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# **Compliance Section**

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## Martin Starnes & Associates, CPAs, P.A.

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*A Professional Association of Certified Public Accountants and Management Consultants*

### **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 Members of the City Council  
City of Salisbury, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregated remaining fund information of the City of Salisbury, North Carolina, as of and for the year ended June 30, 2005, which collectively comprises the City of Salisbury's basic financial statements, and have issued our report thereon dated August 12, 2005. We did not audit the financial statements of Downtown Salisbury, Inc. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates the amounts included for Downtown Salisbury, Inc., is based solely on the reports of the other auditors. 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. The financial statements of Downtown Salisbury, Inc. were not audited in accordance with *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Salisbury's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 misstatements caused by error 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

As part of obtaining reasonable assurance about whether the City of Salisbury'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*.

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

*Martin Starnes & Associates CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
August 12, 2005



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Martin Starnes & Associates, CPAs, P.A.

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*A Professional Association of Certified Public Accountants and Management Consultants*

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR  
A-133 AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

To the Honorable Mayor and Members of the City Council  
City of Salisbury, North Carolina

**Compliance**

We have audited the compliance of the City of Salisbury, North Carolina, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that are applicable to each of its major federal programs for the year ended June 30, 2005. The City of Salisbury, North Carolina's major federal programs are 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 each of its major federal programs is the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on the City of Salisbury'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act. Those standards, 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 federal program occurred. An audit includes examining, on a test basis, evidence about the City of Salisbury'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 City of Salisbury's compliance with those requirements.

In our opinion, the City of Salisbury, North Carolina complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

## Internal Control Over Compliance

The management of the City of Salisbury, North Carolina is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Salisbury's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

*Martin Starnes + Associates CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
August 12, 2005



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Martin Starnes & Associates, CPAs, P.A.

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*A Professional Association of Certified Public Accountants and Management Consultants*

**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 City Council  
City of Salisbury, North Carolina

**Compliance**

We have audited the compliance of the City of Salisbury, 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 each of its major State programs for the year ended June 30, 2005. The City of Salisbury's major State programs are 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 each of its major State programs is the responsibility of the City of Salisbury's management. Our responsibility is to express an opinion on the City of Salisbury, North Carolina'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; 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 City of Salisbury, North Carolina'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 City of Salisbury, North Carolina's compliance with those requirements.

In our opinion, the City of Salisbury, North Carolina complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2005.

## Internal Control Over Compliance

The management of the City of Salisbury, North Carolina 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 City of Salisbury, North Carolina'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 an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major State program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

*Martin Starnes & Associates CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
August 12, 2005

**CITY OF SALISBURY, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

**Year Ended June 30, 2005**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantors' Number	Federal Direct & Pass-through Expenditures	State Expenditures	Local Expenditures
<b>FEDERAL GRANTS:</b>					
<b>CASH PROGRAMS</b>					
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>					
Department of Homeland Security					
Direct Program:					
Assistance to Firefighters Grant	97.044	EMW-2003-FG-06278	\$ 1,518	\$ -	\$ 169
Assistance to Firefighters Grant	97.044	EMW-2004-FG-01242	<u>207,014</u>	<u>-</u>	<u>23,002</u>
			<u>\$ 208,532</u>	<u>\$ -</u>	<u>\$ 23,171</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>					
Direct Program:					
Community Development Block Grant					
Entitlement Program	14.218	B-01-MC-37-0015	\$ 47,363	\$ -	\$ -
Entitlement Program	14.218	B-02-MC-37-0015	14,497		
Entitlement Program	14.218	B-03-MC-37-0015	101,746		
Entitlement Program	14.218	B-04-MC-37-0015	<u>345,217</u>	<u>-</u>	<u>-</u>
			<u>\$ 508,823</u>	<u>\$ -</u>	<u>\$ -</u>
Pass-through N.C. Department of Housing Finance Agency HOME Program					
	14.239	R-90-SG-37-0117	<u>\$ 189,096</u>	<u>\$ -</u>	<u>\$ 327,768</u>
Total U.S. Department of Housing And Urban Development			<u>\$ 697,919</u>	<u>\$ -</u>	<u>\$ 327,768</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>					
Bureau of Justice Assistance					
Direct Program:					
Local Law Enforcement Block Grant	16.592	2002-LB-BX-2090	\$ 40,538	\$ -	\$ 4,504
Local Law Enforcement Block Grant	16.592	2003-LB-BX-1189	<u>5,631</u>	<u>-</u>	<u>626</u>
			<u>\$ 46,169</u>	<u>\$ -</u>	<u>\$ 5,130</u>
Total U.S. Department of Justice			<u>\$ 46,169</u>	<u>\$ -</u>	<u>\$ 5,130</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>					
Pass-through N.C. Department of Transportation:					
Urban Mass Transportation Grants					
Capital	20.507	36233.25.5.3	<u>\$ 907,857</u>	<u>\$ 113,482</u>	<u>\$ 113,482</u>
Urban Mass Transportation Grants					
Administration	20.507	36233.25.6.1	\$ 104,653	\$ 6,540	\$ 19,623
Operating	20.507	36233.25.6.2	<u>120,943</u>	<u>-</u>	<u>404,896</u>
			<u>\$ 225,596</u>	<u>\$ 6,540</u>	<u>\$ 424,519</u>

**CITY OF SALISBURY, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

**Year Ended June 30, 2005  
(Continued)**

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantors' Number	Federal Direct & Pass-through Expenditures	State Expenditures	Local Expenditures
U.S. DEPARTMENT OF TRANSPORTATION - (continued)					
Highway Planning and Construction					
Passed-through N. C. Department of Transportation Transportation Enhancement Program	20.205	E-4551	\$ 55,167	\$ -	\$ 32,400
Total U.S. Department of Transportation			\$ 1,188,620	\$ 120,022	\$ 570,401
TOTAL ASSISTANCE - FEDERAL PROGRAMS			\$ 2,141,240	\$ 120,022	\$ 926,470
STATE GRANTS:					
CASH PROGRAMS					
N.C. DEPARTMENT OF TRANSPORTATION					
Powell Bill	N/A		\$ -	\$ 932,332	\$ -
State Maintenance Assistance for Transit Systems	N/A	04-CTP-003	\$ -	\$ 173,570	\$ -
Total N. C. Department of Transportation			\$ -	\$ 1,105,902	\$ -
N.C. DEPARTMENT OF CRIME CONTROL & PUBLIC SAFETY					
Division of Governor's Crime Commission Project SAFE Neighborhoods Resource Coordinator		080-1-03-001-2-137	\$ -	\$ 23,421	\$ -
TOTAL ASSISTANCE - STATE PROGRAMS			\$ -	\$ 1,129,323	\$ -
TOTAL ASSISTANCE			\$ 2,141,240	\$ 1,249,345	\$ 926,470

**CITY OF SALISBURY, NORTH CAROLINA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**Year Ended June 30, 2005**

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**1. General**

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and State grant activity of the City of Salisbury, North Carolina, and is presented on the modified cash 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.

**CITY OF SALISBURY, NORTH CAROLINA**  
**SCHEDULE OF COMPLIANCE FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2005**

**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?  Yes  No
- Reportable condition(s) identified that are not considered to be material weakness(es)?  Yes  None Reported

Noncompliance material to financial statements noted  Yes  No

Federal Awards

Internal control over major program:

- Material weakness(es) identified?  Yes  No
- Reportable condition(s) identified that are not considered to be material weaknesses(es)?  Yes  None Reported

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.218	CDBG Entitlement Program
20.507	Urban Mass Transportation Grants

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

Auditee qualified as low-risk auditee?  Yes  No

State Awards

Internal control over major State programs:

- Material weakness(es) identified?  Yes  No
- Reportable condition(s) identified that are not considered to be material weaknesses(es)?  Yes  None Reported

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

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Program?  Yes  No

Identification of major State program: Powell Bill

**Section II. Findings Related to the Audit of the Basic Financial Statements of City of Salisbury**  
None reported.

**Section III. Federal Award Findings and Questioned Costs**  
None.

**Section IV. State Award Findings and Questioned Costs**  
None.

**CITY OF SALISBURY, NORTH CAROLINA**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2005**

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There were no prior year audit findings.

