

## **COMPLIANCE SECTION**

Report on Internal Control over Financial Reporting and 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 Board of Commissioners  
Town of Apex, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the Town of Apex, North Carolina, as of and for the year ended June 30, 2009, which collectively comprises the Town of Apex's basic financial statements and have issued our report thereon dated November 24, 2009. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Apex'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 Town of Apex's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses (Items 1 - 4) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Items 1 and 2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Apex's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Town's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Town's response and accordingly, we express no opinion on it. We noted certain matters that we reported to management of the Town of Apex, in a separate letter dated November 24, 2009.

This report is intended solely for the information and use of management, others within the organization, members of the Town Council and 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.

  
JOYCE AND COMPANY, CPA

November 24, 2009

Report on Compliance With Requirements Applicable To Each Major State Program And  
Internal Control Over Compliance In Accordance With Applicable Sections of OMB Circular A-133 and  
the State Single Audit Implementation Act

To the Honorable Mayor and  
Members of the Board of Commissioners  
Town of Apex, North Carolina

### Compliance

We have audited the compliance of the Town of Apex, North Carolina, with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to its major state program for the year ended June 30, 2009. The Town of Apex's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major state program is the responsibility of the Town of Apex's management. Our responsibility is to express an opinion on the Town of Apex'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 applicable sections of OMB Circular A-133, as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act. Those standards, applicable sections of 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Apex'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 Town of Apex's compliance with those requirements.

In our opinion, the Town of Apex complied, in all material respects, with the requirements referred to above that are applicable to its major state program for the year ended June 30, 2009.

### Internal Control Over Compliance

The management of the Town of Apex is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the Town of Apex's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Town's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a state program

on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state program that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state program will not be prevented or detected by the Town's internal control.

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

This report is intended solely for the information and use of management, others within the organization, members of the Town Board, 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.

  
JOYCE AND COMPANY, CPA

November 24, 2009

Town of Apex, North Carolina  
**Schedule of Findings and Questioned Costs**

For the year ended June 30, 2009

**Section I. Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:		Unqualified
Internal control over financial reporting:		
• Material weakness(es) identified?	<u> X </u> yes	<u>    </u> no
• Significant deficiency (s) identified that are not considered to be material weaknesses?	<u> X </u> yes	<u>    </u> none reported
Noncompliance material to financial statement noted	<u>    </u> yes	<u> X </u> no

**Federal Awards**

The Town of Apex has no major federal programs.

**State Awards**

Internal control over major state program:		
• Material weakness(es) identified?	<u>    </u> yes	<u> X </u> No
• Significant deficiency (s) identified that are not considered to be material weaknesses?	<u>    </u> yes	<u> X </u> none reported

Type of auditor's report issued on compliance for major state program: Unqualified

Identification of major state program: Powell Bill

**Section II. Financial Statement Findings**

**Item 1                      Inventory System Deficiencies**

Criteria                      Inventory reports should be accurate as well as inventory counts. Inventory should be periodically reconciled to the general ledger.

Condition                      The inventory value report is materially incorrect and contains negative values. There were variances in the actual count as compared to the report and the inventory is not being reconciled to the general ledger.

Effect                              Inventory is vulnerable to unauthorized use and may be misstated on the financial statements.

Cause                              There has been a change in financial reporting software and the Town has not aggressively pursued the software vendor for a solution and for a better understanding of the software and how to properly record transactions or to correct problems.

Recommendation Follow up with the software vendor for software problems, consider additional training as well as periodically conduct an inventory count and reconcile this to the general ledger.

Views of responsible officials and planned corrective actions

The Town agrees with this finding.

**Item 2**            **Utility Billing System Deficiencies**

Criteria            Utility and refuse billing should be accurate and reports should be easy to follow and reconcile to the general ledger.

Condition        There are numerous issues related to the New World software in which the utility billing software does not handle situations correctly such as final billings and deposit refunds.

Effect            Billing errors may be occurring and not being detected in a timely manner, if at all.

Cause            There has been a conversion in financial reporting software during the current audit year.

Recommendation Address software issues with the vendor to correct these. Provide additional training and follow up for staff that utilize the software.

Views of responsible officials and planned corrective actions

The Town agrees with this finding.

**Item 3**            **Processing and Recording Transactions**

Criteria            Procedures should be in place such that transactions of the Town are routinely and appropriately recorded.

Condition        There are various issues related to the New World software in which the routine processing and recording of transactions is not being correctly performed. Two capital projects balance sheets did not balance at year end and there were numerous journal entries necessary at year end. Routine reconciliations are not being timely performed.

Effect            Errors are not being detected and corrected in a timely manner.

Cause            There has been a conversion in financial reporting software over the past two years. Software conversions and problems have taken additional staff time.

Recommendation Address software issues with the vendor to correct these. Provide additional training and follow up for staff that utilize the financial modules.

Views of responsible officials and planned corrective actions

The Town agrees with this finding.

**Item 4**            **Segregation of Duties**

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

Condition        The Finance Director can set up vendors, authorize payments, record transactions and issue and sign checks.

Effect             Checks could be issued for unauthorized expenditures.

Cause             There has been a change in financial reporting software and the process of generating checks has been changed as well as the Town no longer manually reviews and signs checks.

Recommendation Segregate some of these duties to provide better internal control.

**Section III. Federal Award Findings and Questioned Costs.**

None.

**Section IV. State Award Findings and Questioned Costs.**

None.

**TOWN OF APEX**  
**SCHEDULE OF FINDINGS AND RESPONSES OF SIGNIFICANT DEFICIENCIES**  
**IN INTERNAL CONTROLS**  
**For the year ended June 30, 2009**

**Material weaknesses and significant deficiencies**

**Item 1 –Inventory System Deficiencies**

The Town continues to have significant issues with inventory reports and reconciliation to the general ledger. The Town's New World software generates an inventory value report which is materially inaccurate. The report indicates numerous items with a negative value because either the quantity or the item cost is a negative number. The total value as represented on this report is a negative number as a result of these negative items as well as the materiality of their cost. It was noted in the inventory count several items which had a variance between the amount shown on the detail report and the actual shelf quantity. Additionally, the Town does not reconcile its inventory with the General Ledger during the year. We recommend that the Town follow up with the software vendor to resolve software problems and consider additional training such that accurate reports can be generated from New World. We also recommend that the Town periodically during the year (at least quarterly) conduct an inventory count and that this be reconciled to the General Ledger.

**Contact Person** – Lee Smiley, Finance Director

**Management's Response** – The software vendor is aware of these problems and some improvements have been made. Staff will continue to advise the vendor of further corrections needed.

**Proposed Completion Date** – December 31, 2009.

**Item 2 –Utility Billing System Deficiencies**

The Town converted utility and refuse billings to New World software during the current year. There are numerous problems with the billing and the reports generated by the system including the following issues:

- If there is a cycle billing intertwined with a final billing, New World may not produce a final bill.
- In some cases in which New World does not generate a bill, the system does not generate a report indicating accounts that were not billed.
- Deposit refunds are not correct if the customer owes a balance in the Water and Sewer Fund and has a deposit in the Electric Fund. The system will issue a refund from the Electric Fund for the full amount, yet retain the account with the balance owed in the Water and Sewer Fund and will not net the deposit to the balance owed for the Water and Sewer Fund.
- The billing register does not break down charges by service type (water, sewer, electric, garbage, etc.) which makes analysis of a particular bill impossible.
- The system is unable to produce accurate data on electric consumption. The Town must report kilowatt usage data to the utilities commission and NCEMPA annually. This data is vital for setting new rates and providing metrics for management's use regarding consumption levels. This information is also needed to properly audit revenues.
- When an overpayment is made by a customer, the overpayment will not be applied to water and sewer charges, only electric.

We recommend efforts be made to resolve these issues as soon as possible.

**Contact Person** – Lee Smiley, Finance Director

**Management's Response** – The software vendor will be contacted and informed of these problems.

**Proposed Completion Date** – March 31, 2010.

### **Item 3 – Processing and Recording Transactions**

The Town has implemented all financial modules of the New World software system. There remain numerous unresolved issues for the proper processing and recording of financial transactions. There were two capital projects trial balances in which the balance sheet was out of balance at year end. There were numerous adjustments, which in total were material, posted during the audit process. Routine reconciliations are not being timely performed primarily as a result of increased staff time working with software conversions and problems. We recommend that the Town address these issues as soon as possible.

**Contact Person** – Lee Smiley, Finance Director

**Management’s Response** – Staff is working through these issues as quickly as possible. Increased familiarity with the software should result in improvements in processing transactions.

**Proposed Completion Date** – March 31, 2010.

### **Item 4 – Segregation of Duties**

The Finance Director can set up vendors or payees, authorize payments, record transactions and issue and sign checks. We recommend these duties be segregated for better internal control.

**Contact Person** – Lee Smiley, Finance Director

**Management’s Response** – Staff will review the distribution of duties and reallocate as needed.

**Proposed Completion Date** – December 31, 2009.

**TOWN OF APEX, NORTH CAROLINA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

For the fiscal year ended June 30, 2009

Federal Grantor/Pass- Through Grantor/Program Program Title	Federal CFDA Number	Pass - Through Grantor's Number	Federal (Direct and Pass-Through) Expenditures	State Expenditures	Local Expenditures
<b><u>FEDERAL GRANTS:</u></b>					
<b><u>US Department of Transportation</u></b>					
Passed through NC Department of Transportation					
<i>Governor Highway Safety</i>	20.600	Pt-08-03-04-42	\$ 13,552	-	\$ 5,294
<i>Governor Highway Safety</i>	20.600	Pt-09-03-04-22	25,114	-	25,113
Total			38,666	-	30,407
<b><u>US Department of Justice</u></b>					
Direct Program					
<i>Bulletproof Vest Grant</i>	16.710	N/A	2,086	-	-
<b><u>US Department of Homeland Security</u></b>					
Direct Program					
<i>Staffing for Adequate Fire and Emergency Response (SAFER)</i>	97.044	EMW-2008-FF00901	60,068	-	8,676
Total federal grants			100,820	-	39,083
<b><u>STATE GRANTS:</u></b>					
<b><u>NC Department of Transportation</u></b>					
<i>Powell Bill Fund</i>	N/A	N/A	-	1,006,698	-
<b><u>NC Department of Environmental and Natural Resources</u></b>					
<i>Parks and Recreation Trust Fund</i>	N/A	N/A	-	72,304	72,304
Total state grant			-	1,079,002	72,304
Total			\$ 100,820	\$ 1,079,002	\$ 111,387

**Notes to the Schedule of Expenditures of Federal and State Financial Awards**

*Basis of Presentation* - The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the Town of Apex 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, and 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.