

**Town of Atlantic Beach, North Carolina
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2007**

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

• Material weakness identified? _____ Yes X No

• Significant Deficiency identified that are not considered to be material weaknesses? _____ X Yes _____ No

Noncompliance material to financial Statements _____ X Yes _____ None reported

Federal Awards

No major federal programs exist:

Dollar threshold used to distinguish between Type A and Type B Programs \$300,000

Auditee Qualified as low-risk auditee? _____ Yes X No

State Awards

Internal control over major federal programs:

• Material weakness identified? _____ Yes X No

• Significant Deficiency identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major State programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 _____ Yes X No

Identification of major State programs:

Program Name

- NC Department of Environment and Natural Resources - 2 Grants
- Water Resources Development Project Grant
- Coastal Management Beach Access Grant

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Section II – Financial Statement Findings

Significant Deficiencies

07-1 Financial Reporting

Criteria: The Town of Atlantic Beach should have adequate controls in place to take responsibility for the preparation of the financial statements and have the technical ability to prevent, detect and correct a potential misstatement in the statements and notes to the statements.

Condition: The Town did not have controls in place that would prevent, detect and correct a potential misstatement in the statement or the notes had one occurred.

Effect: Errors or misstatements could occur.

Cause: There are a limited number of trained personnel for certain functions. This would included the preparation of the financial statements and the notes to the financial statements.

Recommendation: The Town should provide training to certain personnel, so suitable skills, knowledge and experience can be obtained so the preparation of the statements and notes can be completed.

Views of responsible officials and planned corrective actions: The Town agrees with this finding.

07-2 Segregation of Duties

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among Town personnel.

Effect: Transactions could be mishandled.

Cause: There are a limited number of personnel for certain functions.

Recommendation: The duties should be separated as much as possible and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

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Views of responsible officials and planned corrective actions: The Town agrees with this finding.

07-3 Inventory Valuation

Criteria: Inventory should be valued at First in First Out (FIFO) method. Custodial controls over inventory should mitigate possibilities of theft or fraudulent activity.

Condition: Inventory is being expensed when purchased, and items on hand have been valued at replacement cost rather than historical costs. There is a lack of segregation of duties and implemented controls among water department employees over inventory assets.

Effect: Inventory assets may be misplaced, stolen and valued incorrectly.

Cause: There are a limited number of personnel for certain functions, and staff was unaware of required inventory valuation methods.

Recommendation: The duties should be separated as much as possible and alternative controls should be used to compensate for lack of separation. Control sheets should be utilized for itemizing inventory assets and should be counted and reconciled more frequently. Inventory schedules should be maintained in a timely manner to ensure accurate records.

Views of responsible officials and planned corrective actions: The Town agrees with this finding.

07-4 Accounting for Building Permits and Cash Collections/Receipts

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately. Building permits issued should be reconciled to the general ledger and an approval process should be followed when they are issued.

Condition: There is a lack of segregation of duties among Town personnel. All building permits issued could not be traced to the general ledger, and all line items in the building permits revenue account could not be vouched to the supporting documents.

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Effect: Transactions could be mishandled. Building permits may have been issued and not reported properly. It is possible that revenue was not collected for permits issued.

Cause: Building Inspector and staff did not maintain proper controls over the process. Duplicate copies of permits were not properly filed. The software used in capturing the information regarding permits was corrupt and could not produce reliable reports. There was poor management oversight over the process.

Recommendation: The duties should be separated as much as possible and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls. The Town should implement an approval process for issuing building permits and for collecting the fees charged for the permits. Duties over this function should be properly segregated.

Views of responsible officials and planned corrective actions: The Town agrees with this finding and agrees to implement appropriate controls over the process.

07-5 Fraud Risk Management Program

Criteria: Management is responsible for identifying, analyzing and managing risks relevant to the preparation of financial statements to ensure that are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP).

Condition: The Town has not developed a fraud risk management program that is appropriate for the size and complexity of the Town.

Effect: By not establishing an overall fraud risk policy, fraud risk issues were not brought to the attention of the department heads.

Cause: The main factor responsible for the lack of leadership in this area is largely due to the fact that there have been three Town Managers/Finance Officers during the course of the fiscal year.

Recommendation: Assess the Town's vulnerabilities to fraudulent activity and determine whether those exposures could result in material misstatement of the financial statements. Establish a fraud risk plan that identifies fraud risks and take appropriate action to reduce or eliminate the risks. Implement processes, controls and other procedures needed to mitigate identified fraud risks.

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Views of responsible officials and planned corrective actions: The Town agrees with this finding and agrees to implement appropriate controls over the process.

07-6 Non Compliance with NC General Statutes

Criteria: G.S. 159-8(a) states that all moneys received and expended by a local government or public authority should be included in the budget ordinance.

Condition: There were instances where expenditures were not appropriated in the annual budget ordinance or amended as needed or required.

Effect: Moneys were spent that had not been appropriated.

Cause: The Town purchased land valued at \$1,050,000 for \$351,000. The other two thirds portion of the land was donated to the Town. The Town did not amend the budget to recognize neither the additional revenue nor the capital outlay related to the donation.

Recommendation: Budget amendments should be adopted when revenues are received that exceed estimated revenues in the budget ordinance prior to expending the funds.

Views of responsible officials and planned corrective actions: The Town agrees with this finding. Budget amendments will be adopted prior to making expenditures that exceed budgeted amounts.

07-7 Non Compliance with NC General Statutes

Criteria: G.S. 159-28(a) states that no obligation may be incurred in a program, function, or activity accounted for in a fund included in the budget ordinance unless the budget ordinance includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year.

Condition: There were instances where obligations were incurred prior to obtaining proper approval from Finance Officer.

Effect: Purchases orders were submitted to vendors prior to obtaining proper approvals. Expenditures were made when there was an insufficient unencumbered balance. Approvals were obtained and the budget was amended, but not until after the obligation was incurred.

Cause: The controls over purchasing are not operating as effectively as they should.

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Recommendation: Establish procedures to prevent obligations from being incurred without proper approvals. Reconcile unencumbered balances against purchase orders prior to submitting purchase orders. Enforce stricter consequences when these controls are disregarded.

Views of responsible officials and planned corrective actions: The Town agrees with this finding.

07-8 Non Compliance with NC General Statutes

Criteria: G.S. 159-31 states that it shall be unlawful for any public moneys to be deposited in any place, bank, or trust company other than an official depository.

Condition: The Police Department had custody of three bank accounts that were in the Town's name but were not under the control of the Finance Officer or normal budget and financial constraints.

Effect: These accounts were not controlled by the Town's Finance department or Finance Officer.

Cause: The Town's Police Department receives funds from certain sources due to the requirements of their office. It is a common practice for the sheriffs to establish and maintain one or more funds within their departments to account for these moneys. These funds are primarily related to investigations

Recommendation: These funds should be left on deposit in the official depository (or invested by the finance officer) until actually needed on a case. If it is necessary for the sheriff to maintain some funds on hand to be used in investigations, the amount should be kept to a minimum and should be handled as an imprest fund. Although depositing the Police Department's funds in an official depository under the control of the finance officer may create some problems, Local Government Commission feels this is the sagest and most beneficial handling of these funds in most instances.

Views of responsible officials and planned corrective actions: The Town and the Police Chief agree with this finding.

07-9 Non Compliance with NC General Statutes

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Criteria: GS 159-13.2 states that a project financed in whole or in part by revenues received from the federal and/or State government for operating or capital purposes is a Grant Project and should adopt Project Ordinance prior to beginning the project.

Condition: The Town did not adopt a Project Ordinance for either of the two Grants from NC Department of Environment and Natural Resources or for the Sidewalk project that was funded by both the Powell Bill and additional State and Federal funding.

Effect: The project was completed without authorization of a project ordinance, a separate Special Revenue Fund or a balanced budget to account for the revenue and expenses of the project.

Cause: The Town's Finance Department was unaware of this requirement.

Recommendation: Each year the budget officer should include in the budget information in such detail as he or the governing board may require concerning each grant project (i) expected to be authorized by a project ordinance during the budget year and (ii) authorized by previously adopted project ordinances which will have appropriations available for expenditure during the budget year.

Views of responsible officials and planned corrective actions: The Town agrees with this finding.

07-10 Non Compliance with NC General Statutes

Criteria: G.S. 136-41.3 states that each municipality receiving funds by virtue of G.S. 136.41.1 and 136.41.2. The cash on hand reported to the Department of Transportation on the "Powell Bill Expenditures Report for Fiscal Year Ending June 30, 2007" should agree with the balance residing in the North Carolina Capital Management Trust account restricted for Powell Bill.

Condition: The Balance reported to the Department of Transportation does not agree to the balance of the NCCMT account restricted for Powell Bill. The balance reported is \$23,025 less than the actual balance.

Effect: None.

Cause: When the Town created a separate fund to account for the proceeds of Powell Bill Revenue, corresponding expenses were not isolated in the same fund. The expenses related to the Powell Bill activities were reported in two separate accounts within the general fund. The Town did not transfer sufficient funds out of the NCCMT to reflect actual expenditures related to Powell Bill to the General fund.

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Recommendation: The Town should keep separate accounting of actual Powell bill expenditures, transfer expenditures as budgeted, and reconcile the accounts monthly.

Views of responsible officials and planned corrective actions: The Town agrees with this finding.

Section III – Federal Award Findings and Questioned Costs

None Noted

Section IV – State Award Findings and Questioned Costs

None Noted