



# CARLAND & ANDERSEN, INC.

CERTIFIED PUBLIC ACCOUNTANTS

307 NORTH CHURCH STREET ■ HENDERSONVILLE, NC 28792

MEMBER - AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER - NORTH CAROLINA ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Ronald G. Carland, CPA  
Terry B. Andersen, CPA

F.T. Carland, CPA  
Trish Cheek, CPA  
George B. Lee, CPA  
Harold C. Reid, CPA

December 14, 2016

To the Honorable Mayor  
and Members of the Town Council  
Town of Tryon, North Carolina

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of the Town of Tryon, North Carolina for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 17, 2016. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town of Tryon, North Carolina are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the 2016 year. We noted no transactions entered into by the Town of Tryon, North Carolina during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the Town of Columbus, North Carolina's financial statements are management's estimate of the allowance for doubtful accounts on taxes receivable and the estimate of depreciation expense on capital assets. The allowance for doubtful accounts on taxes receivable is based on a historical analysis of the percentage of receivables written off in prior years. The estimate of depreciation expense is based on

the estimated useful lives of the assets which have been developed from historical data applicable to governmental units.

We evaluated the key factors and assumptions used to develop the estimates of the allowance for doubtful accounts and depreciation expense in determining that the estimates are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

### ***Difficulties Encountered in Performing the Audit***

We encountered no difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

### ***Disagreements with Management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated December 14, 2016.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Town of Tryon, North Carolina's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town of Tryon, North Carolina's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Other Matters**

We applied certain limited procedures to Management's Discussion and Analysis, the Law Enforcement Officer's Special Separation Allowance Schedule of Funding Progress, and the Local Government Employees' Retirement System's Schedules of Proportionate Share of the Net Position Liability (Asset) and Contributions which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the individual fund statements, budgetary schedules, and other schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### **Restriction on Use**

This information is intended solely for the use of the Town Council of the Town of Tryon, North Carolina and management of the Town of Tryon, North Carolina and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Carland & Andersen, Inc.", is written in dark ink.

Carland & Andersen, Inc.



# CARLAND & ANDERSEN, INC.

CERTIFIED PUBLIC ACCOUNTANTS

307 NORTH CHURCH STREET ▪ HENDERSONVILLE, NC 28792

MEMBER - AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
MEMBER - NORTH CAROLINA ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Ronald G. Carland, CPA  
Terry B. Andersen, CPA

F.T. Carland, CPA  
Trish Cheek, CPA  
George B. Lee, CPA  
Harold C. Reid, CPA

December 14, 2016

To the Honorable Mayor  
and the Members of the  
Town Council  
Tryon, North Carolina

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of the Town of Tryon, North Carolina as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Tryon, North Carolina's internal control over financial reporting (internal control) as a basis for designing 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 the Town of Tryon, North Carolina's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Tryon, North Carolina'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 discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control to be material weaknesses:

### **Period-End Financial Reporting Process**

We noted during the course of the audit that the Town's controls over the period-end financial reporting process are not as developed as necessary. Areas that can be improved in order to provide more reliable financial information include; conducting regular reconciliations between subsidiary accounting records and the general ledger accounting system, consistent resolution of older outstanding items in bank reconciliations, and regular analysis of the budget in comparison to actual expenditures/expenses to verify

that the Town is in compliance with the budget ordinance and any approved budget amendments. These deficiencies resulted in more proposed audit adjustments than should be necessary.

Improving the overall financial reporting process, in conjunction with the Town's outside accountant, will provide management and the Town Council with the assurance that the Town's financial reporting is providing a fair presentation of the Town's financial standing at any given point in time. This will also enable management and the Town Council to more effectively plan for both current Town operations as well as provide reliable information for future strategic planning.

### **Credit Cards**

We noted a general lack of controls over the use of the Town's credit cards, including a lack of an adequate policy covering the types of purchases that are authorized to be made by Town employees that are in possession of the credit cards. Policies should be established dictating which Town employees are authorized to possess the credit cards, what types of expenditures are authorized to be made with the credit cards, and an approval process whereby a staff member, other than the individual making the charge, is consistently reviewing and approving the items being charged to the Town's credit cards. By implementing this process both Town Council and management will have a greater level of confidence in the integrity of the Town's purchasing process that is completed through the use of credit cards.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal control to be a significant deficiency:

### **Budget Administration**

We observed during our audit procedures that only one budget amendment was made during the year, at the close of the fiscal year. Part of an effective budget process is to have the Finance Officer approve expenses before they are disbursed, by use of the pre-audit certificate. The pre-audit certificate is intended to provide verification that the Finance Officer has determined that there are budgeted funds that have been appropriated and are available for a particular expense before it is made. We recommend that consideration be given to reviewing and amending the budget as necessary, on a more regular basis, so that when the pre-audit certification is completed the Finance Officer is certifying that budgeted funds have been appropriated and are available for a particular expense item before the disbursement is made. This will provide additional assurance to management and the Town Council that the Town is remaining in compliance with the Council adopted budget documents as specified by the North Carolina General Statutes.

We noted other items which, although are not material weaknesses or significant deficiencies, involve internal control and operating efficiency that, in our judgment should be reviewed. Following are our recommendations concerning these matters:

### **Interfund Transfers**

As you are aware, the Town uses interfund transfers as a means of reimbursing the General Fund for some of the administrative costs related to the Town's operations attributable to other funds, particularly Water and Sewer operations. This method was established some time ago through budgeted formulas. We recommend that consideration be given to incorporating these transfers for administrative costs within the expenditure line items of the respective funds. In doing this, the Town will be able to provide a more accurate representation of the expenditures attributable to each of the Town's funds. Presently, expenditures are not representative of the true costs in each of the Town's funds, specifically General Fund expenditures are overstated and certain expenditures in other funds are understated. A more thorough allocation of expenditures will provide a more accurate representation of each fund's respective operating results.

### **General Fund and Operating Transfers**

Over the last several years, the General Fund of the Town has been required to make operating transfers to other funds in order to eliminate deficit fund balance or net position amounts. In the 2015-2016 fiscal year, a transfer was made to the Fire Department Fund in the amount of \$118,641, and another transfer will need to be made in the 2016-2017 year to the Sanitation Fund to eliminate its deficit net position of \$21,846 as of June 30, 2016. Without continued increases in revenue, combined with adequate spending controls, these funds cannot continue to sustain operations and also build adequate reserves for future operations. The General Fund is not in position, and should not be considered as a continuing resource, to subsidize the operations of these other funds. As of June 30, 2016, the amount of unassigned fund balance in the General Fund stands at \$210,120, the equivalent of 13.6% of General Fund expenditures for the 2015-2016 fiscal year. We recommend that consideration be given to potential increases to the Town's ad valorem tax rate applicable to the Fire Department Fund and to continue to review and implement changes to the rate structure for the Sanitation Fund in order to enable the Town to maintain and build the fund balance/net position of these funds.

### **Internal Control and Segregation of Duties**

Integral to an adequate system of internal control are the segregation of essential accounting functions so that one staff person is not responsible for multiple functions that conflict with each other in terms of the potential for fraud or the misappropriation of funds. We have highlighted some recommended improvements and policies and procedures that we will be reviewing with management.

Once the Town's internal control system has been updated and is functioning as intended, continuing to maintain an effective system of internal control requires that the system be

monitored and updated on an ongoing basis. Management and Town Council should both take an active role in implementing and maintaining an effective internal control system for the Town of Tryon.

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

*Carland & Andersen, Inc.*

Carland & Andersen, Inc.  
Hendersonville, North Carolina

cc: Local Government Commission  
Department of State Treasurer  
Raleigh, North Carolina