

February 1, 2018

# Financial Results for the Year Ended June 30, 2017

# Components of the Comprehensive Annual Financial Report (CAFR)

- Management's Discussion and Analysis
- Government-wide F/S
- Fund F/S
- Notes to the F/S
- Required supplemental financial data
- Other supplemental information
- Compliance

# CITY OF FAYETTEVILLE, NC

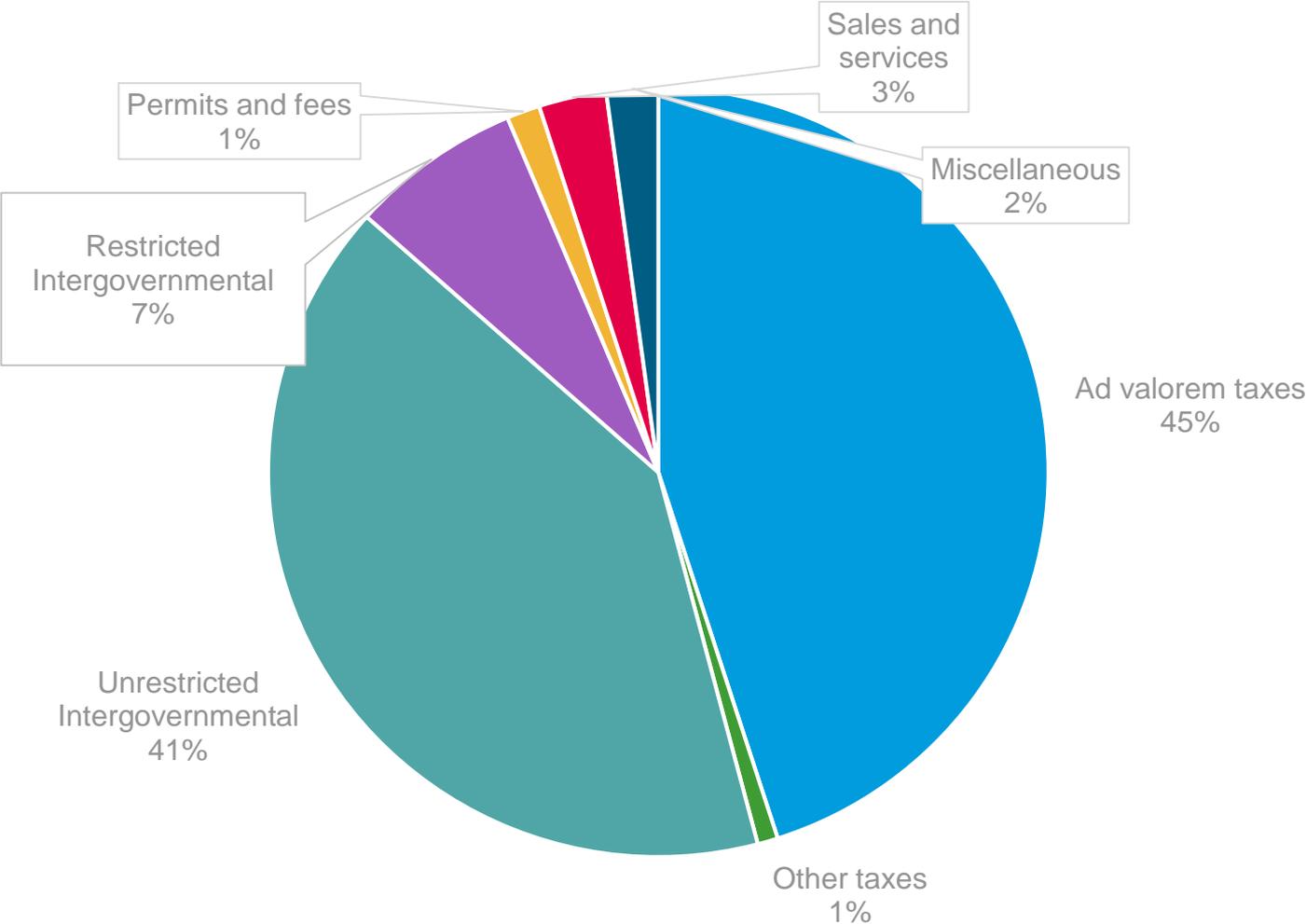
## Types of Opinions

- Adverse
- Disclaim
- Qualified
- **Unmodified – “Clean” (Highest Level of Assurance)**

# CITY OF FAYETTEVILLE, NC

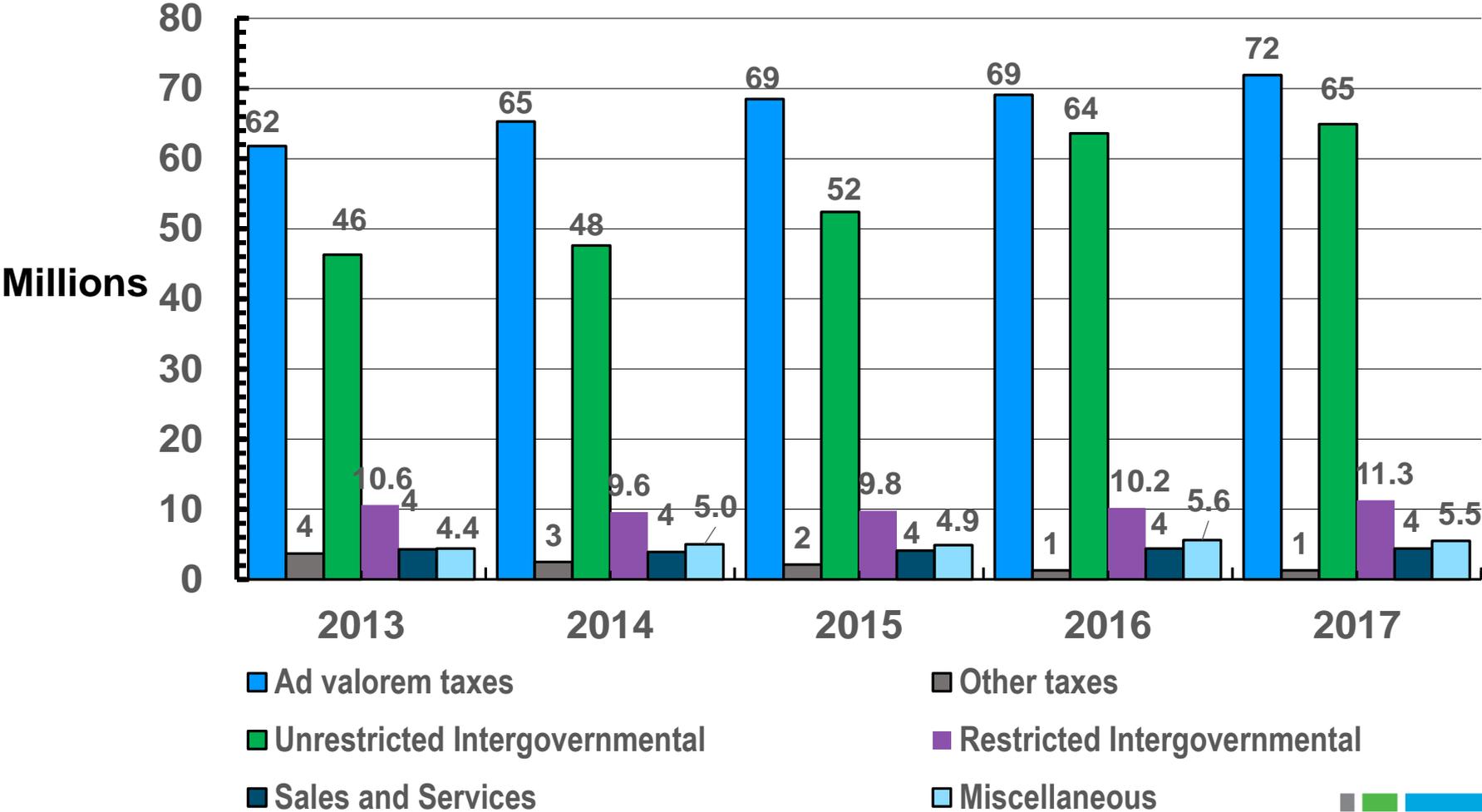
## General Fund Revenues

### For the Year Ended June 30, 2017



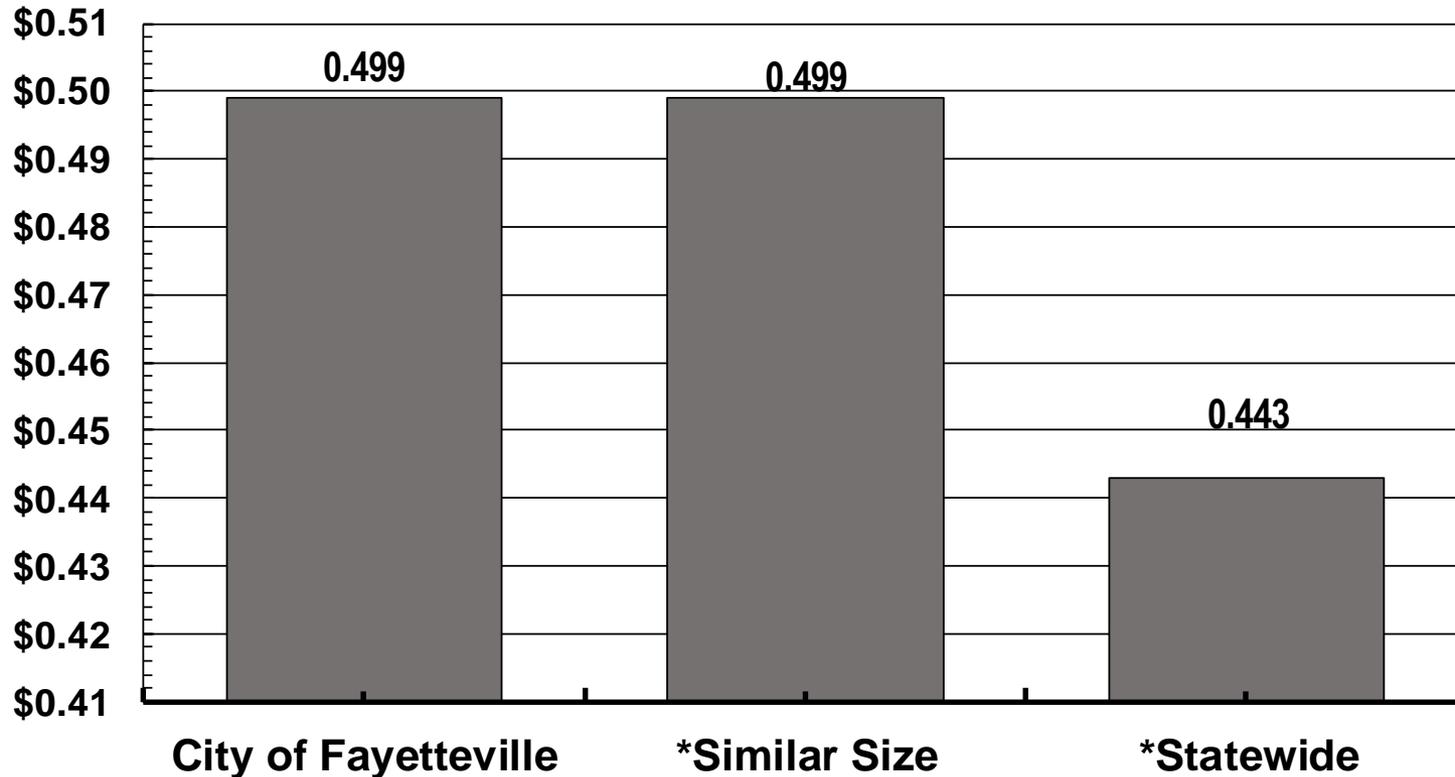
# CITY OF FAYETTEVILLE, NC

## General Fund Revenues by Source



# CITY OF FAYETTEVILLE, NC

Tax Rate For the Year Ended June 30, 2017 (2016 Comparative Information Shown)

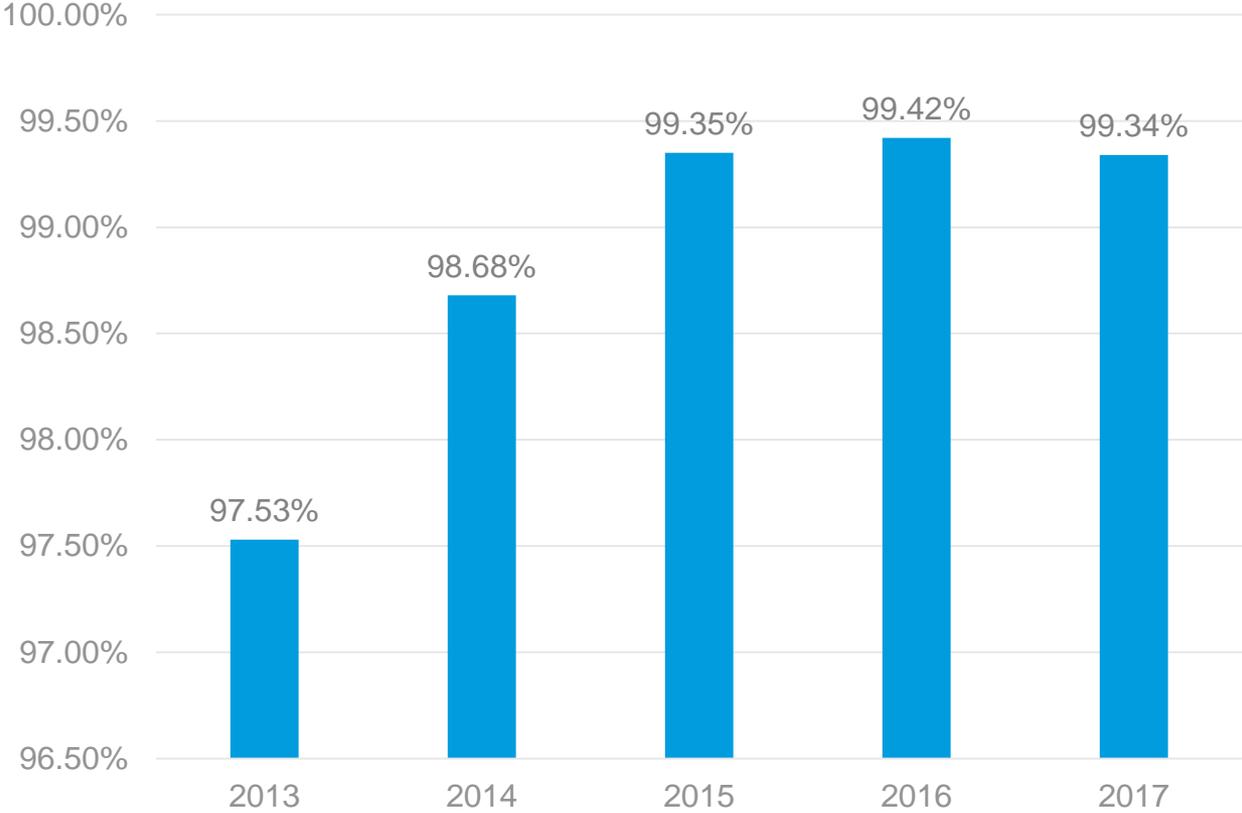


\*For year ended June 30, 2016

Per \$100 Valuation

# CITY OF FAYETTEVILLE, NC

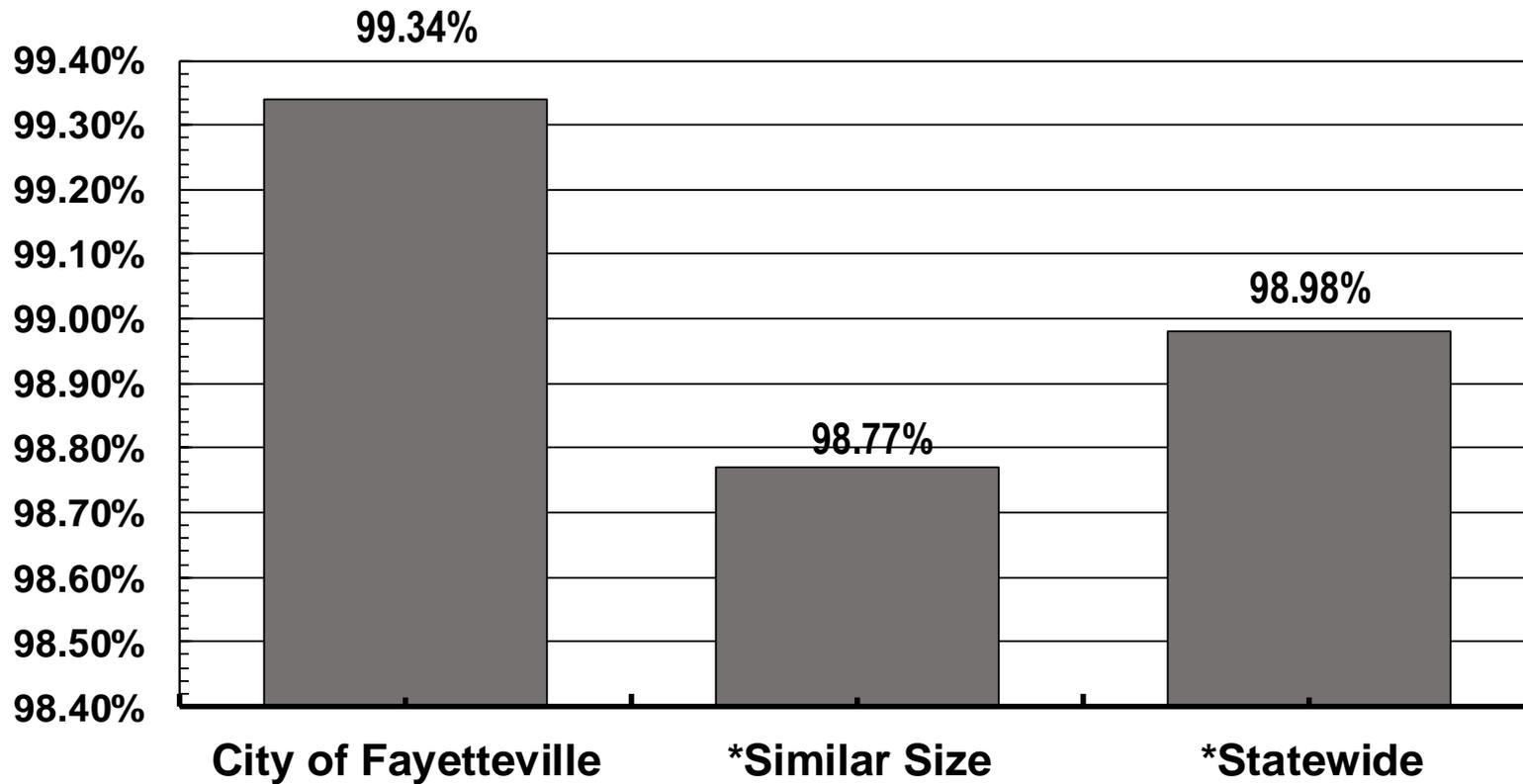
## Percent of Current Year's Property Tax Levy Collected



# CITY OF FAYETTEVILLE, NC

Percent of Current Year's Property Tax Levy Collected

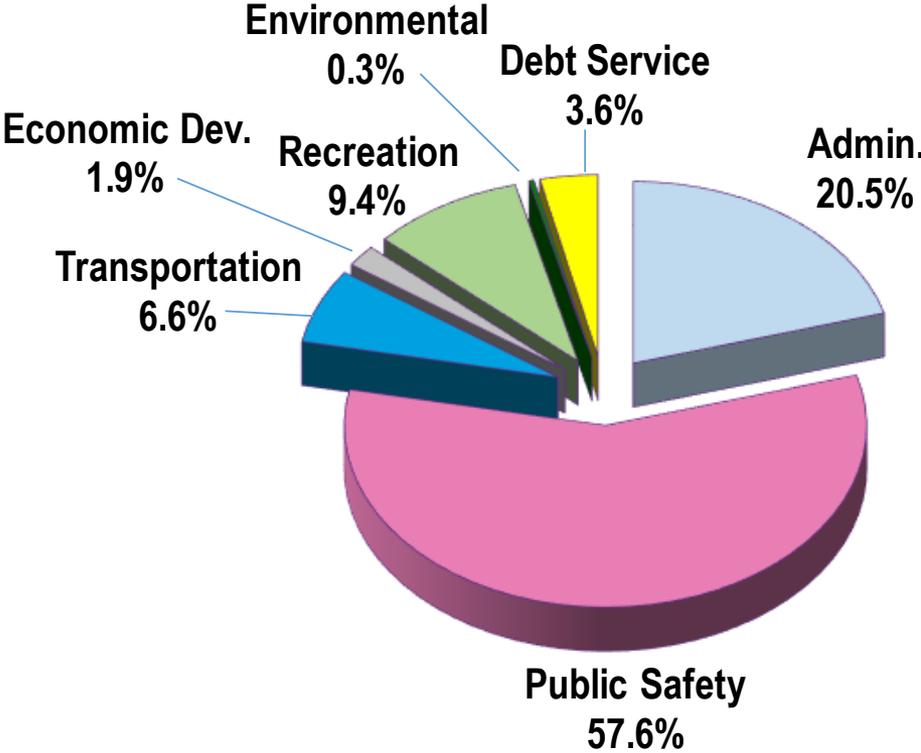
For the Year Ended June 30, 2017 (2016 Comparative Information Shown)



# CITY OF FAYETTEVILLE, NC

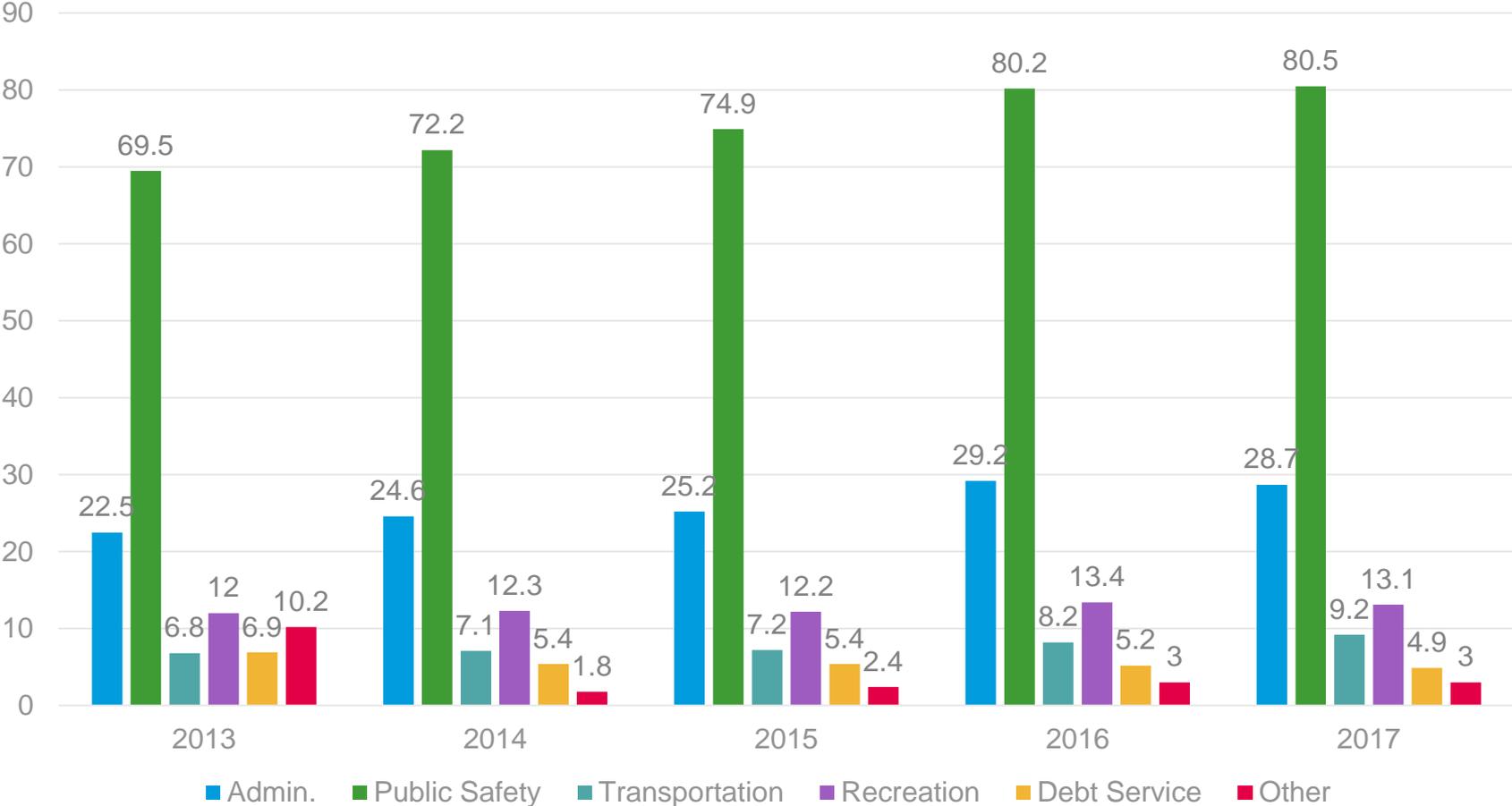
## General Fund Expenditures

For the Year Ended June 30, 2017



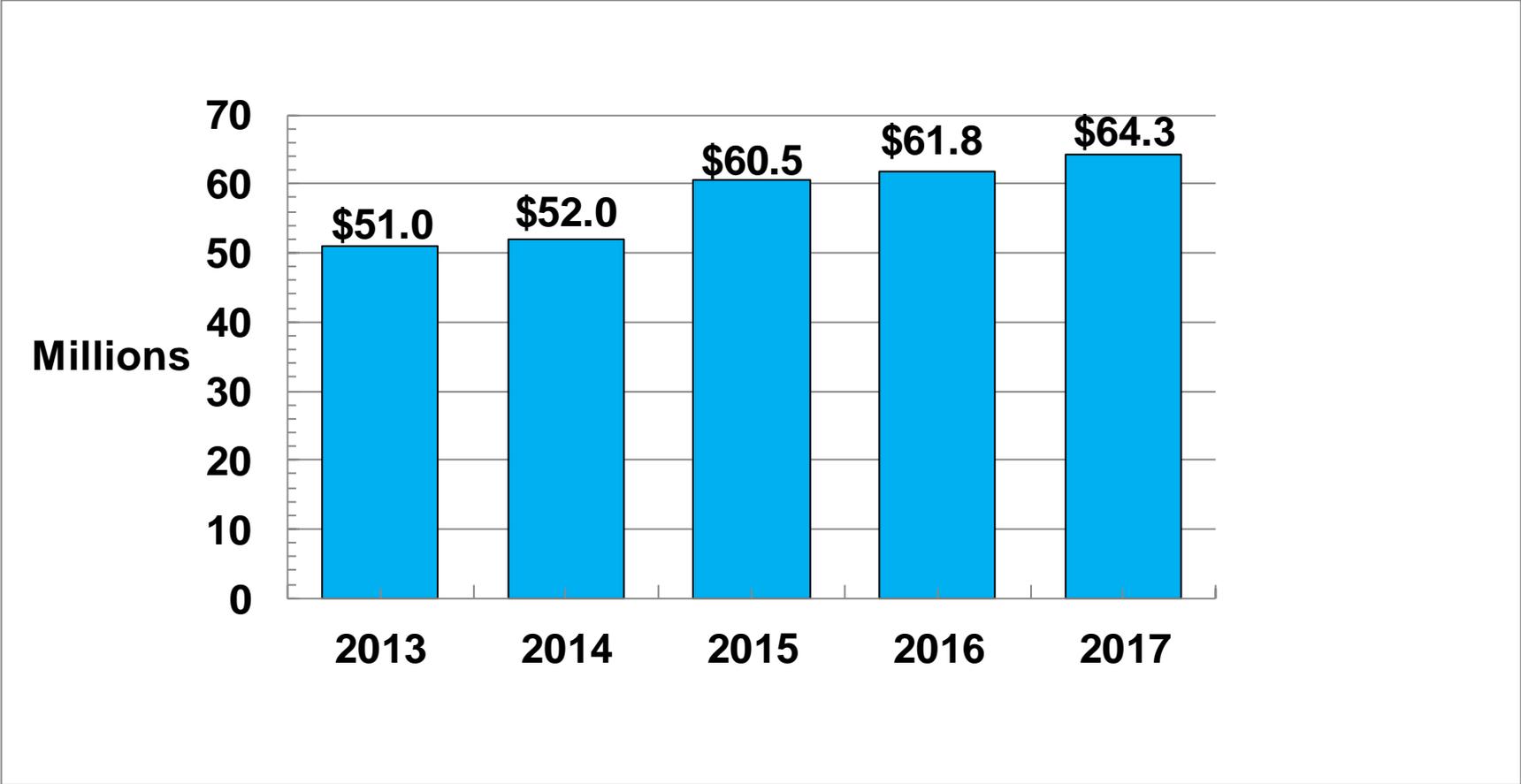
# CITY OF FAYETTEVILLE, NC

## Expenditure Growth by Segment (in millions)



# CITY OF FAYETTEVILLE, NC

## General Fund Balance



# CITY OF FAYETTEVILLE, NC

## General Fund Balance Presentation

### Fund balances:

#### Non Spendable

Inventory 57,332

Prepays 1,115,857

#### Restricted

Stabilization by State Statute 23,362,174

For downtown 108,622

For Lake Valley Drive MSD 5,941

For county recreation 4,408,310

Donations 13,265

#### Committed

Law Enforcement Officers'

Separation Allowance 4,672,755

#### Assigned

Subsequent year's expenditures 3,454,259

Special purposes 2,927,980

Capital projects 2,531,973

#### Unassigned

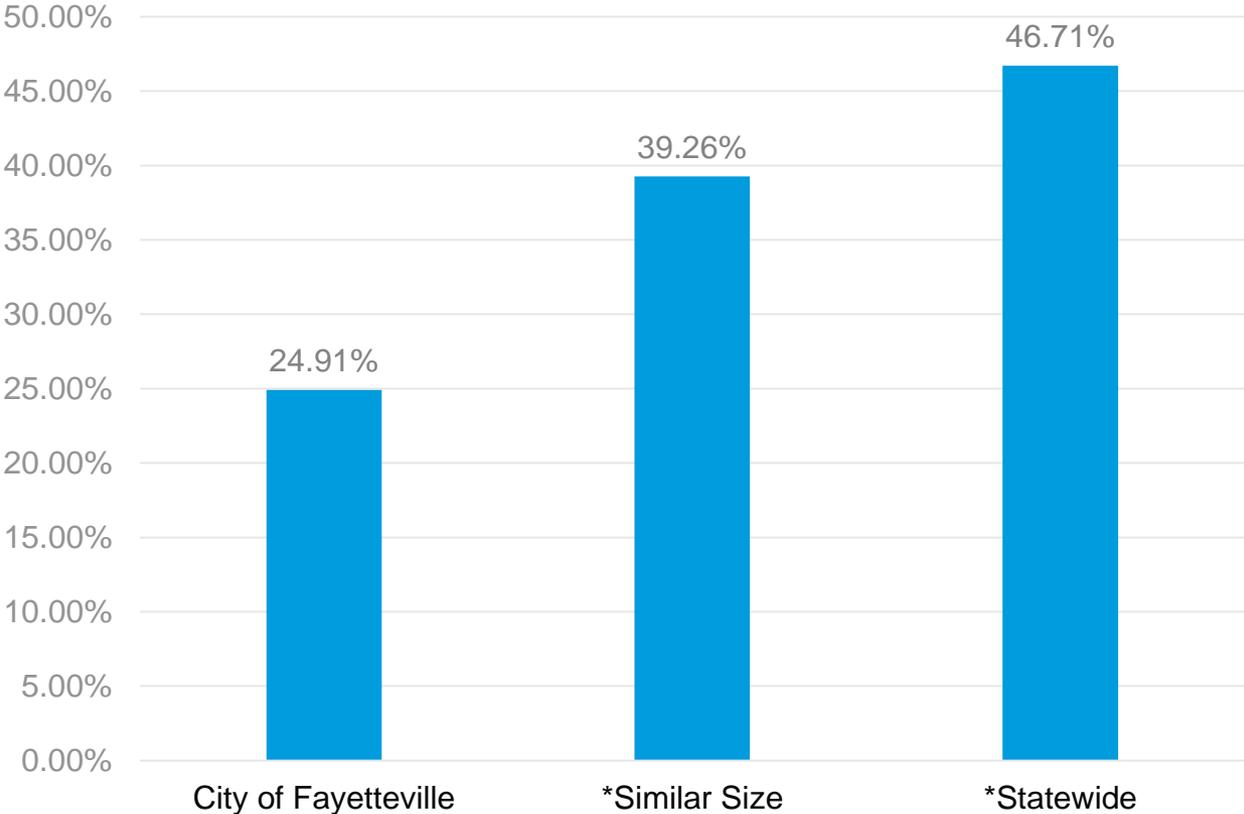
21,649,065

#### Total fund balances

64,307,533

# CITY OF FAYETTEVILLE, NC

Fund Balance Available as a Percentage of General Fund Net Expenditures  
For the Year Ended June 30, 2017 (2016 Comparative Information Shown)



\*For year ended June 30, 2016



# Compliance Results for the Year Ended June 30, 2017

# Reporting Requirements

- Government Auditing Standards
- Federal Single Audit Act / Uniform Guidance
- State Single Audit Implementation Act

# Major Programs Tested

- Major Federal Programs tested:
  - Community Development Block Grant/Entitlement Grant (CDBG) – CFDA #14.218
  - Disaster Grants – Public Assistance (Presidentially Declared Disasters) FEMA – CFDA #97.036
- Major State Programs tested:
  - Nonstate System Street Aid Allocation (Powell Bill)
  - State Aid to Airports Program
  - Disaster Grants – Public Assistance (Presidentially Declared Disasters) FEMA – NC Match

## Government Auditing Standards- Report on Internal Control over Financial Reporting and on Compliance and Other Matters

- **Control Deficiency-** 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 and correct misstatements on a timely basis.
- **Significant Control Deficiency-** a deficiency, or 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.

## Government Auditing Standards- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (continued)

- **Material Weakness-** a significant deficiency, or combination of significant deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

## Government Auditing Standards- Report on Internal Control Over Financial Reporting and On Compliance and Other Matters (continued)

- Two material weaknesses
  - 2017–001 (PWC)
  - 2017–002 (PWC)
  
- One significant deficiency
  - 2017–003 (City of Fayetteville)

# Material Weakness 2017-001

## Section 2. Financial Statement Findings

### Fayetteville Public Works Commission (PWC) (A Component Unit of City of Fayetteville)

- 2017-001 – Work Order Module Integration

Criteria: The Commission's work order module system, WAM, should be fully integrated with the general ledger whereby activity and amounts within WAM are the same as in the general ledger system.

Condition and Context: During testing of the WAM work order system, we noted that data and reports produced from WAM do not agree with balances in the EBS general ledger system. We also noted that not all indirect costs are being captured for allocation.

Effect: The allocation of costs between repairs and maintenance and construction in process is compromised. Significant and numerous reconciliations must be performed in order to ensure WAM has captured all charges through EBS for allocation. There is not currently a way to tie activity and balances in the WAM system back to construction in process additions and repairs and maintenance expenses.

Cause: WAM was not appropriately integrated to the general ledger during the initial IT integration of the software with the general ledger. Additionally, as a complex software module, IT staff and process staff must have the skills, knowledge and experience to effectively use and maintain the module.

Recommendation: We recommend the Commission have the IT department identify the root cause of the errors from initial integration and make corrections to the module and data processes appropriately in order to ensure full, seamless integration between WAM and the general ledger and accuracy of data. This includes appropriate production reports from both systems that allow sufficient monitoring of activity and balances throughout the year.

# Material Weakness 2017-002

## Section 2. Financial Statement Findings

### Fayetteville Public Works Commission (PWC) (A Component Unit of City of Fayetteville)

- 2017-002 – Classification of Net Position

Criteria: The classification and calculation of the components of Net Position should be calculated and presented in accordance with GASB Statement 63.

Condition and Context: During testing of the sub-sections within the Net Position section of the Statement of Net Position, we noted the calculation of Net Investment in Capital Assets did not include all of the required components in accordance with GASB Statement 63.

Effect: The Net Investment in Capital Assets sub-section was understated for the electric and water/wastewater funds by \$13,030,944 and \$39,694,081, respectively. Unrestricted net position was overstated for the electric and water/wastewater funds by the same \$13,030,944 and \$39,694,081, respectively.

Cause: Inaccurate application of the requirements of GASB 63, as amended, related to the calculation of Net Investment in Capital Assets.

Recommendation: We recommend Fayetteville PWC review the requirements for the calculation of Net Investment in Capital Assets as described in GASB Statement 63; have the calculation prepared and reviewed by employees with the skills, knowledge, and experience with the rules of GASB Statement 63 as it pertains to the calculation and classification of the components of Net Position, and provide appropriate training to staff assisting in the preparation of PWC's CAFR.

# Significant Deficiency 2017-003

## Section 2. Financial Statement Findings

### City of Fayetteville

- 2017-003 – General IT Controls

Criteria: Information technology internal controls should be in place to maintain the integrity of IT system and prevent data loss in the event of system failure.

Condition and Context: During our testing of general IT controls, we noted multiple areas in which controls were not in place or ineffective including IT change management, system user access, system administrator access, data backup, and data restoration.

Effect: Lack of or ineffective IT controls can result in unauthorized access to data, data corruption, or data loss.

Cause: IT governance policies and procedures are not regularly monitored and updated, resulting in outdated policies and procedures.

Recommendation: We recommend the City revise and adhere to their IT governance policies and procedures in order to provide reasonable assurance against data loss, data corruption, and unauthorized access.

# Auditor's Required Communications- SAS 114

Area	Comments
<b>Our Responsibilities With Regard to the Financial Statement Audit</b>	Our responsibilities under auditing standards generally accepted in the United States of America, <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, have been described to you in our arrangement letter dated May 1, 2017. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
<b>Overview of the Planned Scope and Timing of the Financial Statement Audit</b>	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.

# Auditor's Required Communication- SAS 114

Area	Comments
<b>Accounting Policies and Practices</b>	<p data-bbox="705 321 1787 449"><b>Preferability of Accounting Policies and Practices</b> Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p data-bbox="705 492 1796 871"><b>Adoption of, or Change in, Accounting Policies</b> Management has the ultimate responsibility for the appropriateness of the accounting policies used by the City. The City adopted the remaining portions of GASB Statement No. 73, <i>Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68</i>. The statement improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. As a result of the City's implementation of GASB Statement No. 73, we included an emphasis of matter paragraph in our report to reference the City's disclosure of this change. The emphasis of matter does not modify our opinions.</p> <p data-bbox="705 913 1787 978">The City also adopted GASB Statement No. 77, <i>Tax Abatement Disclosures</i> which had no effect on the City's Financial Statements.</p> <p data-bbox="705 1021 1787 1218">The City also adopted GASB Statement No. 79, <i>Certain External Investment Pools and Pool Participants</i>. This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. This Statement did not have a significant impact on the City's financial statements.</p>

# Auditor's Required Communications- SAS 114

Area	Comments
<b>Accounting Policies and Practices (Continued)</b>	<b>Significant or Unusual Transactions</b> We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.  <b>Management's Judgments and Accounting Estimates</b> Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.
<b>Audit Adjustments</b>	We did not propose any audit adjustments to the original trial balance.
<b>Uncorrected Misstatements</b>	There were no uncorrected misstatements
<b>Disagreements With Management</b>	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the basic financial statements.

# Auditor's Required Communications- SAS 114

Area	Comments
<b>Consultations With Other Accountants</b>	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
<b>Significant Issues Discussed With Management</b>	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.
<b>Significant Difficulties Encountered in Performing the Audit</b>	We did not encounter any significant difficulties in dealing with management during the audit.
<b>Letter Communicating Internal Control Deficiencies</b>	We have separately communicated the control deficiencies identified during our audit of the basic financial statements, and this communication is attached as Exhibit A.  We have separately communicated significant deficiencies identified during our audit of the basic financial statements and major programs, as required by the Government Auditing Standards and the Uniform Guidance. This communication is included in the compliance section of the City's Comprehensive Annual Financial Report for the year ended June 30, 2017.
<b>Significant Written Communications Between Management and Our Firm</b>	Copies of significant written communications between our firm and the management of the City, including the representation letter provided to us by management, are attached as Exhibit B.

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. Internal Revenue Service rules require us to inform you that this communication may be deemed a solicitation to provide tax services. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed.

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