

# TOWN OF HUDSON, NORTH CAROLINA

## Compliance Section





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### **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***

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

I 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, each major fund, and the aggregate remaining fund information of the Town of Hudson, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Hudson, North Carolina's basic financial statements and have issued my report thereon dated October 28, 2019.

#### **Internal Control over Financial Reporting**

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

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 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. 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2019-001 that I consider to be significant deficiencies.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Hudson, North Carolina's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Town of Hudson, North Carolina's Response to Findings**

Town of Hudson, North Carolina's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Town of Hudson, North Carolina's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

### **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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C. Randolph CPA, PLLC

West Jefferson, North Carolina  
October 28, 2019



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## TOWN OF HUDSON, NORTH CAROLINA

### Schedule of Findings and Responses For the Year Ended June 30, 2019

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#### II. Financial Statement Findings

##### Significant Deficiency

##### 2019-001 Segregation of Duties

**Criteria:** Management should have a system in place to reduce the likelihood of errors in financial reporting.

**Condition:** While documenting the systems of internal controls related to cash receipts, we noted segregation of duties issues. Due to the limited number of personnel in the Town office, there are inherent limitations to the segregation of duties among Town personnel relating to cash receipts and access to the general ledger. The same employee that collects cash also performs the duties of posting and reconciling the receipts and preparing the receipts for deposit. Furthermore, the employee that performs the bank statement reconciliation occasionally performs the cash collection and deposit preparation duties. Due to this limitation, access to the general ledger is not ideally restricted.

**Effect:** Misappropriation of cash receipts and errors in the cash receipting process could occur and go undetected.

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

**Identification of a Repeat Finding:** This is a repeat finding from the immediate previous audit, 2018-001.

**Recommendation:** Access to the books and records of the Town should be separated from access to the assets of the Town as much as possible. Review and approval of adjusting journal entries should be clearly documented prior to posting. Alternative controls should be used to compensate for any lack of segregation of duties. The members of the Board of Commissioners should provide some of these controls.

**Views of Responsible Officials and Planned Corrective Actions:** The Town agrees with this finding and will adhere to the Corrective Action Plan in this audit report.

Janet Winkler, Mayor  
Town Commissioners:  
Larry Chapman  
Jonathan Greer  
Barry Mitchell  
Rick Shew  
Ann Smith  
Bill Warren



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**Corrective Action Plan  
For the Year Ended June 30, 2019**

**II. Financial Statement Findings**

**Significant Deficiency**

**2019-001 Segregation of Duties**

**Name of Contact Person:** Rebecca Bentley, Town Manager

**Corrective Action:** The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. The governing board will become more involved in providing some of these controls.

**Proposed Completion Date:** The Board will implement the above procedure immediately.

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**TOWN OF HUDSON, NORTH CAROLINA**

**Schedule of Prior Year Audit Findings  
For the Year Ended June 30, 2019**

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**Finding 2018-001**

**Status:** Duties are being separated as much as possible and alternative controls are being used to compensate for lack of separation to the extent possible.

**Corrective Action:** The duties will be separated as much as possible, and alternative controls will be used to compensate for lack of separation. The governing board will become more involved in providing some of these controls.