

City of Fayetteville, North Carolina

Report to the City Council
June 30, 2017





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January 20, 2018

City Council
City of Fayetteville
Fayetteville, North Carolina

We are pleased to present this report related to our audit of the basic financial statements of City of Fayetteville, North Carolina as of and for the year ended June 30, 2017. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for City of Fayetteville's financial reporting process.

This report is intended solely for the information and use of the City Council and management and is not intended to be and should not be used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to City of Fayetteville.

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Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication with Those Charged with Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> , issued by the Comptroller General of the United States, have been described to you in our arrangement letter and audit contract 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.
Overview of the Planned Scope and Timing of the Financial Statement Audit	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.
Accounting Policies and Practices	Preferability of Accounting Policies and Practices 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. Adoption of, or Change in, Accounting Policies 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. The City also adopted GASB Statement No. 77, <i>Tax Abatement Disclosures</i> which had no effect on the City's financial Statements. 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.

Area	Comments
Significant or Unusual Transactions	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.
Alternative Treatments with Management	We did not discuss with management any alternative treatments within generally accepted accounting principles for accounting policies and practices related to material items during the current audit period.
Management's Judgments and Accounting Estimates	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.
Audit Adjustments	We did not propose any audit adjustments to the original trial balance.
Uncorrected Misstatements	There were no uncorrected misstatements.
Disagreements with Management	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 consolidated financial statements.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Letter Communicating Internal Control Deficiencies	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 a significant deficiency identified during our audit of the basic financial statements and major programs, as required by the <i>Government Auditing Standards</i> and the <i>Uniform Guidance</i> . This communication is included in the compliance section of the City's Comprehensive Annual Financial Report for the year ended June 30, 2017.
Significant Written Communications Between Management and Our Firm	Copies of certain 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.

City of Fayetteville, North Carolina
Summary of Significant Accounting Estimates
Year Ended June 30, 2017

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the City's June 30, 2017, basic financial statements:

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our conclusions on Reasonableness of Estimate
Depreciation of capital assets	Depreciation of capital assets is provided in the government-wide and proprietary fund financial statements	Depreciation by straight-line method over the estimated useful life of the asset	Estimation process is consistent with accounting policy and in accordance with accounting principles generally accepted in the United States of America ("GAAP") based on our audit procedures performed in this area
Donation of capital assets	Recorded as a capital asset and revenue on the government-wide and proprietary fund financial statements	Estimated by the City's engineering department based on the City's cost to construct the asset in the current year. This cost is consistent with the fair value of the asset	Estimation process is consistent with accounting policy and in accordance with GAAP based on our audit procedures performed in this area
Health insurance claims incurred but not reported (IBNR)	Accrued as a liability in the government-wide statements and the Internal Service Fund	Actuarial calculation from third party administrator based on inputs from self-insured health insurance program	Estimation process is consistent with accounting policy and in accordance with GAAP based on our audit procedures performed in this area
Accrued other postemployment benefits	Accrued as a liability in the government-wide financial statements	Actuarial calculations from a third party actuary are used	Estimation process is consistent with accounting policy and in accordance with GAAP based on our audit procedures performed in this area
Allowance for doubtful accounts	Record as a contra-asset to offset accounts receivable to estimated net collectible amounts	Estimated by the City's management based on the aging of the receivables and knowledge of the individual accounts	Estimation process is consistent with accounting policy and in accordance with GAAP based on our audit procedures performed in this area
LGERS pension asset (liability) and Special Separation Allowance liability	Recorded as an asset or liability in the government-wide financial statements	Actuarial calculations from a third party actuary are used	Estimation process is consistent with accounting policy and in accordance with GAAP based on our audit procedures performed in this area

Exhibit A – Letter Communicating Internal Control Deficiencies

January 20, 2018

Management and Council Members
City of Fayetteville, North Carolina

In planning and performing our audit of the financial statements of City of Fayetteville as of and for the year ended June 30, 2017, 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, we considered the City'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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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.

We communicated one significant deficiency (**Finding 2017-003**) identified during our audit in a separate communication dated January 20, 2018.

Certain deficiencies in internal control that have been previously communicated to you, in writing, by us or by others within your organization are not repeated herein.

Following are descriptions of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses:

Timely Reconciliation of Bank Statements

During our review of the bank reconciliation process, we noted that bank reconciliations were in arrears for the general operating account for greater than 6 months. It is the City's policy to reconcile the bank statements within 30 days of the end of a month. Failure to perform timely bank reconciliations can result in significant discrepancies between the general ledger cash balance and the bank cash balance which can lead to operational inefficiencies and errors and provide opportunity for fraudulent activity. We recommend that the City address this situation such that operating procedures allow for timely and efficient preparation of the bank reconciliations in accordance with the City's policy. As of June 30, 2017, the City had corrected this error.

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January 20, 2018
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This communication is intended solely for the information and use of management and the City and is not intended to be, and should not be, used by anyone other than these specified parties.

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Exhibit B - Significant Written Communications Between Management and Our Firm



January 20, 2018

RSM US LLP
3621 John Platt Drive
Morehead City, NC 28557

This representation letter is provided in connection with your audit of the basic financial statements of City of Fayetteville, North Carolina, as of and for the year ended June 30, 2017, for the purpose of expressing an opinion on whether the financial statements are presented fairly in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of January 20, 2018:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated May 1, 2017, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and course of action we expect to take.
5. Related-party transactions, including those with the component unit for which the City of Fayetteville is accountable, other organizations for which the nature and significance of their relationship with the City of Fayetteville are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and jointly governed organizations in which the City of Fayetteville participates, and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP and no liability, individually or in the aggregate, is required to be recorded based amounts sought and likelihood of possible loss.
8. We have advised you that there are no other organizations except for the Fayetteville Public Works Commission (PWC) for which the nature and significance of their relationship with the City of Fayetteville, North Carolina, are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.
9. We have identified for you all of our funds, governmental functions and identifiable business-type activities.
10. We have properly classified all funds and activities.
11. We have properly determined and reported the major governmental and enterprise funds based on the required quantitative criteria and elected to report several funds as major funds.
12. We acknowledge our responsibility for compliance with laws and regulations applicable to the City of Fayetteville including adopting, approving, and amending budgets.
13. We have no plans or intentions that may materially affect the carrying value or classification of assets. In that regard:
 - a. The City has no significant amounts of idle property and equipment.
 - b. The City has no plans or intentions to discontinue the operations of any activities or programs or to discontinue any significant operations.
 - c. No provision has been made to reduce applicable assets that have permanently declined in value to their realizable values.
14. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
 - a. To reduce receivables to their estimated net collectable amounts.
 - b. To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.
 - c. For risk retention, including uninsured losses or loss retentions and incurred but not reported accruals attributable to events occurring through June 30, 2017.
 - d. For pension obligations, postemployment benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through June 30, 2017.
 - e. For depreciation of capital assets, which have been recorded using the straight-line method over the estimated useful life of the assets.
 - f. To determine the estimated lives of capital assets and determine that no impairments have occurred for the current year.
 - g. To record donated assets at acquisition value, which is consistent with the cost to construct the asset.
15. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with GASB Statement No.10.

16. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statement.
17. We agree with the findings of our actuary used in calculating and evaluating our benefit obligations in the Law Enforcement Officers' Special Separation Allowance and in the Other Postemployment Benefit Plan and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to the actuary with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the actuary.
18. We have recorded all adjustments needed to implement GASB Statement No. 73 (including the restatement required as stipulated method of implementation of the pronouncement). GASB Statement Nos. 77 and 79 do not impact the City at this time.

Information Provided

19. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the governing board and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
20. All transactions have been recorded in the accounting records and are reflected in the financial statements.
21. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
22. We have no knowledge of allegations of fraud or suspected fraud, affecting the City's financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in the internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
23. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements received in communications from employees, former employees, regulators, or others.
24. We have no knowledge of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
25. We have disclosed to you the identity of the City's related parties and all the related-party relationships and transactions of which we are aware.
26. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's ability to record, process, summarize, and report financial data. We are not aware of any material weaknesses.

27. There are no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Supplementary Information

28. With respect to the individual fund financial statements and schedules, and other financial data, and the schedules in the compliance section presented in relation to the financial statements as a whole:
- a. We acknowledge our responsibility for the presentation of such information.
 - b. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP and in accordance with the requirements of Uniform Guidance, as applicable.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. There are no underlying significant assumptions or interpretations regarding the measurement or presentation of such information.
 - e. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.
29. With respect to management's discussion and analysis and the schedules of funding progress and contributions presented as required by the Governmental Accounting Standards Board to supplement the basic financial statements:
- a. We acknowledge our responsibility for the presentation of such required supplementary information.
 - b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.
 - d. There are no significant assumptions or interpretations regarding the measurement or presentation of such information outside the assumptions and interpretations used in the presentation of the financial statements.

Compliance Considerations

In connection with your audit, conducted in accordance with *Government Auditing Standards*, we confirm that management:

- 1. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
- 2. Is responsible for compliance with laws, regulations and provisions of contracts and grant agreements applicable to the City of Fayetteville.

3. Is not aware of any instances that have occurred or are likely to have occurred of fraud or noncompliance with provisions of laws and regulations that could have a material effect on the financial statements or other financial data significant to the audit objectives, or any other instances that warrant the attention of those charged with governance.
4. Is not aware of any instances that have occurred or are likely to have occurred of noncompliance with provisions of contracts or grant agreements that could have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
5. Is not aware of any instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
6. Is not aware of any violations (or possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.
7. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.
8. Has a process to track the status of audit findings and recommendations.
9. Has indicated that there have been no previous audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken.
10. Has provided views on your reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
11. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.

In connection with your audit of federal awards conducted in accordance with Subpart F of Title 2 U.S. Cod of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the passenger facility charge program in accordance with the *Passenger Facility Charge Audit Guide for Public Agencies* (Audit Guide), we confirm:

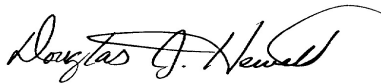
12. Management is responsible for complying, and has complied, with the requirements of the Uniform Guidance and Audit Guide.
13. Management is responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of its federal and State programs and have complied, in all material respects, with those requirements.
14. Management is responsible for establishing and maintaining, and has established and maintained, effective internal control over compliance for federal and State programs that provides reasonable assurance that we are managing federal and State awards and the passenger facility charge program in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on our federal and State programs and our passenger facility charge program.
15. Management has prepared the schedule of expenditures of federal and State awards and passenger facility charge (SEFSA) in accordance with the Uniform Guidance, the Audit Guide and the State

Single Audit Implementation Act and has included expenditures made during the period being audited for all awards provided by federal or State agencies in the form of grants, federal or State cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

16. Management has identified and disclosed all of its government programs and related activities subject to the Uniform Guidance and Audit Guide compliance audit.
17. Management has identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program and the passenger facility charge program.
18. Management has made available all contracts and grant agreements (including amendments, if any) and any other correspondence relevant to federal and State programs and related activities that have taken place with federal and State agencies or pass-through entities.
19. Management has indicated that it is aware of no questioned costs and no known noncompliance with the direct and material compliance requirements, if any, of federal and State awards.
20. Management believes that the auditee has complied with the direct and material compliance requirements.
21. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal and State program financial reports and claims for advances and reimbursements.
22. Management has provided to the auditor its interpretations of any compliance requirements that are subject to varying interpretations.
23. There have been no communications from grantors or pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
24. Management is responsible for taking corrective action on audit findings of the compliance audit.
25. Management has identified prior audit findings by federal and/or State awarding agencies or pass-through entities.
26. There have been no subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.
27. There has been no known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by the auditor's report.
28. There have been no changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by us with regard to significant deficiencies or material weaknesses in internal control over compliance, that have occurred subsequent to the date as of which compliance is audited.
29. Federal and State program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
30. The copies of federal and State program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal or State agency or pass-through entity.

31. Management has charged costs to federal and State awards in accordance with applicable cost principles.
32. If applicable, management has monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and the terms and conditions of the subaward and have met the other pass-through entity requirements of the Uniform Guidance.
33. Management has accurately completed appropriate sections of the data collection form. We further acknowledge our responsibility for the complete, accurate, and timely filing of the data collection form with the Federal Audit Clearinghouse.
34. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

City of Fayetteville, North Carolina



Douglas J. Hewett
City Manager



Cheryl J. Spivey
Chief Financial Officer