



Presentation of 2018 Audit Results

City of Hapeville, Georgia





Agenda

- Engagement Team
- Results of the 2018 Audit
- Financial Trends
- Comments, Recommendations, and Other Issues
- Questions





Engagement Team

- Mauldin & Jenkins, LLC
 - Founded in 1918 – **serving clients for 100 years!**
 - Large regional firm serving the Southeastern United States.
 - Offices located in Macon, Atlanta, Albany, Savannah, Bradenton, FL, Chattanooga, TN, Columbia, SC and Birmingham, AL employing approximately 300 personnel.
 - In addition to our governmental practice, we have large banking, healthcare, not-for-profit, benefit plan and tax practices.
- Mauldin & Jenkins, LLC; Governmental Sector
 - Largest specific industry niche served by the Firm representing 25% of Firm practice.
 - Serve more governmental entities in Georgia than any other certified public accounting firm requiring over 80,000 hours of service on an annual basis.
 - Approximately 100 professional staff persons with current governmental experience.
 - Current auditor for almost 400 total governments in the Southeast, including approximately:
 - 110 cities (including 9 of 10 largest cities in Georgia);
 - 50 counties (including 7 of the 10 largest in Georgia);
 - 50 school systems (8 of the 10 largest in Georgia);
 - 40 state entities; and,
 - 100 special purpose entities (stand-alone business type entities, libraries, etc).
- Engagement team leaders for the City of Hapeville
 - Doug Moses, Engagement Partner
 - Matt Hill, Quality Review Partner
 - Josh Carroll, Engagement Manager





Results of June 30, 2018 Audit

- Our Responsibility Under Auditing Standards Generally Accepted in the United States of America (GAAS) and Government Auditing Standards (GAS)
 - Our audit was performed in accordance with GAAS and GAS.
 - We considered the internal control structure for the purpose of expressing our opinion on the City’s basic financial statements and not for the purpose of providing assurance on the internal control structure.
 - Our objective is to provide reasonable—not absolute—assurance that the basic financial statements are free from material misstatement.
 - The basic financial statements are the responsibility of the City’s management.
- Report on 2018 Basic Financial Statements
 - Unmodified (“clean”) opinion on basic financial statements.
 - Presented fairly in accordance with accounting principles generally accepted in the United States of America (GAAP).
 - Our responsibility does not extend beyond financial information contained in our report.
- Report in accordance with the Uniform Guidance (“Single Audit Report”)
 - Unmodified (“clean”) opinion for all direct and material compliance requirements





Required Communications

- Significant Accounting Policies
 - The significant accounting policies used by the City are described in Note 1 to the basic financial statements.
 - In considering the policies used by the City, we noted they are in accordance with generally accepted accounting principles and similar government organizations with no significant new policies or qualitative aspects of its policies. The City is not involved in any controversial or emerging issues for which guidance is not available.
 - GASB Statement No. 75 relating to the City's OPEB plan was implemented as of July 1, 2017. Restatement of beginning net position was required for this implementation.
- Management Judgment/Accounting Estimates
 - The City uses various estimates as part of its financial reporting process – including valuation of accounts receivable (recording of allowance for uncollectible accounts) and actuarial assumptions.
 - Management's estimates used in preparation of financial statements were deemed reasonable in relation to the financial statements taken as a whole. We considered this information and the qualitative aspects of management's calculations in evaluating the City's significant accounting estimates.
- Financial Statement Disclosures
 - The footnote disclosures to the financial statements are also an integral part of the financial statements and the process used by management to accumulate the information included in the disclosures was the same process used in accumulating the statements. The overall neutrality, consistency, and clarity of the disclosures was considered as part our audit.





Required Communications (Continued)

- Relationship with Management
 - We received full cooperation from the City’s management, staff, and others.
 - There were no disagreements with management on accounting issues or financial reporting matters.
- Audit Adjustments
 - Audit adjustments were proposed to the records of the City and have been recorded in the City’s financial statements.
- Passed Audit Adjustments
 - There were no passed adjustments.
- Representation from Management
 - We requested written representations from management relating to the accuracy of information included in the financial statements and the completeness and accuracy of various information requested by us, during the audit. Management provided those written representations without a problem.





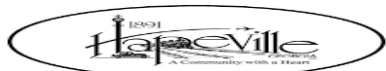
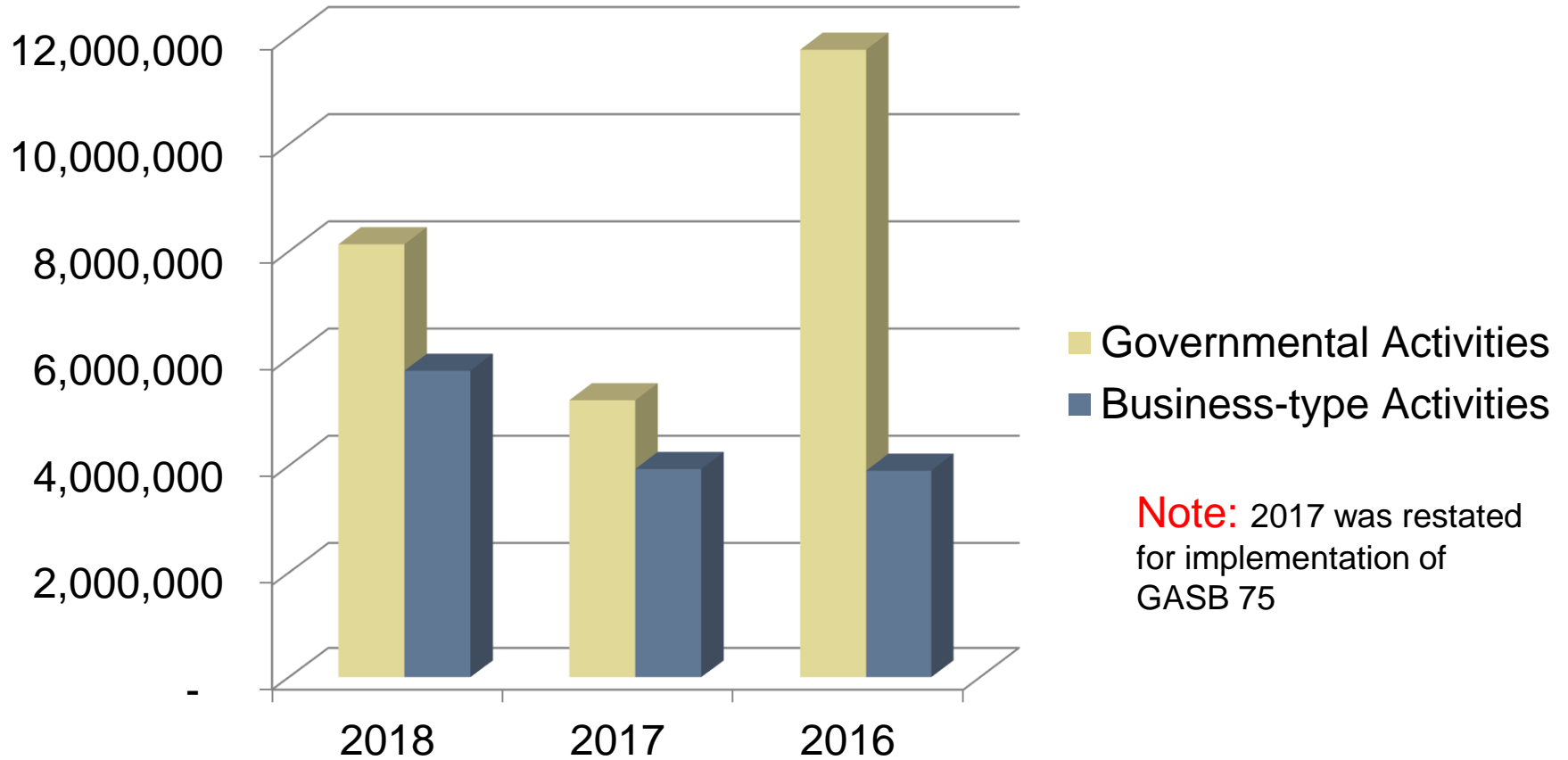
Required Communications (Continued)

- Consultation with Other Accountants
 - To the best of our knowledge, management has not consulted with, or obtained opinions from, other independent accountants during the year, nor did we face any issues requiring outside consultation.
- Significant Issues Discussed with Management
 - There were no significant issues discussed with management related to business conditions, plans, or strategies that may have affected the risk of material misstatement of the financial statements.
- Information in Documents Containing Audited Financial Statements
 - Our responsibility for other information in documents containing the City’s basic financial statements and our report thereon does not extend beyond the information identified in our report. If the City intends to publish or otherwise reproduce the financial statements and make reference to our firm, we must be provided with printers’ proof for our review and approval before printing. The City must also provide us with a copy of the final reproduced material for our approval before it is distributed.
- Auditor Independence
 - In accordance with AICPA professional standards, M&J is independent with regard to the City and its financial reporting process.
 - There were no fees paid to M&J for management advisory services during 2018 that might effect our independence as auditors.



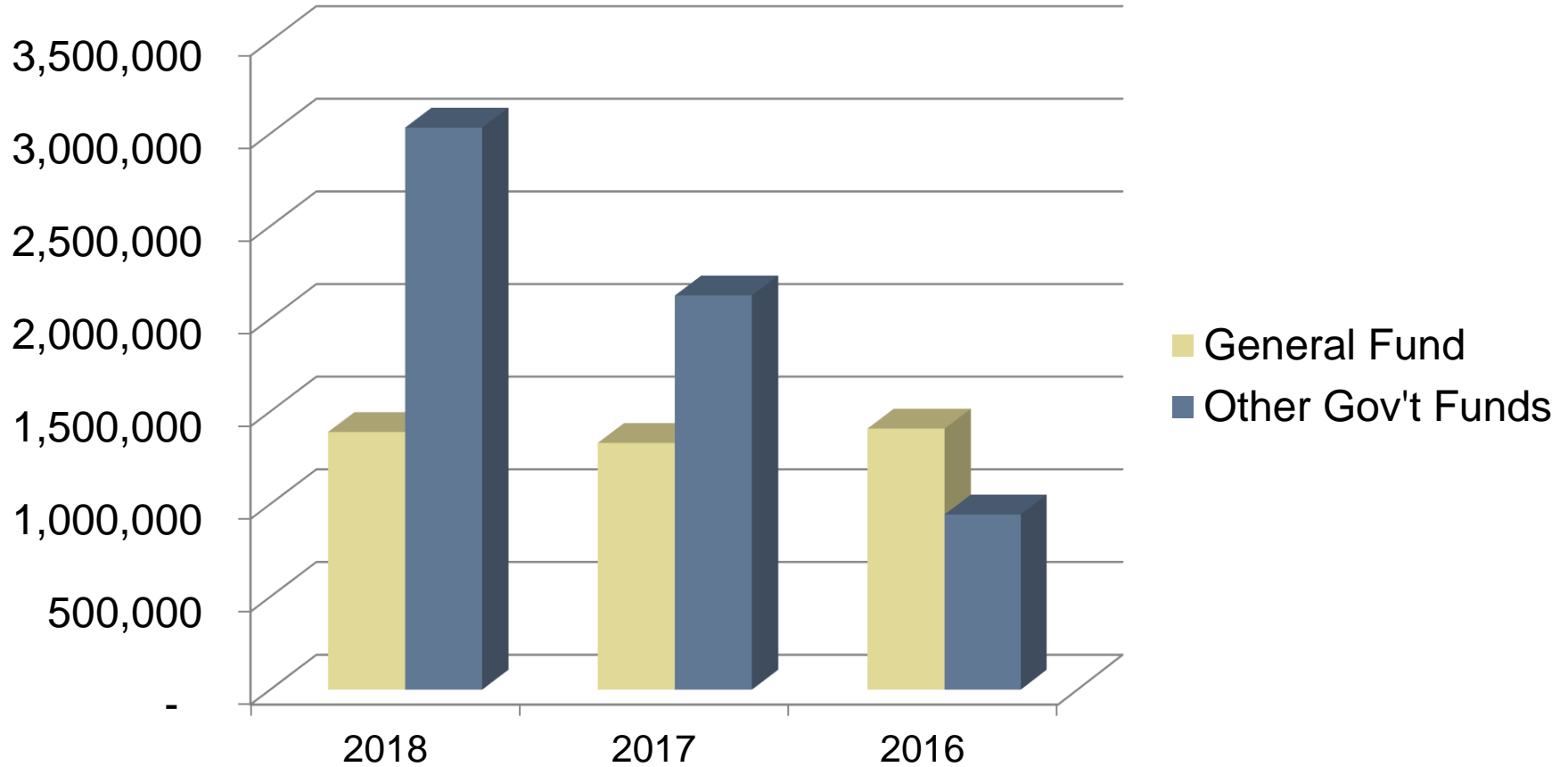


Government Wide Net Position

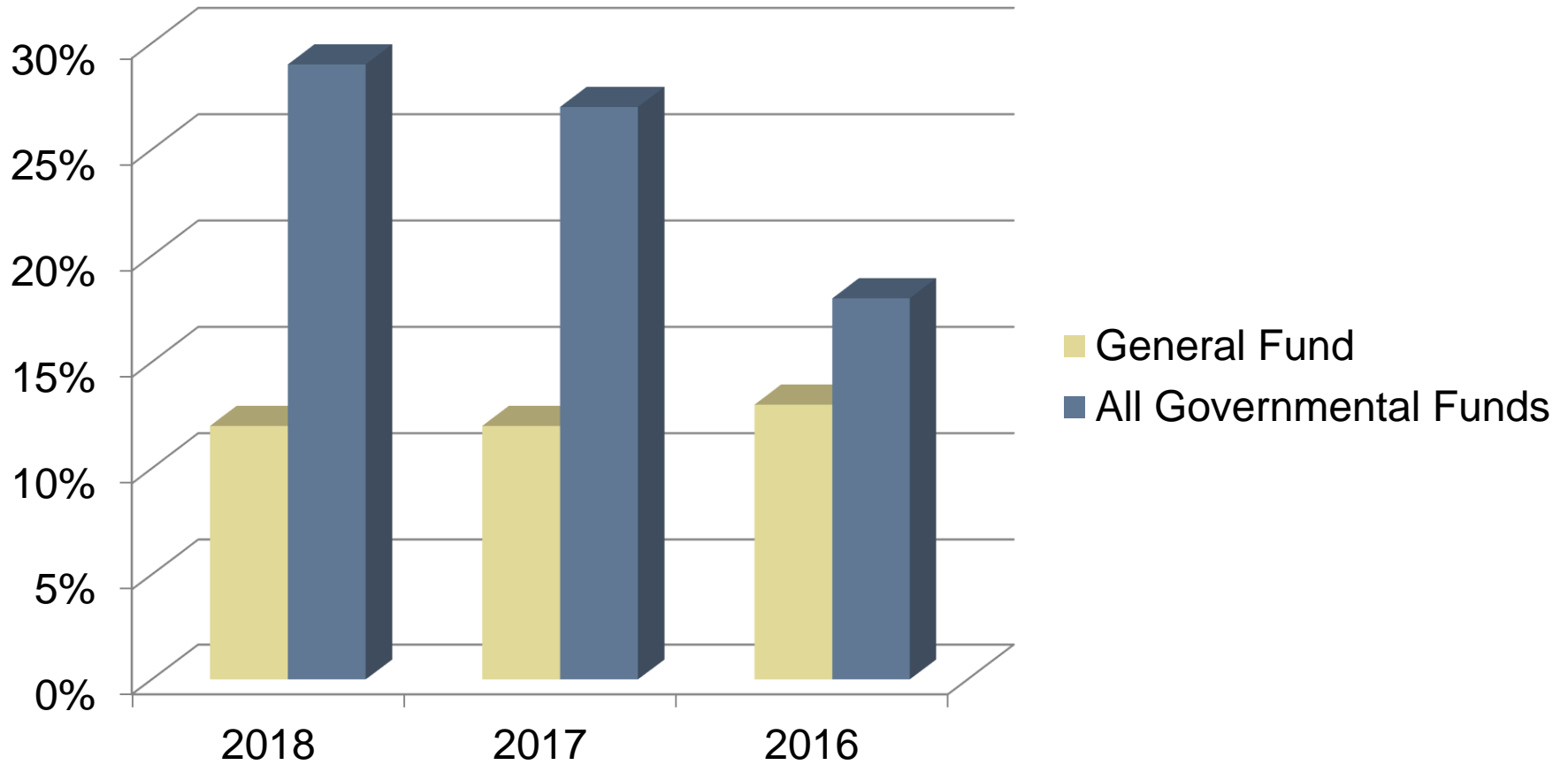




Fund Balance Comparison

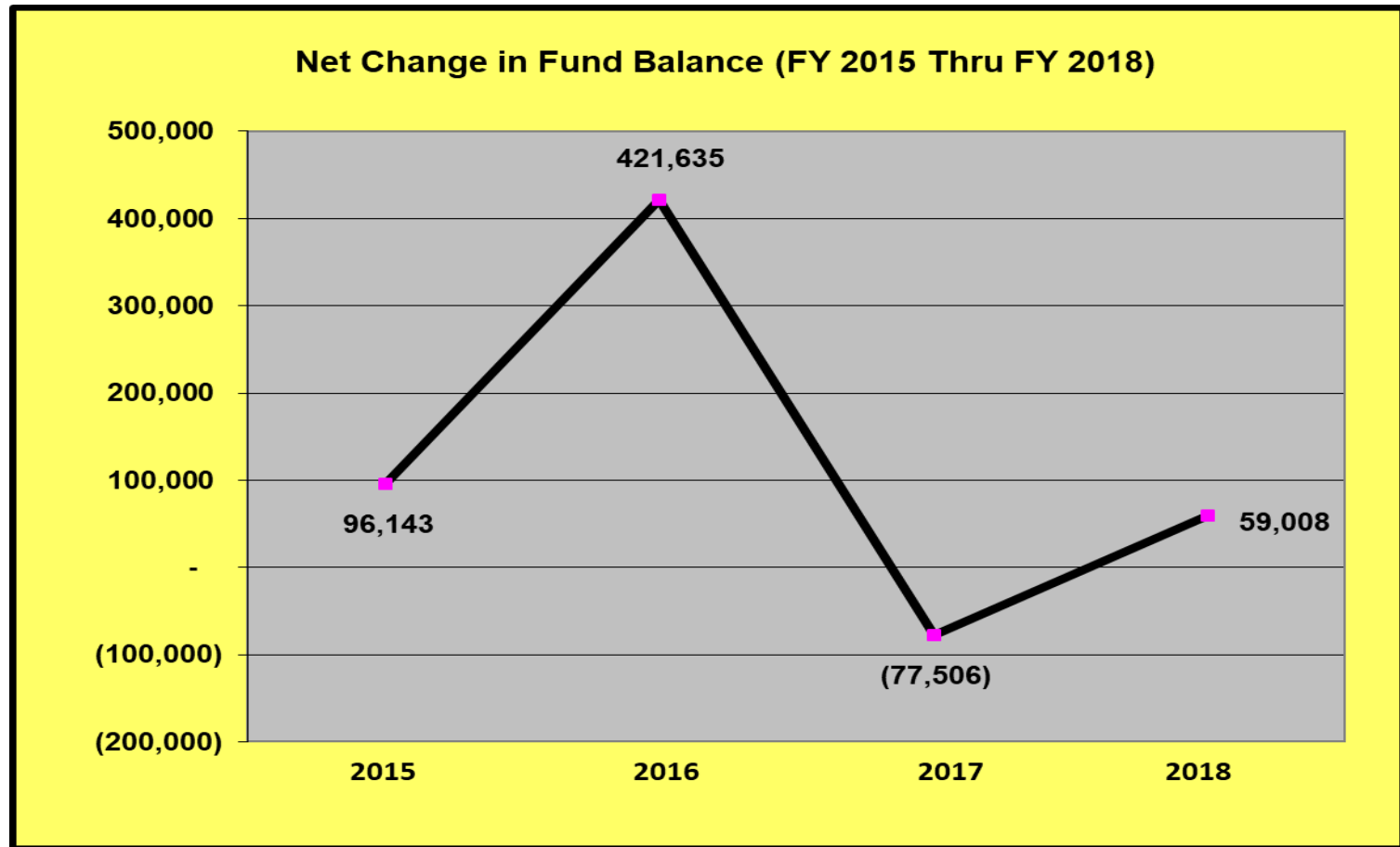


Fund Balance as a Percentage of Total Expenditures





General Fund Change in Fund Balance



Comments, Recommendations, & Other Matters



□ Finding

2018 - 001. Segregation of Duties (Repeat finding)

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. We noted the City does not have a formal process for segregating the posting and approval of journal entries. We also noted one employee has the ability to process payroll checks also has the ability to make changes on personnel files and post journal entries.

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.

Effects/Possible Effects: 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.

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



Comments, Recommendations, & Other Matters (continued)



2018 - 002. Fiscal Year End Financial Close and Reporting Controls (Repeat finding)

Criteria: Internal controls should be in place to ensure that all amounts reported within the financial statements are accurate and have been reconciled to subsidiary ledgers and underlying accounting records.

Condition: Due to ineffective controls surrounding the fiscal year-end financial close procedures, certain audit adjustments were necessary at June 30, 2018.

Context/Cause: As a result of our testing, audit adjustments were required as follows:

- To increase taxes receivable and deferred tax revenues by \$55,825 in the General Fund to properly record balances.
- To increase revenues and accounts receivables by \$76,240 and increase allowance for doubtful accounts by \$21,038 in the Stormwater Fund to properly record balances.
- To increase accrued vacation payable by \$7,461 in the Solid Waste Fund and \$9,875 in the Water & Sewer Fund to properly record its balance at fiscal year end.
- To remove advances recorded in the General Fund and record transfers out for amounts which were determined would not be repaid in the amount of \$198,618. A corresponding transfer in was recorded in the Capital Project fund for \$134,123 and \$64,495 in the Development Authority Fund.
- To remove advances recorded in the Water & Sewer Fund and record transfers out for amount which were determined would not be repaid in the amount of \$431,617. A corresponding transfer in was recorded in the Development Authority.

Effects/Possible Effects: Audit adjustments totaling \$1,430,910 were required as detailed above.

Recommendation: The City made improvements in this area from the 2017 audit with entries totaling \$2,905,973 in 2017. We recommend the City's Finance Department continue to implement and/or strengthen internal controls surrounding the fiscal year-end financial close out procedures.



Comments, Recommendations, & Other Matters (continued)



□ Management Recommendations for Improvement

1. Cash Reconciliation and Reporting (Repeat) - During our testing of cash, we noted \$453.40 in one (1) bank account that was not reported on the trial balance. The activity on this account is considered immaterial. We recommend management develop and implement procedures to ensure that all assets are completely reported at fiscal year-end.

2. Internal Control over Expenditures and Accounts Payable (Repeat) - During our review of internal control procedures over expenditures and accounts payable, we noted that the City does not have formal written policies and procedures in place to ensure restrictions on purchases of goods and services from governing body members, employees, or other suppliers that could create conflict of interest. We recommend the City adopt a formal policy to address this.

3. Credit Card Transactions (Repeat)- During our review of the City's purchasing procedures, we noted that no written policy currently exists which governs the use of credit cards by employees of the City – although procedures are being followed related to this use. In accordance with a sound internal control environment and in order to enhance protections to the City from issues that may arise, we recommend a written policy be adopted and enforced regarding the usage of credit cards.

4. Timely Retrieval or Supporting Documentation (Repeat) - During the audit, we encountered difficulty obtaining the information needed to complete the audit in a timely manner. Significant delays were encountered obtaining the following information: (1) GASB 67/68/75 reports from the City actuary, (2) pension and OPEB census data from the City actuary, (3) grant schedules including the schedule of expenditures of federal awards, (4) utility and property tax receivable and related revenue schedules, (5) capital asset schedules and recording related current year activity in the general ledger. The City made improvements in this area from the 2017 audit and we recommend the City continue to work to ensure these items are prepared in a timely manner.

Comments, Recommendations, & Other Matters (continued)



□ New GASB Pronouncements for Future Years

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, this statement establishes the criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for ARO's. Applicable for June 30, 2019.
- GASB Statement No. 84, *Fiduciary Activities*, This statement establishes criteria for identifying fiduciary activities with a focus on: 1) whether a government is controlling the assets of the fiduciary activity; and, 2) the beneficiaries with whom a fiduciary relationship exists. Applicable for June 30, 2020.
- GASB Statement No. 87, *Leases*, will require all lease agreements to be recorded as a liability under full accrual accounting. Many of these leases were previously considered operating leases and payments were expensed as incurred with no liability accrued. Applicable for June 30, 2021.
- GASB Statement No. 88, *Certain Disclosures Related to Debt*, will add new disclosures related to debt including disclosing any assets pledged as collateral for debt and disclosing terms specified in debt agreements with potential significant financial related consequences. Applicable for June 30, 2019
- GASB Statement No. 89, *Capitalized Interest*, requires that construction period interest no longer be capitalized for proprietary funds. This statements is only applied prospectively in the year implemented. Applicable for June 30, 2021.
- GASB Statement No. 90, *Majority Equity Interests*, will change the accounting for a government's investment in another entity in which it acquires a majority equity interest in that entity. Certain investments will be measured using the equity method, some at fair value, and some will result in the acquired entity be reported as a component unit. Applicable for June 30, 2020.

Comments, Recommendations, & Other Matters (continued)



□ Other Matters Currently Being Considered by GASB

- Re-examination of the Financial Reporting Model
- Capitalization interest costs
- Debt and Other Footnote Disclosures
- Revenue and Expense Recognition
- Social Impact Bond Accounting



Comments, Recommendations, & Other Matters (continued)



FREE QUARTERLY CONTINUING EDUCATION AND NEWSLETTERS

FOR GOVERNMENTAL CLIENTS

Free Continuing Education. We provide free quarterly continuing education for all of our governmental clients. Each quarter we pick a couple of significant topics tailored to be of interest to governmental entities. In an effort to accommodate our entire governmental client base, we offer the sessions several times per quarter at a variety of client provided locations resulting in greater networking among our governmental clients. Examples of subjects addressed in the past few quarters include:

- CAFR Preparation - GASB Updates - Grant Accounting Processes and Controls - GASB 68 (Pensions)
- Internal controls over revenue and cash receipting and accounts payable, payroll, and cash disbursements
- American Recovery & Reinvestment Act (ARRA) information, issues and updates - Single audits for auditees
- Collateralization of Deposits and Investments - Internal Controls over Accounts Payable, Payroll and Controls
- Policies and Procedures Manuals - Segregation of Duties – GASB 75 (OPEB) – GASB 87 (Leases)
- Data Security and General Information Technology Controls and Best Practices

Communication. In an effort to better communicate our free continuing education plans and newsletters, please email Paige Vercoe at pvercoe@mjcpa.com (send corresponding copy to dmoses@mjcpa.com, and provide to her individual names, mailing addresses, email addresses and phone numbers of anyone you wish to participate and be included in our database.



Conclusion



Comments and Questions?

We appreciate the opportunity to serve the City of Hapeville, Georgia and look forward to continuing to work with the City in upcoming years!



*Presentation of Annual
Audit Results*

