

**SPECIAL AUDIT COMMITTEE MEETING MINUTES
LAFAYETTE CONFERENCE ROOM
CITY HALL, 433 HAY STREET, FAYETTEVILLE
MAY 13, 2024
3:00 P.M.**

Committee Members Present: D.J. Haire, Council Member, Committee Chair
Dr. Mfon Akpan, Vice Chair
Derrick Thompson, Council Member
Deno Hondros, Council Member (arrived at 3:15 P.M.)

Staff Present: Doug Hewett, City Manager (joined via Zoom)
Kelly Olivera, Assistant City Manager
Jeffrey Yates, Assistant City Manager
Rose Rasmussen, Internal Audit Director
Christina Zimmerman, Sr. Internal Auditor
Eleanor Myers, Internal Auditor
Jody Picarella, Chief Financial Officer
Brittany McLaurin, Assistant Chief Financial Officer
Amanda Mott, Accounting Manager
Nedra Rodriguez, Finance Reporting Manager
Kimberly Toon, Purchasing Manager
Lachelle Pulliam, City Attorney
Paula Handberry, Executive Assistant to the City Council

Others Present: Robert E. Bittner III, CPA, MBA, PBMares, Inc.

1. Call to Order

Council Member Haire called the meeting to order at 3:00 PM. Council Member Thompson offered the invocation.

2. Approval of Agenda

MOTION: Council Member Thompson moved to approve the agenda
SECOND: Dr. Mfon Akpan
VOTE: UNANIMOUS (3-0)

3. Fiscal Year Ended June 30, 2023 Annual Comprehensive Financial Report, Audit Results and LGERS Results – Presented by Mr. Robert E. Bittner III, CPA, MBA, PBMares, Inc.

Mr. Robert E. Bittner III, CPA, MBA, PBMares, Inc. presented this item. He began by thanking the City, Audit Committee, and Finance Department for allowing their firm to serve the City.

The Components of the Annual Comprehensive Financial Report (ACFR) provides all financial information the City has. The main parts of the Annual Comprehensive Financial Report are:

- Management’s Discussion and Analysis
- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements
- Required Supplemental Information
- Other Supplemental Information
- Statistical Data
- Compliance

The role of PBMares, Inc. is to provide an opinion. There are four types of opinions:

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

The City received an Unmodified opinion.

The breakdown for the General Fund Revenue for the Year Ended June 30, 2023 were:

- Unrestricted Intergovernmental 45.9%
- Ad valorem taxes 38.3%
- Restricted Intergovernmental 6.5%
- Sales and Services 2.9%
- Permits and fees 1.7%
- Miscellaneous 1.9%
- Other Taxes 0.8%
- Interest income 2%

The Unrestricted Intergovernmental revenue was abnormal. The ad valorem taxes were the highest pre COVID-19.

The tax rate for Year Ended June 30, 2023 remained the same as Year Ended June 30, 2022.

The property tax levy collection for all taxes declined during 2020 to 2022. The collection is now back to normal.

The breakdown for the General Fund Expenditures for the Year Ended June 30, 2023 were:

- Public Safety 54.0%
- Administration 17.4%
- Debt Service 11.3%
- Environmental 0.2%
- Recreation 9.7%

- Economic Development 1.4%
- Transportation 6.0%

The General Fund Balance has shown significant growth.

The Fund Balance available as a percentage of General Fund Net Expenditures for the Year Ended June 30, 2023 shows the City a bit lower.

The outstanding debt as a percent of legal debt limit for Fayetteville is 8%.

The audit was performed in compliance with Government Auditing Standards, Federal Single Audit Act/Uniform Guide, State Single Audit Implementation Act, and Passenger Facilities Charges.

The State Single Audit Implementation Act requires a number of programs be tested each year for federal or state compliance. Five major federal programs were tested and two major state programs were tested.

Report on Internal Control over Financial Reporting and Compliance

- 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.
- A Significant Control Deficiency is 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.
- A Material Weakness is a significant deficiency, or combination of 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.

This year, two items qualified for Significant Control Deficiency:

- **Finding: 2023-001:** Significant Compliance Violation and Significant Deficiency in Internal Control over Compliance – Timeliness of Audited Financial Statements Submission
- **Criteria:** North Carolina General Statute 159-34 requires the submission of the annual audit 4 months past the end of the fiscal year, with an extended date at 5 months past the end of the fiscal year.
- **Condition and context:** The June 30, 2023 financial statements were not submitted to the Local Government Commission until over 7 months past the original due date or 6 months past the extended due date.
- **Effect:** The City of Fayetteville has not complied with NC General Statute 159-34.
- **Cause:** High staff turnover and implementation of a new financial software package that resulted in significant delays in the ability to accurately close the accounting period to prepare for audit.
- **Recommendation:** Hire sufficient staff in the Finance Department as well as complete more robust implementation testing prior going live with a new software package to meet the financial reporting deadline outlines in NC G.S. 156-34.

Council Member Haire asked what are the penalties for submitting late audit. Mr. Bittner responded there is technically no penalty. If an audit has not been submitted after 9 months, Local Government Commission (LGC) will issue a letter and place businesses on a watch list.

Dr. Mfon Akpan, Vice Chair asked would being on the watch list impact credit. Mr. Bittner responded he's not aware of the credit impact. Discussion ensued.

- **Finding: 2023-002:** Significant Deficiency in Internal Control over Compliance – Timeliness Reporting – CDBG Quarterly Reports
- **Program Assistance Listing Number:** 14.218 Community Development Block Grant/Entitle Grants
- **Federal Agency:** Department of Housing and Urban Development
- **Applicable Compliance Requirement:** Reporting
- **Criteria:** The May 2023 Office of Management and Budget (OMB) Compliance Supplement requires the PR29-CDBG Cash on Hand Quarterly Report be files for all recipients of CDBG Entitlement Grants.
- **Condition and context:** The City submitted three out of four Cash on Hand reports between eight and 90 days late.
- **Effect:** Cash on Hand reports were not submitted timely.
- **Cause:** Insufficient control environment, experienced staff turnover, and changes in accounting software.
- **Recommendation:** The City of Fayetteville establish appropriate controls and hire appropriate staff to ensure timely submission of required reports.

Council Member Hondros asked does this finding affect the City receiving the Choice Grant. Ms. Kelly Olivera, Assistant City Manager responded the City has not received any indication from HUD. Discussion ensued.

A Management Letter was included in the report to City Council concerning three other items:

- CDBG Compliance – Draw down availability
- PFC Compliance – Report Submission
- HOME Compliance –Draw down availability

Discussion ensued regarding the management letters.

Performance Indicators are formula driven items that come from the data input form that is required to submit the audit.

For the year ended June 30, 2023, the City had three performance indicators, for these the City Council will be responsible for responding directly to the LGC within 60 days of the formal presentation by the auditor to the City Council.

City Manager Doug Hewett stated there is an appropriate concern regarding the lateness of the audit. Discussion ensued.

**MOTION: Council Member Thompson moved to accept the Fiscal Year Ended June 30,
2023 Annual Comprehensive Financial Report, Audit Results**

SECOND: Dr. Mfon Akpan

VOTE: UNANIMOUS (4-0)

Adjournment

Council Member Thompson moved to adjourn the meeting at 4:14 P.M.

D.J. Haire, Committee Chair

Paula Handberry, Executive Assistant to the City Council