CITY OF CLARKSTON, GEORGIA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS AND THE OMB CIRCULAR A-133*

FOR THE YEAR ENDED

DECEMBER 31, 2011

CITY OF CLARKSTON, GEORGIA

FOR THE YEAR ENDED DECEMBER 31, 2011

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MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S 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*

The Honorable Mayor and Members
of City Council
City of Clarkston, Georgia

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clarkston, Georgia (the "City"), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 24, 2012. Our report references that the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* effective, January 1, 2011. 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

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs, as item 2011-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2011-2.

We also noted certain matters that we reported to management of the City in a separate letter dated October 24, 2012**.**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Mayor and City Council, others within the entity, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
October 24, 2012

MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Mayor and Members
of City Council
City of Clarkston, Georgia

Compliance

We have audited the City of Clarkston, Georgia's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the fiscal year ended December 31, 2011. The City'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's management. Our responsibility is to express an opinion on the City'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*. Those standards and OMB Circular A-133 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'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 of the City's compliance with those requirements.

As described in findings 2011-3 and 2011-4 in the accompanying schedule findings and questioned costs, the City did not comply with requirements regarding equipment management and procurement that are applicable to its Community Development Block Grant. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Clarkston, Georgia complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, 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 City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs, as items 2011-3 and 2011-4 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clarkston, Georgia, as of and for the year ended December 31, 2011, and have issued our report thereon dated October 24, 2012 which refers to the implementation of a new accounting standard on fund balance classification. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City of Clarkston, Georgia's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The City of Clarkston, Georgia's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, City Council, management of the City and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
October 24, 2012

CITY OF CLARKSTON, GEORGIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011

FEDERAL GRANTOR Pass-through Grantor/Program Title	FEDERAL CFDA NUMBER	PASS-THROUGH STATE or GRANT NUMBER	EXPENDITURES
U.S. Department of Housing and Urban Development			
Pass-through DeKalb County, Georgia Community Development Department			
Community Development Block Grant	14.218	10-902055	$ 500,000
Total U.S. Department of Housing and Urban Development			**500,000**
U.S. Department of Interior Fish and Wildlife Service			
Pass-through Program - GA Soil and Water Conservation Commission			
Partners for Fish and Wildlife Program	15.631	480-11-401815-J-006-156	10,000
Total U.S. Department of Interior Fish and Wildlife Service			**10,000**
Total Expenditures of Federal Awards			**$ 510,000**

See Note to the Schedule of Expenditures of Federal Awards

CITY OF CLARKSTON, GEORGIA

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2011

Basis of Presentation and Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the related fund liability is incurred.

In instances where the grant agreement requires the City to match grant awards with City funds, such matching funds are excluded in the accompanying Schedule of Expenditures of Federal Awards.

Federal grant programs which are administered through State agencies (pass-through awards) have been included in this report. These programs are operated according to Federal regulations promulgated by the Federal agency providing the funding.

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." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

CITY OF CLARKSTON, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION I
SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	X yes ____ no
Significant deficiencies identified?	____ yes X none reported
Noncompliance material to financial statements noted?	X yes ____ no

Federal Awards

Internal Control over major programs:	
Material weaknesses identified?	X yes ____ no
Significant deficiencies identified not considered to be material weaknesses?	____ yes X none reported
Type of auditor's report issued on compliance for major programs	Qualified for equipment management and procurement for the Community Development Block Grant program, otherwise unqualified for all other requirements.
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section 510(a)?	X yes ____ no
Identification of major programs:	

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grant

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	____ yes X no

CITY OF CLARKSTON, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES

2011 - 1 Segregation of Duties - Repeat

Criteria: Internal controls should be in place, which provide reasonable assurance that an individual cannot misappropriate funds without such actions being detected during the normal course of business.

Condition: The size of the City's accounting and administrative staff precluded certain internal controls that would be preferred if the office staff were large enough, to provide optimum segregation of duties. Substantial duties relative to the receipt and disbursement process, payroll, and general ledger functions are handled by one (1) individual. More specifically, the following was noted:

- Mail is opened and a list of daily receipts is prepared by two people who are not independent of the cashier and accounts receivable bookkeeping.
- Check signing (including control of mechanical check signers and signature plates) is not independent of the initiator of purchases, approver of purchases, preparer of checks, cash receipts, accounts payable, and cash bookkeeping.
- Stale checks (or outstanding checks) are followed up on periodically by individuals who are not independent of accounts payable and cash disbursement functions.
- The list of daily cash receipts listing from the bank is compared to postings to deposits and to a validated deposit slip by a person not independent of the cash receipts and accounts receivable functions.
- Bank accounts are reconciled by individuals not independent of cash receipts and disbursements functions.
- Invoice processing and accounts payable are not segregated from the general ledger function.
- Persons preparing payroll are independent of other payroll and personnel duties (for example, timekeeping, distribution of checks, and hiring employees) but are not restricted from access to other payroll data or cash.
- Responsibilities for payroll accounting are not separated from the general ledger function.

Context/Cause: We addressed this matter with City officials who understand that the size of the City's accounting and administrative staff precluded certain internal controls, that would be preferred if the office staff were large enough, to provide optimum segregation of duties.

Effect: Failure to properly segregate duties between recording, distribution, and reconciliation of accounts may allow for errors or irregularities to occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions.

CITY OF CLARKSTON, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2011 - 1 Segregation of Duties – Repeat (continued)

Recommendation: We understand the staffing limitations which result in these overlapping duties; however, we recommend the Mayor and City Council implement additional controls that further reduce the risk of fraudulent activity and the risk that such activities go unnoticed by management and the Mayor and City Council.

Views of Responsible Officials and Planned Corrective Action: We concur with the finding. We will continue to review our operations to determine the most efficient and effective solution to properly segregate duties.

2011 - 2 Governmental Fund Budgets

Criteria: State of Georgia law (OCGA 36-81-3) states:

a) Each unit of local government shall adopt and operate under either an annual or project-length balanced budget for the general fund, each special revenue fund, each debt service fund, and each capital projects fund in use by the local government. These balanced budgets shall be adopted by ordinance or resolution and administered in accordance with this article;

b) a budget ordinance or resolution is balanced when the sum of estimated revenues and appropriated fund balances is equal to appropriations.

Condition: State law requires local governments to adopt balanced budgets for all governmental funds. Although the City adopted a budget for its Grants Fund, the original budget and amended budget was not a balanced budget as the actions by the City created budgeted fund deficits of $100,000 in the original and amended budgets of the Grants Special Revenue Fund for the year ended December 31, 2011.

Context/Cause: The original budget and amended budget for the Grant Fund was not a balanced budget as it created a deficit fund balance of $100,000, respectively.

Effects: Management failed to have the required annual balanced budgets for the Grants Fund, which has resulted in a compliance violation with State of Georgia statutes.

CITY OF CLARKSTON, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

2011 - 2 Governmental Fund Budgets (Continued)

Recommendation: We recommend the City timely adopt and amend balanced budgets for all governmental funds reported in the financial statements, as required by OCGA 36-81-3.

Auditee's Response: We concur with the finding. We will take necessary steps in the future to ensure that all governmental funds have balanced budgets appropriately adopted.

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2011 -3 Equipment Management

Agency: U.S. Department of Housing and Urban Development
Program: CFDA No. 14.218
Pass-through Entity: DeKalb County Government Community Development Department
CFDA Program Title: Community Development Block Grant

Criteria: The A-102 Common Rule requires that equipment, purchased with federal funds, be used in the program for which it was acquired or, when appropriate, other Federal programs and equipment records shall be maintained.

Condition: The City did not add capital assets, purchased with federal grant funds, to its capital asset system, denoting that they were purchased with federal grant funds.

Effects or possible effects: Not denoting capital assets as being purchased with federal funds could result in proceeds from the disposal of such assets not being retained in the program as required by federal requirements.

Questioned Costs: None, as no capital assets were disposed of, but capital assets acquired with the value of $500,000 were not denoted to have been purchased with federal funds.

CITY OF CLARKSTON, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

2011 - 3 Equipment Management (continued)

Cause: The City did not make the proper notations within its capital asset system to indicate the capital assets were purchased with federal funds.

Context: This was the only capital asset purchased with federal funds.

Recommendation: We recommend the City follow procedures to properly include all grant related information in the capital asset system for grant funded capital assets.

Views of Responsible Officials and Planned Corrective Action: The City agrees with the recommendation. The procedures implemented concerning monthly and quarterly updating of capital assets will help insure that all capital assets are included on the asset listing.

2011 -4 Procurement

Agency: U.S. Department of Housing and Urban Development
Program: CFDA No. 14.218
Pass-through Entity: DeKalb County Government Community Development Department
CFDA Program Title: Community Development Block Grant

Criteria: Internal controls should be in place to ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. Local governments should use procurement procedures that conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule, OMB Circular A-110. OMB guidance in 2 CFR Part 180 states that non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred.

Condition: During our testing of the procurement, suspension, and debarment for covered transactions, we noted the City was not aware of the requirement regarding testing of vendors for inclusion on the federal suspended or debarred list, which prevents vendors from working on federally funded projects, or ensuring that contracts include necessary clauses as required by Federal statutes. The vendor reviewed during our testing was not reviewed by City in accordance with the procurement, suspension, and debarment compliance requirement.

CITY OF CLARKSTON, GEORGIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION III
FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONTINUED)

2011 - 4 Procurement (continued)

Effects or possible effects: Not performing a verification check for covered transactions, by checking the Excluded Parties List System (EPLS), not collecting a certification from the vendor, or adding a clause or condition to the vendor's contract could result in federal funds being used to pay a vendor who has been suspended or debarred from federal projects.

Questioned Costs: None

Cause: The City was not aware of the requirement and therefore did not test the project vendors prior to awarding the contracts; however, during our testing, there were no vendors noted on the excluded parties listing.

Recommendation: We recommend the City take necessary steps in the future to ensure there is a verification check for covered transactions, by checking the EPLS, collecting a certification from the vendor, or adding a clause or condition to the contract with a vendor prior to paying any federal funds to a particular entity.

Views of Responsible Officials and Planned Corrective Action: The City agrees with the recommendation. Going forward, the City will ensure all such contracts have these clauses in them and the City officials will check the EPLS website to ensure vendors are not suspended or debarred prior to paying any federal funds to any vendor.

CITY OF CLARKSTON, GEORGIA

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION IV
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

The prior year's report did not include any findings relative to federal award programs.