

December 6, 2018

# Financial Results for the Year Ended June 30, 2018

# 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

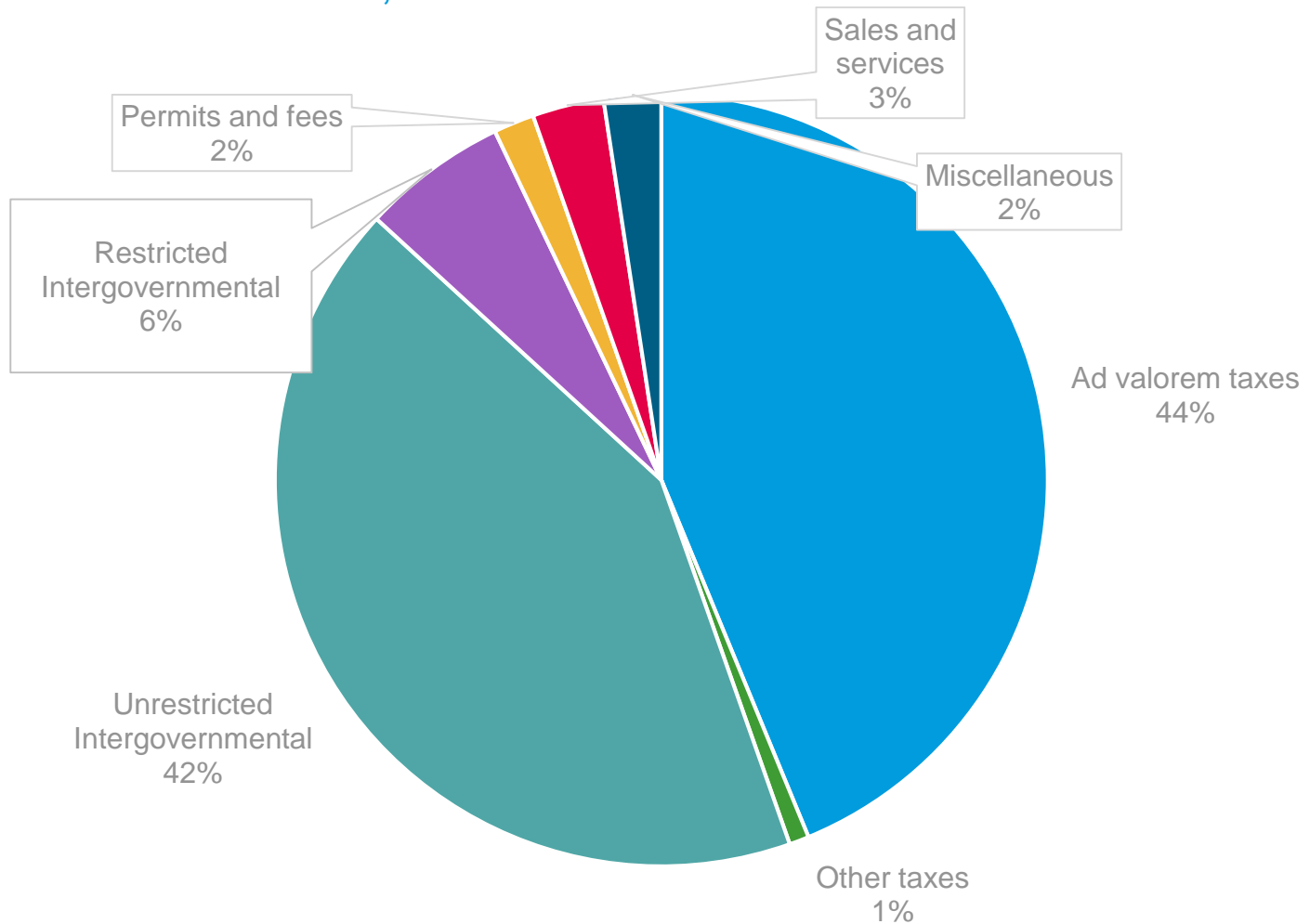
## Types of Opinions

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

# CITY OF FAYETTEVILLE, NC

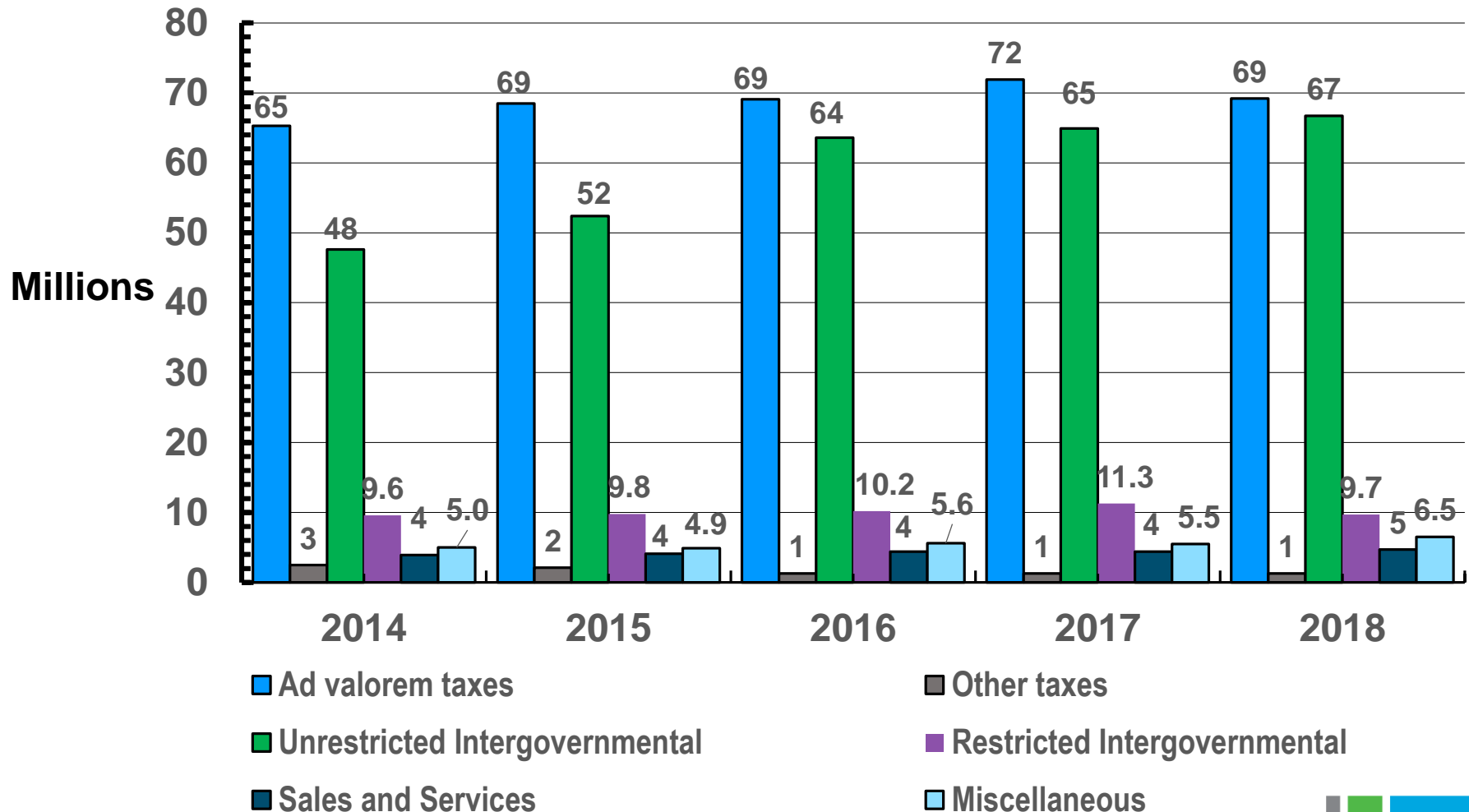
## General Fund Revenues

### For the Year Ended June 30, 2018



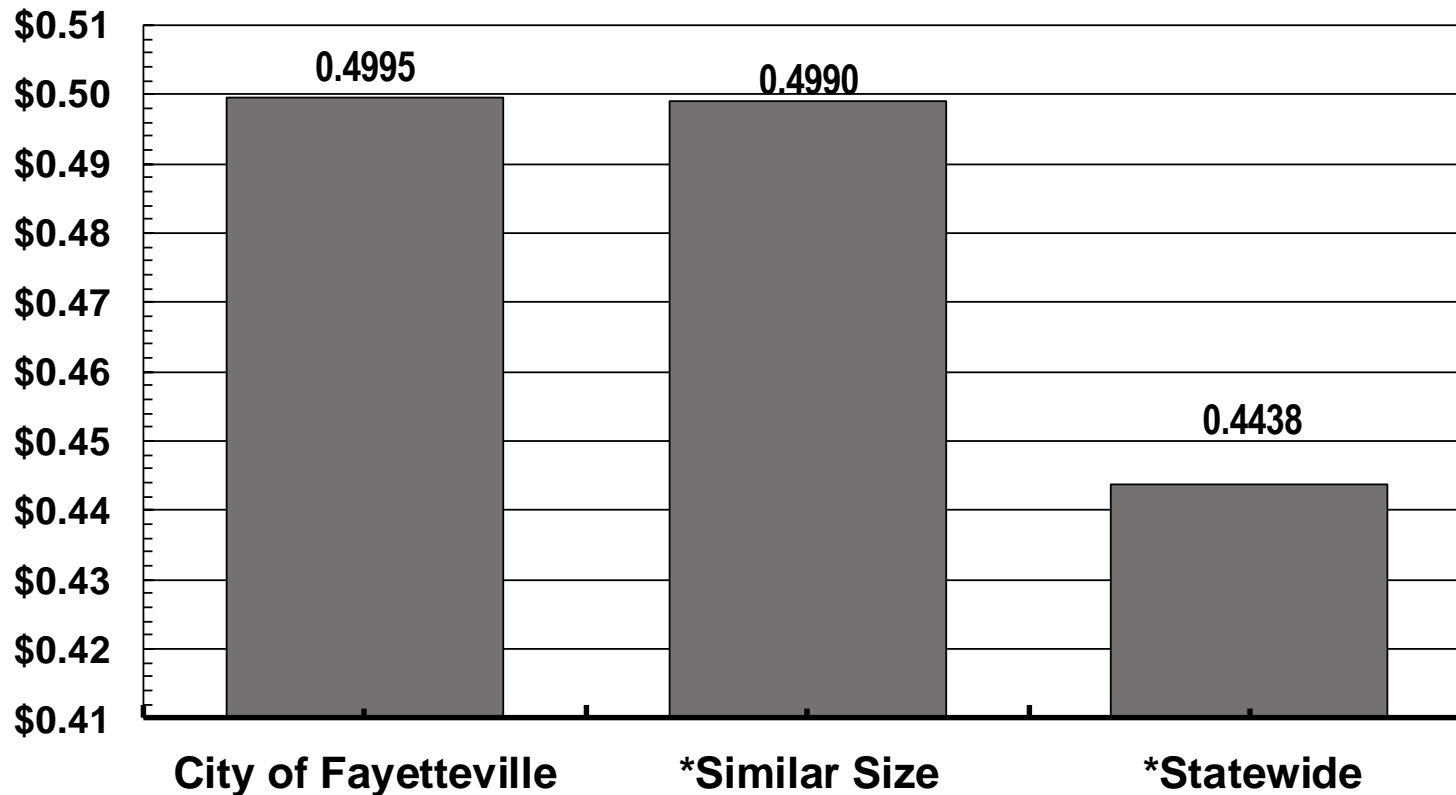
# CITY OF FAYETTEVILLE, NC

## General Fund Revenues by Source



# CITY OF FAYETTEVILLE, NC

Tax Rate For the Year Ended June 30, 2018 (2017 Comparative Information Shown)

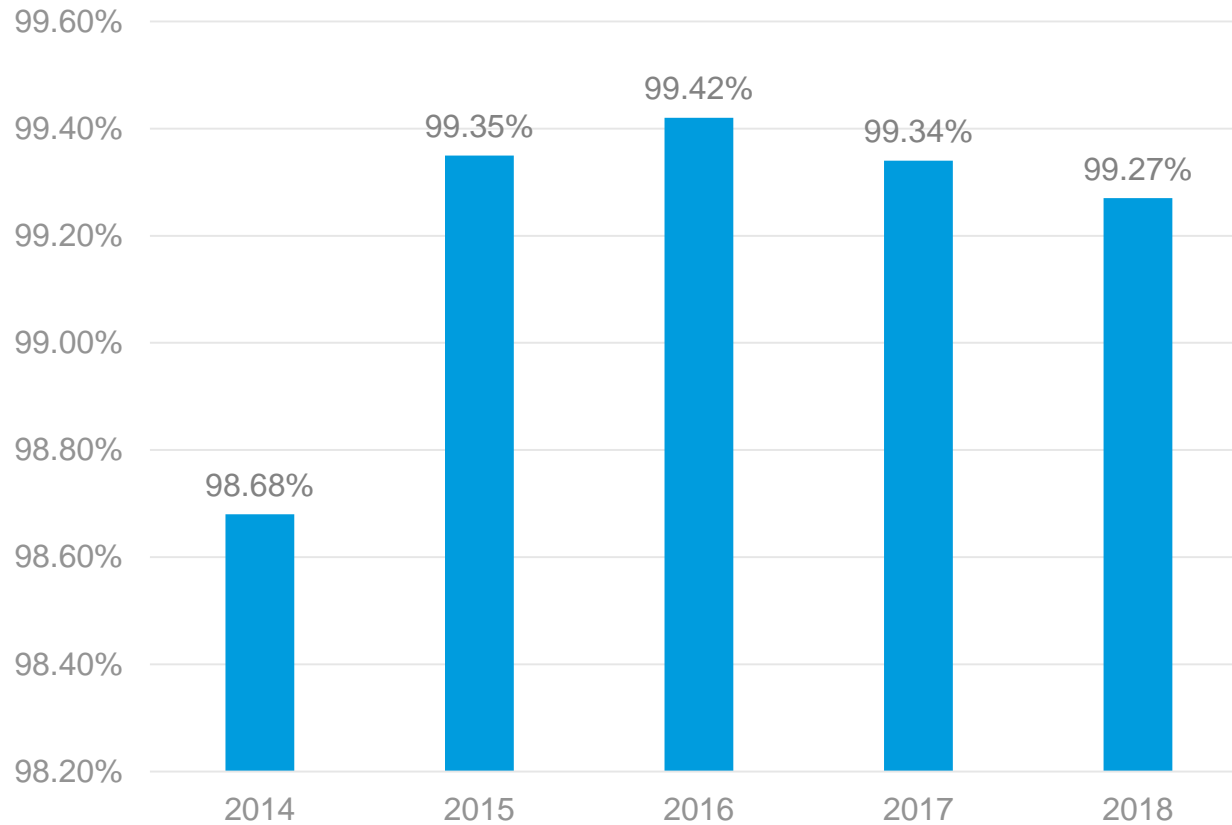


\*For year ended June 30, 2017

Per \$100 Valuation

# CITY OF FAYETTEVILLE, NC

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

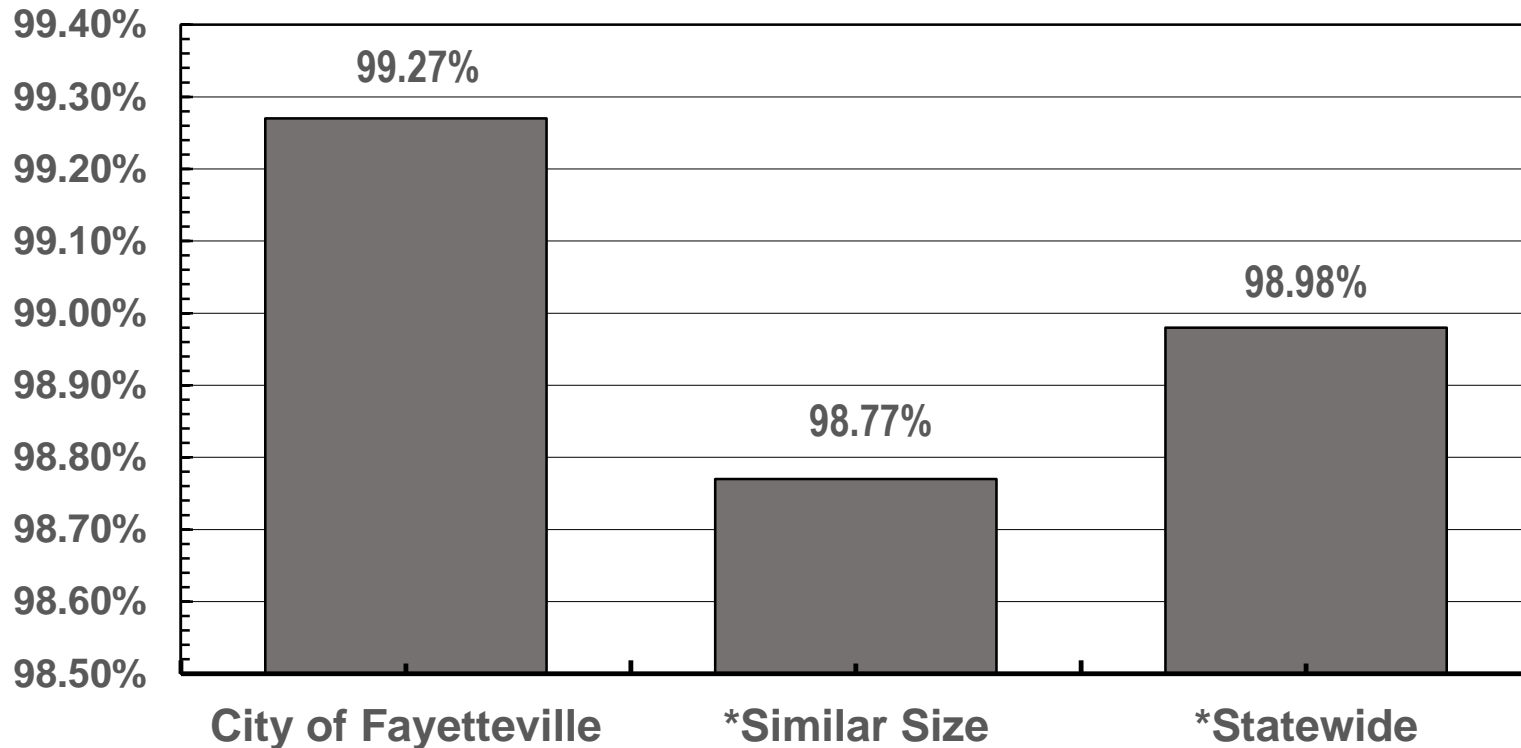




# CITY OF FAYETTEVILLE, NC

Percent of Current Year's Property Tax Levy Collected

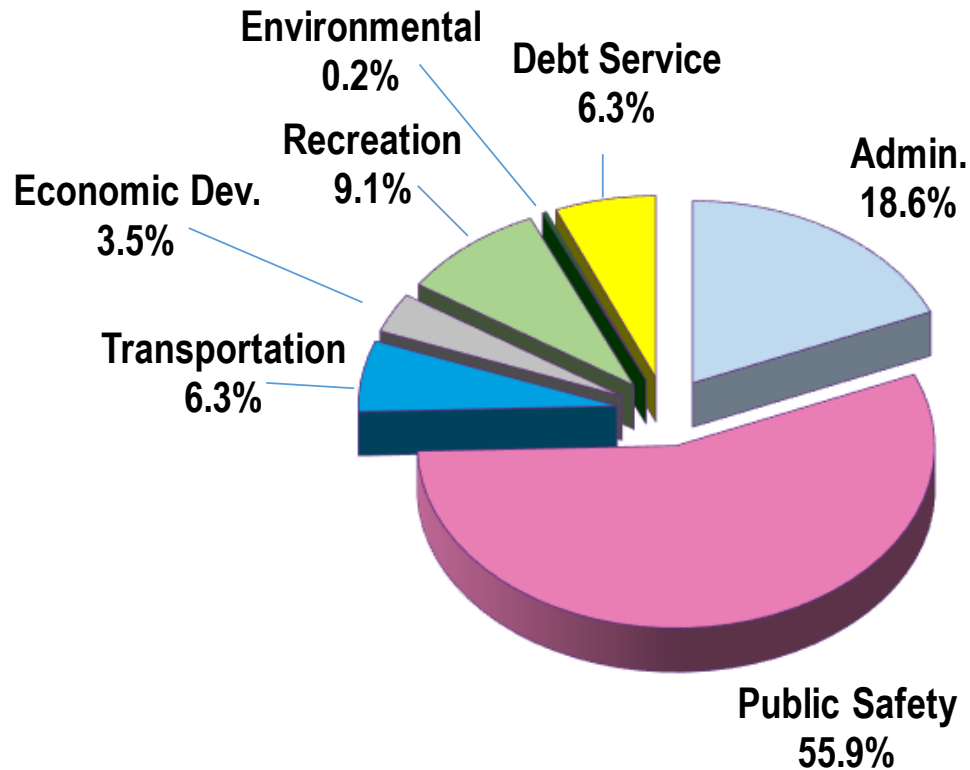
For the Year Ended June 30, 2018 (2017 Comparative Information Shown)



# CITY OF FAYETTEVILLE, NC

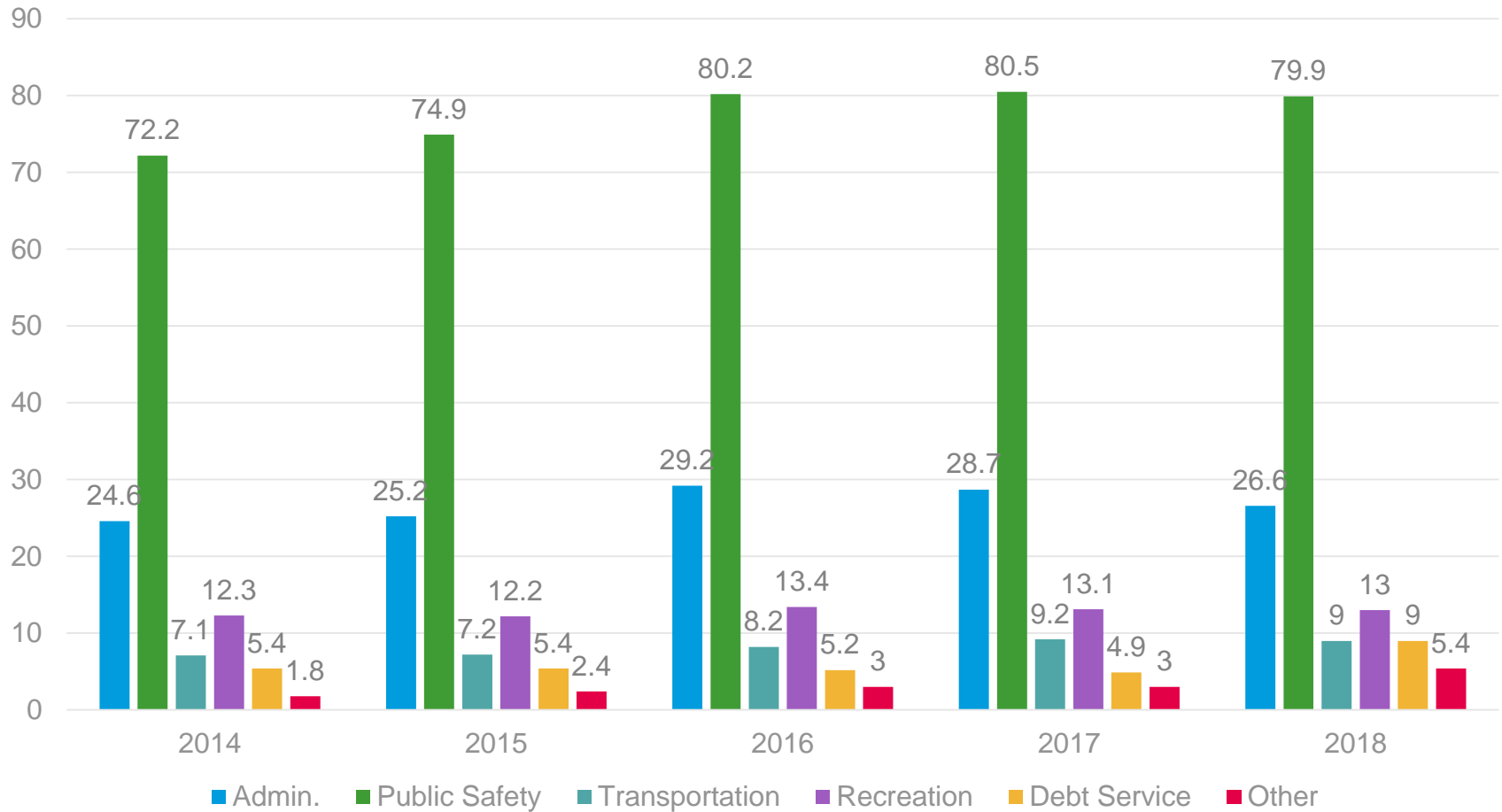
## General Fund Expenditures

### For the Year Ended June 30, 2018



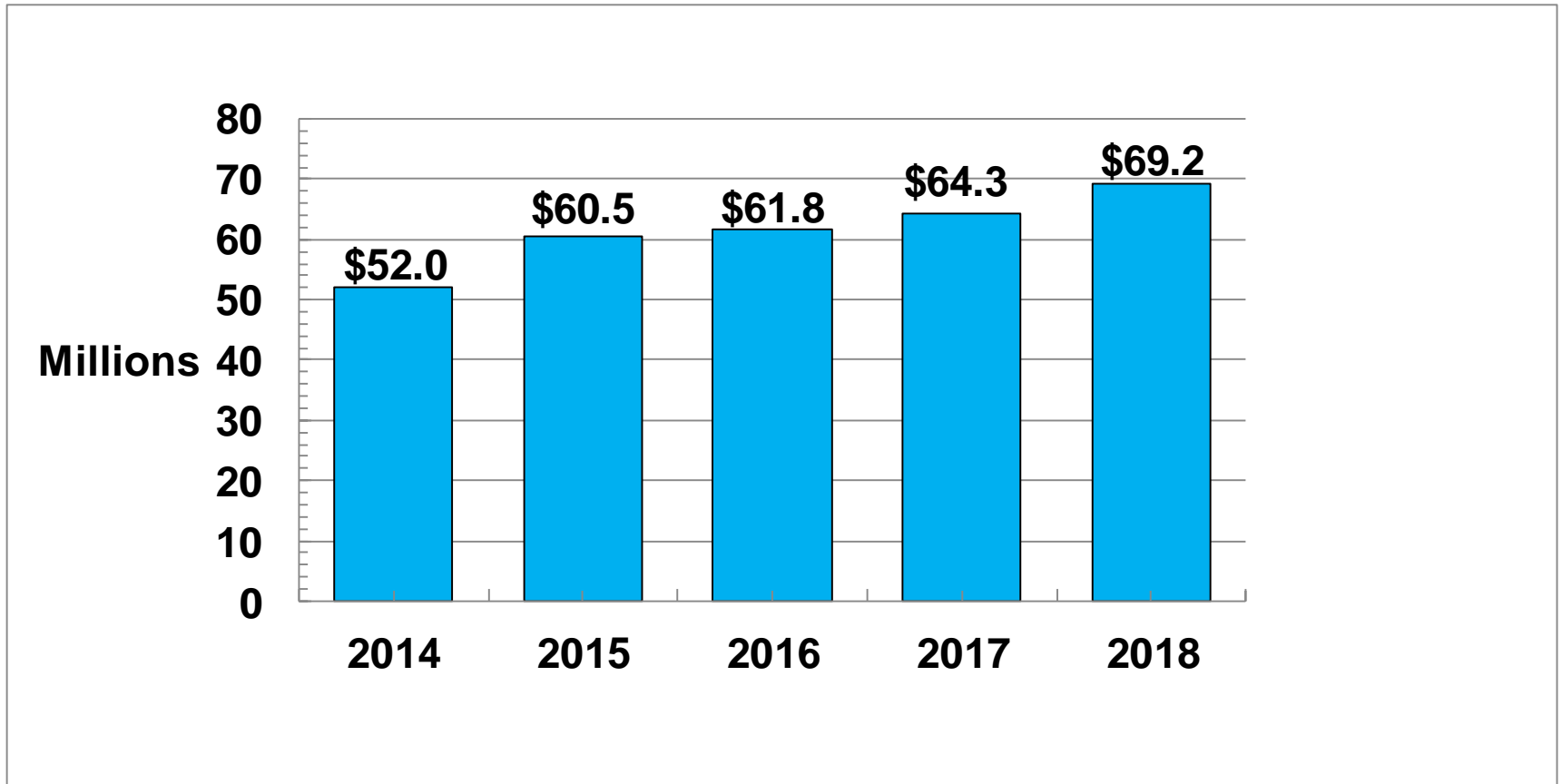
# CITY OF FAYETTEVILLE, NC

## 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	58,627
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Prepays	1,133,542
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#### Restricted

Stabilization by State Statute	25,672,447
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For downtown	121,772
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For Lake Valley Drive MSD	759
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For county recreation	1,733,754
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Donations	17,508
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#### Committed

Law Enforcement Officers'	
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Separation Allowance	5,433,945
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#### Assigned

Subsequent year's expenditures	5,033,560
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Special purposes	2,271,747
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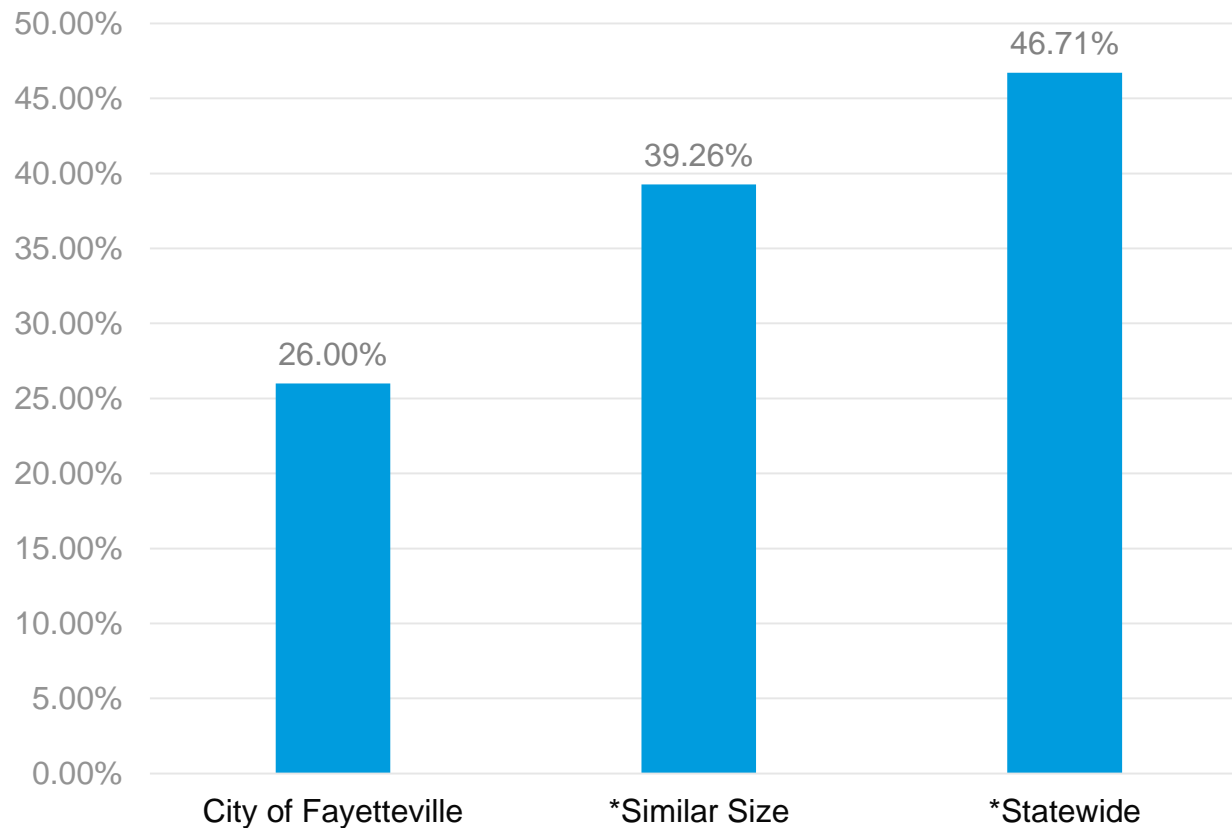
Capital projects	8,124,237
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Unassigned	19,566,580
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Total fund balances	<u><u>69,168,478</u></u>
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# CITY OF FAYETTEVILLE, NC

Fund Balance Available as a Percentage of General Fund Net Expenditures  
For the Year Ended June 30, 2018 (2017 Comparative Information Shown)



# Compliance Results for the Year Ended June 30, 2018

# Reporting Requirements

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



# Major Programs Tested

- Major Federal Programs tested:
  - HOME Investment Partnerships Program– CFDA #14.239
  - Airport Improvement Program– CFDA #20.106
  - Federal Transit Cluster – CFDA #20.507
- Major State Programs tested:
  - Nonstate System Street Aid Allocation (Powell Bill)
  - State Maintenance Assistance Program (SMAP)
  - Golden Leaf Foundation Grants

## 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)

- One material weakness
  - 2018–001 (PWC)
- Two significant deficiencies
  - 2018–002 (PWC)
  - 2018-003 (City of Fayetteville)

# Material Weakness 2018-001

## Section 2. Financial Statement Findings

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

- 2018-001 – 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. This is a repeat finding.

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 continue to 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. We also recommend the Commission continue to perform appropriate compensating controls put in place during fiscal year 2018.

# Significant Deficiency 2018-002

## Section 2. Financial Statement Findings

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

- 2018-002 – IT Functionality and reporting

Criteria: The IT system should provide sufficient functionality and reporting to support the financial operations of the Commission.

Condition and Context: During testing of the bank reconciliation process, we noted \$737,345 of unposted exceptions between the final ending reconciled cash balance and the ending general ledger cash balance, of which \$119,657 cannot be identified. During testing of the accrued payroll expense, we noted a debit balance in the Fleet Maintenance accrued salaries and benefits account resulting in an adjusting journal entry to increase the accrued payroll and due from accounts in Fleet Maintenance fund of \$110,298.

Effect: The final cash balance in the general ledger is \$737,345 less than the final cash balance per the bank reconciliation, resulting in an understatement of cash and overstatement of accounts receivable of \$737,345.

Cause: The IT system generated reports do not provide sufficient detail to identify and resolve exceptions noted in the bank reconciliation process in a timely manner. The automatic custom costing entry for payroll double posted the direct deposit entries for the October 27, 2017 payroll.

Recommendation: We recommend the Commission have the IT department work closely with the Finance department to develop appropriate reporting that will allow for timely resolution of exceptions identified during the cash reconciliation process. We also recommend the Commission adhere to their established bank reconciliation review policy to ensure no material unposted discrepancies between the general ledger and the bank reconciliation remain at year end. Additionally, we recommend that all payroll liabilities be reconciled at the fund level each period.

# Significant Deficiency 2018-003

## Section 2. Financial Statement Findings

### City of Fayetteville

- 2018-003 – OPEB Census Information

Criteria: Information provided to the actuarial service providers should be accurate in order for the actuary to appropriately calculate the Net Other Post Employment Benefits (OPEB) obligation.

Condition and Context: During our testing of the census information provided to the actuary for the calculation of the net OPEB obligation, we noted that the census information was not appropriately reflected on the actuary report.

Effect: The net OPEB obligation, deferred outflows of resources, and deferred inflows of resources and OPEB expense were overstated.

Cause: Insufficient review of the information provided to the actuary as well as insufficient review of the finalized actuarial report received.

Recommendation: We recommend the City strengthen their review controls around information provided to third-party actuaries. We also recommend the information contained in the actuarial report be reviewed for accuracy prior to final acceptance.

# 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 3, 2018. 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
Accounting Policies and Practices	<p><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><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. Following is a description of significant accounting policies or their application that were either initially selected or changed during the year.</p> <p>The City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB), which establishes new accounting and financial reporting requirements for OPEB plans.</p> <p>The City also adopted GASB Statements No. 81, Irrevocable Split-Interest Agreements; No. 82, Pension Issues-an amendment of GASB Statements No. 67, No. 68 and No. 73; No. 85, Omnibus 2017; and No. 86, Certain Debt Extinguishment Issues. Statements No. 81, No. 82, No. 85 and No. 86 did not have a significant impact on the financial statements.</p>

# Auditor's Required Communications- SAS 114

Area	Comments
<b>Accounting Policies and Practices (Continued)</b>	<p><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.</p> <p><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.</p>
<b>Audit Adjustments</b>	<p>There were no audit adjustments made to the original trial balance presented to us to begin our audit.</p>
<b>Uncorrected Misstatements</b>	<p>Uncorrected misstatements are summarized in the attached Summary of Uncorrected Misstatements.</p>
<b>Disagreements With Management</b>	<p>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.</p>

# 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>	<p>We have separately communicated the control deficiencies identified during our audit of the basic financial statements, and this communication is attached as Exhibit A.</p> <p>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, 2018.</p>
<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.

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