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CERTIFIED PUBLIC ACCOUNTANTS

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RESPOND TO:

New Bern

Honorable Mayor and Members of
The Town Council
Town of Atlantic Beach, North Carolina

In planning and performing our audit of the financial statements of the Town of Atlantic Beach, North Carolina for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Town of Atlantic Beach's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

1. Cash Disbursements

The disbursements should include proper supporting documents, including an approved purchase order. Our tests revealed instances where one of the department heads incurred expenditures without proper purchase order procedures being followed. We recommend that all department heads be required to obtain approved purchase orders on all disbursements that in the aggregate exceed \$100.00. This will ensure accountability.

2. Water Fund Billing

The billing done in the water fund requires that adjustments to individual accounts be made periodically. These adjustments should be approved by an appropriate supervisor. Our tests revealed that there was about a six-month period where the billing clerk obtained no approval for adjustments on customers' water bills. We recommend that the Finance Officer or Town Manager approve all adjustments on customers' bills in the future.

3. Signature Cards

The Town should periodically review the names on signature cards on all deposit accounts. Our tests revealed that one employee was listed on a signature card that was not presently employed by the Town. We recommend that signature cards be reviewed on a semi-annual basis.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information and use of the Town Council, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,


CARTER, WILLIAMS & SCARBOROUGH, L.L.P.

December 16, 2004