

AUDIT COMMITTEE
LAFAYETTE CONFERENCE ROOM, 1ST FLOOR CITY HALL
433 HAY STREET, FAYETTEVILLE, NC
August 3, 2017 - 3:30 PM
SPECIAL MEETING MINUTES

COMMITTEE Mayor Nat Robertson, Chair
MEMBERS PRESENT: Pamela Jackson, Vice Chair (arrived at
3:35 PM)
Council Member Bobby Hurst
Council Member Bill Crisp
Michelle Hall, Fayetteville Technical
Community College
Evelyn Shaw, PWC Chair

OTHERS PRESENT: Elizabeth Somerindyke, Internal Audit Director
Rose Rasmussen, Senior Internal Auditor,
Internal Audit
Traci Carraway, Internal Auditor, Internal
Audit
Lisa Harper, Assistant City Attorney
Cheryl Spivey, Chief Financial Officer
Kimberly Toon, Purchasing Manager
Christine Pressley, Accounts Payable
Supervisor
James F. Teal, Management Analyst
Jane Starling, Deputy City Clerk

1.0 CALL TO ORDER

Mayor Nat Robertson, Chair called the meeting to order at 3:32 PM and welcomed everyone in attendance.

2.0 APPROVAL OF AGENDA

MOTION: PWC Commissioner Shaw moved to approve the agenda
SECOND: Council Member Crisp
VOTE: UNANIMOUS (5-0)

3.0 Approval of Meeting Minutes

MOTION: Council Member Hurst moved to approve the minutes from
April 27, 2017
SECOND: Michelle Hall
VOTE: UNANIMOUS (5-0)

4.0 Engagement Letter and Audit Contract for Required LGERS Testing

Ms. Cheryl Spivey, Chief Financial Officer presented this item. Ms. Spivey explained the Office of State Auditor (OSA) has selected the City of Fayetteville as one of 60 local governments to have additional procedures performed on the accuracy of the information reported in ORBIT (the Local Government Employee Retirement Plan Database). The additional work requires a separate engagement document and contract with RSM, the City's independent auditor.

Background:

A few years ago, the Governmental Accounting Standards Board (GASB) issued new requirements related to local government pensions. These new statements changed the reporting requirements for most pension plans including the North Carolina Local Government Employees' Retirement System (LGERS). An essential part of the compliance process for these new statements is the testing of the information local governments report to the state retirement system. The Office of State Auditor (OSA), in its role as the auditor for the state's comprehensive annual financial report (CAFR), which includes the LGERS plan, decided to annually require a sample of local governments to contract with their independent auditors to provide assurance to OSA on the accuracy of the information the local government reported in ORBIT. The City of Fayetteville was selected this year. Fayetteville is also

responsible for paying the independent auditor for this additional work.

The additional testing will focus on the internal controls surrounding the ORBIT data gathering and input process as well as several specific pieces of census data, such as the following:

- Eligibility - are all employees that are enrolled in ORBIT eligible to be in the plan and are all eligible workers appropriately enrolled?
- Compensation - is qualifying compensation being reported accurately in ORBIT?
- Gender and Date of Birth - are these pieces of data correctly reported in ORBIT?
- Date of Enrollment in the Plan with this Employer - was the employee enrolled according to the unit's policy on membership in the plan? (Some units have a waiting period, others enroll eligible employees upon employment.)
- Termination date - are employees who have left employment with the unit, during the calendar year being evaluated, reported as such in ORBIT using the correct date of termination?

Specific data elements may include the following:

- Eligibility: Work in this area will likely include an evaluation of contract labor to determine if any independent contractors should be classified as employees and therefore potentially eligible to be enrolled in either LGERS or TSERS.
- Compensation: In addition to potentially testing a sample of specific employees' data, the auditor might consider comparing total payroll submitted to ORBIT this year as opposed to the prior year and exploring any material differences between the two figures.
- Gender and Date of Birth: In addition to comparing ORBIT data to the personnel file for a sample of employees, the auditor may consider scanning birthdates for obvious errors (too recent for the employee to be of working age, for example) and gender for changes from one year to the next.
- Enrollment date with this employer: The auditor may want to consider pulling a sample (or testing 100% for a small entity) and testing for date accuracy.
- Termination date: Depending on the number of employees who left employment (not retiring) who were enrolled in the plan, the auditor may want to consider testing a sample for date accuracy.

The City's independent auditor, RSM, is planning to perform this additional work in September, and the results are due to the Office of State Auditor by October 13, 2017. Therefore, this contract is time sensitive. The fee for these additional services is \$5,300.00.

Discussion ensued

Ms. Spivey stated the finance department will attempt to absorb the additional cost under their line item for professional services which include auditors and attorney fees.

MOTION: Council Member Hurst moved to recommend to City Council for approval.

SECOND: Ms. Jackson

VOTE: UNANIMOUS (6-0)

5.0 Internal Audit Activities

5.01 Procurement Card Audit (A2015-03F)

Ms. Elizabeth Somerindyke, Internal Audit Director presented a report on the follow up procurement card audit. She explained the Audit plan for FY17 authorized the follow-up audit for procurement cards. The City uses Procurement cards for small purchases to reduce the volume of checks processed. They are processed by vendors like personal charge cards. The Finance Department is responsible for administrating the City's p-card program. The number of active p-cards was 253 as of February 2017.

The Internal Audit issued a Procurement Card Audit in February 2016 with recommendations to improve oversight.

The objectives of the procurement card audit are to: assess adequacy of internal controls; check for compliance with policy and procedure; assess segregation of duties, physical security and proper use; and determine if original audit recommendations had been implemented by management.

The audit looked at P-card activity from July 1, 2016 through February 28, 2017; and was limited to actions taken to remediate the original observations.

The follow-up audit found that original recommendation number one: appropriate approvals were not always present and documentation was not provided showing cardholders received either initial or refresher training.

In the opinion of the audit department the original recommendation was not implemented.

Original recommendation number two: to prepare and retain adequate documentation including the business purpose for each expense determined; the procurement card log is not be used as intended, itemized receipts are not always present, and the business purpose of each purchase was not always documented.

In the opinion of the audit department the original recommendation was not implemented.

Original Recommendation number three: to update and clarify the procurement card policy. Currently, the appropriate guidance still does not exist for controlling, issuing and retiring procurement cards. The policy requires approvals by IT for computer hardware and software, and department director for furniture but does not require documentation of the approval.

In the opinion of the audit department the original recommendation was not implemented.

Discussion ensued.

MOTION: Council Member Crisp moved the audit committee accept the Procurement Card Audit A2015-03F. The Mayor requested a friendly amendment be added for the Finance Department to come back at the next meeting with a justification for the number of procurement cards. Council Member Crisp accepted the amendment.

SECOND: Council Member Hurst

VOTE: UNANIMOUS (6-0)

6.0 Other Business:

6.1 Annual Audit Plan Proposed Engagements for FY2018

Ms. Elizabeth Somerindyke, Internal Audit Director presented the Audit department's list of proposed engagements for fiscal year 2018. Ms. Somerindyke met with each member of the audit committee and requested concerns from them, Senior City Management, Mid-level Managers, Fraud waste and abuse reporting and audit staff to decide where risks were. A total of 19 people were interviewed.

There are seven projects listed on the FY18 Audit Plan.

1. Contracting Practices and Procedures
2. Parks and Recreation Nonresidential Fees Implementation
3. Police Department Evidence and Property Management
4. Citywide Payroll Processes
5. Police Department Confidential Funds
6. Performance Measures
7. Employee Development Travel and Training Expenditures

MOTION: Council Member Hurst moved to accept the FY18 Audit Plan.

SECOND: Ms. Jackson

VOTE: UNANIMOUS (6-0)

6.2 Internal Audit Annual Report FY2017

Ms. Elizabeth Somerindyke, Internal Audit Director presented the FY2017 Internal Audit Annual Report.

Key Accomplishments FY 2017

- Completed 4 engagements on the approved annual audit plan; made 39 value-added recommendations;
- Provided quarterly Management Implementation Status Reports;
- Provided fraud, waste and abuse training to approximately 125 new employees;
- "Doing What's Right" campaign was feature story for Fayetteville Focus episode in September 2016;
- Attended the Association of Local Government Auditors Conference;
- COBIT 5 Foundation Course examination; and
- Professional certifications.

Fraud, Waste and Abuse Investigations

Received 15 fraud, waste and abuse allegations which resulted in 12 investigations.

These can be reported:

- By employees, vendors and residents;
- In-person, telephone, email, City's Fraud Hotline via telephone or online;
- 15 incidents reported with 47% through Hotline.

MOTION: Public Works Commissioner Shaw moved to accept the annual report with a commendation to staff.

SECOND: Ms. Jackson

VOTE: UNANIMOUS (6-0)

6.03 Nominate Presenter for Audit Committee Annual Report to City Council

The Mayor nominated Dr. Jackson and Ms. Hall to present the Audit Committee's annual report to Council on October 9th.

7.0 Quarterly Management Implementation Status Report:

Ms. Elizabeth Somerindyke, Internal Audit Director reported that in the next quarter the department will be focusing on Travel and Training.

8.0 ADJOURNMENT

There being no further business, the meeting adjourned at 4:40 PM

Respectfully submitted,

JANE STARLING
Deputy City Clerk
080317

NAT ROBERTSON
Mayor