 and 2013-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*, which are described in the accompanying Schedule of Findings, Responses, and Questioned Costs as items 2013-002 and 2013-003.

City of Kings Mountain's Responses to Findings

The City of Kings Mountain's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Responses, and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
December 10, 2013

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency identified that are not considered to be material weaknesses?	None reported
Non-compliance material to financial statements noted?	Yes

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

Finding 2013-001:

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, 2013

Finding 2013-002:

Criteria: North Carolina General Statutes require that the City of Kings Mountain and the Kings 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 City and the Tourism Development Authority to make adequate time to make budget amendments.

Effect: The City of Kings Mountain and the Tourism Development Authority have expenditures that exceed 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 City of Kings Mountain and 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 City and the Tourism Development Authority are going to amend their practices regarding budget amendments during the fiscal year and amend the budget as the need arises. The Finance Director will consult with auditors prior to year-end to discuss measures for developing estimates for year-end closeout.

Finding 2013-003:

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 and will correct.

CITY OF KINGS MOUNTAIN, NORTH CAROLINA

**SUMMARY SCHEDULE OF PRIOR YEARS FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

Finding 2012-1 repeated as 2013-001.

Finding 2012-2 repeated as 2013-002.

Finding 2012-3 repeated as 2013-003.

Finding 2012-4 was corrected during the current year.