

AUDIT COMMITTEE  
LAFAYETTE CONFERENCE ROOM, 1<sup>ST</sup> FLOOR CITY HALL  
433 HAY STREET, FAYETTEVILLE, NC  
JANUARY 26, 2017 - 3:30 PM  
QUARTERLY MEETING MINUTES

COMMITTEE

MEMBERS PRESENT: Mayor Nat Robertson, Chair (Via Telephone)  
Pamela Jackson, Vice Chair  
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  
Douglas Hewett, City Manager  
Karen McDonald, City Attorney  
Jennifer Ayre, Senior Administrative  
Assistant  
Cheryl Spivey, Chief Financial Officer  
Michelle Thompson, Cherry Bekaert LLP  
April Adams, Cherry Bekaert LLP  
Jay Reinstein, Assistant City Manager  
Michael Bailey, Interim Permitting Director  
Dwayne Campbell, Chief Information Director  
Scott Shuford, Planning and Code Enforcement  
Director (Arrived at 3:53 P.M.)  
Council Member Jim Arp (Arrived at 4:54  
P.M.)

**1.0 CALL TO ORDER**

Dr. Pamela Jackson called the meeting to order at 3: 34 P.M. and welcomed everyone in attendance.

**2.0 APPROVAL OF AGENDA**

**MOTION:** Evelyn Shaw moved to approve the agenda  
**SECOND:** Council Member Crisp  
**VOTE:** UNANIMOUS (6-0)

**3.0 APPROVAL OF AMENDED BY-LAWS**

**MOTION:** Evelyn Shaw moved to approve the amended by-laws  
**SECOND:** Council Member Hurst  
**VOTE:** UNANIMOUS (6-0)

**4.0 APPROVAL OF MEETING MINUTES  
October 20, 2016**

**MOTION:** Council Member Crisp moved to approve the October 20  
meeting minutes  
**SECOND:** Evelyn Shaw  
**VOTE:** UNANIMOUS (6-0)

**5.0 PRESENTATION OF THE AUDITED FY 2015-2016 COMPREHENSIVE ANNUAL  
FINANCIAL REPORT (Presented by Michelle Thompson, a partner  
with Cherry Bekaert LLP and Cheryl Spivey, Chief Financial  
Officer for the City of Fayetteville)**

FURTHER INFORMATION CAN BE FOUND IN POWERPOINT

Ms. Spivey welcomed Michelle Thompson of Cherry Bekaert and invited her to present the results of the financial audit.

Ms. Thompson thanked everyone at the City of allowing her to be the audit partner and their assistance in the audit. She stated the City and PWC received an Unmodified Opinion. No audit adjustments or material weaknesses were found. The audit also included looking at Federal and State awards totaling \$41.9 million.

Ms. Spivey highlighted areas in the CAFR.

- Introductory section (page A1-A15)
  - Provides a list of Finance Department staff
  - Transmittal letter
- Financial Section (page B1-G6)
  - Independent Auditor Report
  - Management Discussion and Analysis
  - Basic Financial Statements and Notes
    - Notes describe what is in the statements
  - Required Supplementary Information
    - Pension and Retiree healthcare information
- Supplementary Information (page H1-P22) Not required, but provides further information for its readers
  - Individual Fund and Financial Statements and Schedules
  - Other financial and statistical data

Two major changes from the prior year include: PWC no longer reported as City Enterprise and Internal Service Funds; discretely presented component unit. Law Enforcement Officers Special Separation Allowance reported in the General Fund.

	General Fund Available Balance			
	Original Budget	Final Budget	Final Actual	Final Budget Variance
<b>Revenues, Transfers In, Loans, Sale of Assets</b>	\$153,463,746	\$156,053,003	\$159,223,131	\$3,170,128
<b>Expenditures and Transfers Out</b>	\$(160,441,274)	\$(170,076,566)	\$(161,218,367)	\$8,858,199
<b>Appropriated Fund Balance</b>	\$ 6,977,528	\$ 14,023,563	\$ 1,995,236	\$(12,028,327)
	\$ -	\$ -	\$ -	\$ -
<b>Fund balance at the beginning of the year</b>			\$60,536,708	
<b>Actual Appropriated Fund Balance</b>			\$(1,995,236)	
<b>Prior Year Restatement - Law Enforcement Officers Special Separation Allowance</b>			\$3,326,945	
<b>Fund balance at the end of the year</b>			<u>\$61,868,417</u>	

Entity-Wide Net Position not including PWC Fiscal Year end balance is \$528.9 million

Invested 31.4 Million in Capital Assets for Fiscal Year 2016. Major capital asset investments and contributions include:

- \$7.2 million on Streets
- \$6.6 million on FAST Center
- \$5.6 million on Recreation projects
- \$5.6 million on Airport improvements
- \$2.8 million on storm water drainage
- \$2.5 million General Government Project
- \$1.1 million public safety

The Committee was understanding that some of the \$5 million from the airport would be recuperated and is asking for verification. Ms. Spivey stated she will check on Airport improvement investments to verify if any costs were recuperated yet. Ms. Somerindyke stated that the City did receive over \$4 million from the Federal Aviation Agency (FAA) for reimbursements from two grants.

Long term obligation debts have decreased.

**MOTION:** Evelyn Shaw moved to receive the report and direct staff to present it to City Council  
**SECOND:** Council Member Hurst  
**VOTE:** UNANIMOUS (6-0)

**6.0 REQUEST FOR SPECIAL MEETING ON FEBRUARY 23, 2017 FOR THE PURPOSE OF SELECTING AN INDEPENDENT AUDITOR (Requested by Cheryl Spivey, Chief Financial Officer for the City of Fayetteville)**

Ms. Spivey stated the proposal is for three years, but state statute states only allowed to award yearly.

Ms. Shaw asked if the RFQ will come to the Committee prior to soliciting as presented in the October 20, 2016 minutes on page 3. Ms. Spivey stated there was an oversight since the solicitation has already gone out. The RFQ's are due January 27, 2016. The RFQ went out region wide, via the Internet and personal telephone calls. The current plan is to review and evaluate by Finance staff then give to committee, or just provide to the committee. Ms. Spivey is requesting direction from the committee. Mr. Hewett requested providing the evaluation form before the meeting on February 23, 2017.

**MOTION:** Evelyn Shaw moved the committee meet at February 23, 2017 at 3:30 P.M. in the Lafayette Conference Room for the purpose of evaluating received proposals  
**SECOND:** Council Member Crisp  
**VOTE:** UNANIMOUS (6-0)

**7.0 INTERNAL AUDIT ACTIVITIES**

**7.1 City-wide Travel and Training Audit January 2017 (A2017-01)**

Ms. Somerindyke stated City policy is to pay reasonable expenditures incurred when traveling for official City Business. The Finance Department is responsible for management and oversight of the policy. Department heads are responsible for managing departmental expenditures to support travel activities. The objective for the audit was to ensure expenditures were in compliance from July 1, 2015 to June 30, 2016 within a 10% sample.

Departments reviewed: Police Department, Transit, City Manager's Office, Information Technology, Economic Business Development and Community Development.

Summary

**Finding #1:** Expenditures were not always in compliance. This is sometimes due to the policy being unclear as well as lack of employee education of the policy.

- Employees were sometimes paid per diem for meals that were provided.
- Pre-authorization of certain travel expenses were not provided.
- Mileage sometimes paid from home to training destination instead of from place of work, in City-owned vehicles or privately owned/personal vehicles. State guidelines state mileage can be paid from home or work, whichever is less however, City policy states only from work.
- Final expense reports were not always found, which is required within 10 days of return from travel.
- Documentation was lacking with submitted final expense report.

Actual Cost versus Per Diem: Common practice in the City is actual costs for hotel and per Diem for meals and incidentals. This requires clarification.

**Recommendation:** Update policy # 307, develop review process and ensure employees understand policy. Mr. Hewett stated the policy update has been drafted, but not fleshed out. Ms. McDonald stated that management wants to be cognizant of updating the policy weaknesses, but also to incorporate examples so that the policy is easily read.

**Finding #2:** Resources were not always used in the most cost effective manner.

- Issues with multiple employees went to same training and hotel stays varied vastly.
- The policy states tipping only in a usual and customary amount.
- Excess weight and multiple baggage fees, the policy does not give clarification or address.
- Tickets were purchased for preferred seating, policy only states business first. Travel Agent fees, excess car rentals for one conference with multiple employees and late registrations.

**Recommendation:** Clarify policy and educate employees

**Finding #3:** Sales tax was not always recorded correctly. Out of state sales tax was coded for North Carolina. The City only gets reimbursed for North Carolina not out of state.

Recommendation: Provide adequate training. Update procedures to ensure North Carolina sales tax is recorded properly. Review FY 17 sales and use tax transactions for proper coding. Ensure out of state sales tax and other ineligible amounts are not included in the North Carolina sales and use tax refund request.

Implementation dates are different for each finding.

**MOTION: Council Member Crisp moved to approve the City-wide Travel and Training Audit A2017-01**

**SECOND: Michelle Hall**

**VOTE: UNANIMOUS (6-0)**

## **7.2 Quarterly Management Implementation Status Report**

The updates are what has been provided by management on implementation. No assessment by Internal Audit to verify the implementation yet.

### Finance

All recommendations have been implemented.

### Permitting and Inspections

3: Implemented

13: Partially implemented

19: Have not been implemented

Mr. Shuford stated that progress is happening on all findings however, some require further work on programs prior to implementation. Some findings still need issues addressed with CityWorks before implementation can happen.

Mr. Hewett stated that some expenses are personnel related and have requested and are receiving reimbursement on expenses that are in policy violation and above reasonable means. Before employees are provided a procurement card, they must watch a video and take a short graded test. An option is to have one person per department as the subject matter expert for travel.

Mayor Robertson asked Mr. Hewett what the plans are for looking at the increase in travel and training costs from 2012 to 2016 and if it will be addressed in the budget. Mr. Hewett stated that it will be addressed. Possibly creating "training profiles". Council Member Crisp stated he wants City management to ensure that the increase in travel and training is justified when the citizens ask.

**8.0 ADJOURNMENT**

Next meeting is February 23, 2017 at 3:30 P.M.

There being no further business, the meeting adjourned at 5:27 P.M.

Respectfully submitted,

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JENNIFER L. AYRE  
Senior Administrative Assistant

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NAT ROBERTSON  
Mayor

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DRAFT