

***Compliance Section***

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## **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***

### **Independent Auditors' Report**

Honorable Mayor and Members of  
the Board of Aldermen  
Town of Carrboro, North Carolina

We have audited, 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, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Carrboro, North Carolina (the "Town"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Carrboro's basic financial statements, and have issued our report thereon dated December 28, 2018. The financial statements of the Carrboro Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

#### ***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the 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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 material weakness is a deficiency or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Town'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**High Point, North Carolina  
December 28, 2018**

# **Independent Auditors' Report on Compliance for the Major State Program and on Internal Control over Compliance in Accordance with Applicable Sections of OMB Uniform Guidance and the State Single Audit Implementation Act**

## **Independent Auditors' Report**

Honorable Mayor and Members of  
the Board of Aldermen  
Town of Carrboro, North Carolina

### ***Report on Compliance for the Major State Program***

We have audited Town of Carrboro, North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on its major state program for the year ended June 30, 2018. The Town of Carrboro's major state program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of state statutes, regulations, and the terms and conditions of its state awards applicable to its state program.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance of the Town of Carrboro's major state program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) as described in the *Audit Manual for Governmental Auditors in North Carolina* and the State Single Audit Implementation Act. Those standards, applicable sections of the Uniform Guidance, and the State Single Audit Implementation Act 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 state program occurred. An audit includes examining, on a test basis, evidence about the Town of Carrboro'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 on compliance for the major state program. However, our audit does not provide a legal determination on the Town of Carrboro's compliance.

***Opinion on the Major State Program***

In our opinion, the Town of Carrboro complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2018.

***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and the State Single Audit Implementation Act and which is described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on the major state program is not modified with respect to this matter.

The Town's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

***Report on Internal Control over Compliance***

Management of the Town of Carrboro is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Carrboro's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major state program and to test and report on internal control over compliance in accordance with applicable sections of the Uniform Guidance and the State Single Audit Implementation Act, 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 Town of Carrboro's internal control over compliance.

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 state 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 state program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency or combination of deficiencies in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

The Town's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on applicable sections of Uniform Guidance and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**High Point, North Carolina  
December 28, 2018**

## Schedule of Findings and Questioned Costs

### I. Summary of Auditors' Results

#### Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?

Yes  No

#### State Awards

Internal control over major state programs:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported
- Noncompliance material to state award  Yes  No

Type of auditors' report issued on compliance for major state program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?

Yes  No

Identification of major state program:

DOT-4 Powell Bill

### II. Financial Statement Findings

There were no findings related to the financial statements for the fiscal year ended June 30, 2018.

### III. State Awards Findings and Questioned Costs

#### North Carolina Department of Transportation

Program name: Powell Bill  
Program number: DOT-4  
Grant number: 2000006452

#### ***Finding 2018-001: Allowable Costs/Cost Principles***

##### SIGNIFICANT DEFICIENCY

##### Criteria

Labor and equipment rates charged to the Powell Bill should be reflective of actual costs incurred. If a municipality's records cannot support equipment rates, the charge for a piece of equipment may not exceed the NCDOT's standard hourly rates.

##### Condition

Throughout the period under audit, the Town charged labor and equipment costs to the Powell that were based on estimates, or outdated rates which were not supported by actual costs employee pay rate information or the allowable equipment rates as established by the NCDOT. Labor rates were estimated based on position, and equipment rates were charged using outdated FEMA rates rather than the NCDOT rates.

##### Questioned costs

\$30,200. This amount was calculated by projecting the total known questioned costs discovered during the audit (\$1,076) and projecting these costs over the entire population of labor and equipment costs charged to the Powell Bill.

##### Effect

The Town was not in compliance with the Allowable Costs/Cost Principles requirements of the grant. However, as the Town had significant construction costs incurred that were eligible under the Powell Bill, based on the projected questioned costs shown above, had the Town charged actual costs towards the Powell Bill program the entire balance of the Powell Bill of \$667,515 would still be covered by the actual costs incurred during the year ended June 30, 2018.

##### Identification of a repeat finding

This is not a repeat finding as the Powell Bill was not tested in prior years.

##### Cause

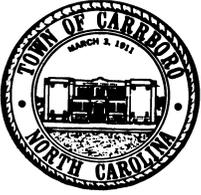
Controls were not in place to ensure that labor and equipment costs charged to the Powell Bill were reflective of actual costs incurred, or standard hourly rates allowed by the NCDOT.

##### Recommendation

Management should implement controls to ensure that labor charges are supported by actual payroll records, and that equipment is charged using the standard hourly rates established by the NCDOT.

##### Views of responsible officials and planned corrective actions

The Town agrees with this finding. Please refer to the corrective action plan on page 144.



**TOWN OF CARRBORO**  
NORTH CAROLINA  
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**Corrective Action Plan**

**Financial Statement Findings**

***Finding: 2018-001***

*Name of contact person:* Arche McAdoo, Finance Director

*Corrective action:* Management agrees with this finding and will take the following corrective action:

All labor schedules will be updated to reflect actual current salary being paid to employees based on actual payroll records; and will update all equipment schedules to be consistent with NCDOT standard hourly rates. These schedules will be updated by February 1, 2019. Thereafter, these schedules will be reviewed and updated as necessary during the annual budget development process.

*Proposed completion date:* February 1, 2019.

## **Summary Schedule of Prior Year Audit Findings**

There were no prior year audit findings.

**Town of Carrboro, North Carolina**  
**Schedule of Expenditures of Federal and State Awards**  
**Year Ended June 30, 2018**

**Schedule 18**

Grantor/Program Title	Federal CFDA/ State Number	Grant Number	Federal (Direct and Pass-Through) Expenditures	State Expenditures
<b>Federal grants:</b>				
<u>U.S. Department of Transportation</u>				
Highway Planning and Construction Cluster:				
Passed through the NC Department of Transportation:				
Highway Planning and Construction (Federal Aid Highway Program)				
Wilson Park Multi-Use Path	20.205	36268.3.4	\$ 3,998	\$ -
Total Passed through NC Department of Transportation			3,998	-
Total Highway Planning and Construction Cluster			3,998	-
<b>Total assistance - federal programs</b>			3,998	-
<b>State grants:</b>				
<u>NC Department of Transportation</u>				
Direct Programs				
Powell Bill	DOT-4	2000006452	-	667,515
Total NC Department of Transportation			-	667,515
<b>Total assistance - state programs</b>			-	667,515
<b>Total assistance</b>			\$ 3,998	\$ 667,515

## **Notes to Schedule of Expenditures of Federal and State Awards**

### **1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and state grant activity of the Town of Carrboro under the programs of the federal government and the State of North Carolina for the year ended June 30, 2018. The information in this SEFSA is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town.

### **2. Summary of Significant Accounting Policies**

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Town of Carrboro has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.