

**AUDIT SUBCOMMITTEE QUARTERLY MEETING MINUTES
LAFAYETTE CONFERENCE ROOM, 1st FLOOR
CITY HALL, 433 HAY STREET, FAYETTEVILLE
THURSDAY, MAY 2, 2019
3:00 P.M.**

Committee Members Present: Darsweil Rogers, PWC Chairman
Council Member Dawkins
Council Member Crisp
Council Member Larry Wright
Amy Samperton, FTCC Director of Procurement & Equipment
Dr. Pamela Jackson, FSU Provost

Committee Members Absent:

Others Present:

Staff Present:

Douglas Hewett, City Manager
Karen McDonald, City Attorney
Telly Whitfield, Assistant City Manager
Elizabeth Somerindyke, Internal Audit Director
Rose Rasmussen, Senior Internal Audit
Jay Toland, Interim Chief Financial Officer
Gerald Newton, Development Services Director
Kim Toon, Purchasing Manager
Assistant Chief Anthony Kelly
Interim Chief Mike Hill
Assistant Fire Chief Hieu Sifford
Michael Gibson, Parks, Recreation, and Maintenance Director
Metoya Scott, Senior Administrative Assistant

1.0 Call to Order

Mr. Darsweil Rogers called the meeting to order at 3:12 p.m.

2.0 Introduction of New Audit Committee Member

Mr. Darsweil Rogers lead the group through introductions.

3.0 Approval of the Agenda

MOTION: Council Member Crisp moved to approve the agenda.

SECOND: Council Member Wright

VOTE: UNANIMOUS (6-0)

**4.0 Approval of the Minutes
JANUARY 30, 2019**

MOTION: Council Member Wright moved to approve the minutes from the January 30, 2019 meeting.

SECOND: Council Member Crisp

VOTE: UNANIMOUS (6-0)

5.0 Internal Audit Activities

5.01 Police Department Confidential Funds Audit (A2019-01)

Ms. Elizabeth Somerindyke, Internal Audit Director stated the purpose of the audit was to evaluate compliance with the organization's policies and procedures; applicable laws, regulations and guidelines, and evaluate internal controls for the Police Department's confidential funds. In addition, the auditors reviewed to determine if sufficient corrective action was taken by management to address recommendations detailed in prior year audit reports. The review period was conducted from October 1, 2017 through December 31, 2018.

Based on audit work, Internal Audit determined the Police Department generally adhered to the organization's policies and procedures; applicable laws, regulations and guidelines during the period. The Police Department's VICE Investigative Division have continually reviewed and updated policies and procedures, which contributed to stronger controls and a general adherence to policies and procedures over confidential funds. However, Internal Audit noted a lack of prior written approvals as required by Operating Procedure 5.8. Internal Audit recommends management review and determine if the policy meets management's needs for prior written approvals, update the policy as deemed appropriate, and develop a process to ensure prior written approvals are obtained when required. In addition, Operating Procedures 6.2 and 5.8 should be updated to address prior year audit findings.

Council Member Crisp asked Chief Kelly if they had a projected date for the updated Operating Procedures to be complete and implement.

Chief Kelly advised the department is awaiting the approval from legal of the updates.

MOTION: Council Member Dawkins moved to accept the Police Department Confidential Funds Audit (A2019-01)

SECOND: Council Member Wright

VOTE: UNANIMOUS (6-0)

5.02 WEX Fuel Card Audit (A2019-05)

Ms. Somerindyke stated the audit was approved in the Fiscal Year 19 Audit Plan. The State of North Carolina has a convenience contract with Wright Express (WEX). Ms. Somerindyke stated in April of 2014 the City executed an agreement to use the convenient contract to purchase gas for City Police and Fire department vehicles. There were 639 WEX Fuel Cards used for a total of \$953,484.00 during the 2018 calendar year. Ms. Somerindyke stated the City has 3 total WEX accounts. 2 for the Police Department and 1 for the Fire Department. 839 employees have a pin number available to use with any fuel card in their account.

Ms. Somerindyke stated the objectives of the audit were to determine if:

- Fuel cards were sufficiently administered in accordance with established laws, regulations, guidelines, policies and procedures.
- Fuel cards issued are needed and periodically accounted for.
- Proper internal controls existed to ensure that only authorized individuals use fuel cards.
- Fuel cards are used to obtain fuel for City purposes only.

Finding 1: Federal and State fuel tax exemptions were not obtained

Ms. Somerindyke stated upon review of the WEX fuel card transaction reports there was no indication the City received eligible tax exemptions, costing the City over \$200,000.00 in fuel taxes. Mr. Jay Toland, Chief Finance Officer and Ms. Somerindyke stated the City is working on reimbursement of fuel taxes.

Discussion ensued.

Management concurred with the recommendation.

Finding 2: Fraud, waste and abuse potentially existed due to lack of internal controls

Ms. Somerindyke stated due to the poor internal controls, the high number of users and the poor oversight, there is a high probability fraud has occurred.

Discussion ensued.

Management concurred with reservation with the recommendations.

Finding 3: City-wide and/or departmental written policies and procedures governing fuel card usage and management were not documented

Ms. Somerindyke stated there were no policies or procedures in place both internally and or City-wide. Policies and procedures can be an important tools to provide accountability for new and experienced employees.

Management concurred with the recommendations.

Finding 4: Departmental management should perform an appropriate level of review

Ms. Somerindyke stated there were multiple areas where management are responsible for reviewing fuel transactions on the monthly statements for reasonableness.

Discussion ensued.

Management concurred with the recommendations

Finding 5: Wex fuel cards were not inventoried and could not be located

Ms. Somerindyke stated adequate oversight and appropriate controls are critical in safeguarding the completeness of the WEX fuel card population and inventories need to be established to address deficiencies.

Discussion ensued.

Management concurred with the recommendations.

Finding 6: Internal controls were lacking in the City's WEX fuel card online program

Ms. Somerindyke stated effective internal controls are required to periodically reconcile the authorizations and issuances.

Management concurred with the recommendation.

Finding 7: Segregation of duties over WEX fuel cards administration and system access were lacking

Ms. Somerindyke stated there needs to be proper segregation of duties and no single individual should have control over two or more phases of a transaction or operation.

Discussion ensued.

Management concurred with the recommendation.

Finding 8: Training and accountability were not required

Ms. Somerindyke stated new personnel's initial training should include information to allow for an accurate understanding of the expectations for use of the WEX fuel card.

Management concurred with the recommendation.

Finding 9: Fraudulent use of WEX fuel card occurred

The audit found fraud did occur with a personal identification number assigned to Police Department personnel totaling \$5,658.26. The Police Department did not file a report nor was an investigation conducted.

Management concurred with the recommendation.

MOTION: Council Member Crisp moved to accept the WEX Fuel Card Audit (A2019-05) with emphasis on the recommendations.

SECOND: Dr. Pamela Jackson

VOTE: UNANIMOUS (6-0)

6.0 Quarterly Management Implementation Status Report

This item was for information only and not information was presented.

Council Member Crisp asked why the partially implemented recommendations pertained to permitting and inspections have not been completely resolved. Mr. Gerald Newton Development Services Director, stated one-third of the partially implemented recommendation is not able to be fixed in house. The department has found a way to deal with the issue, and believes the recommendation can be closed since they have found a successful alternate option.

7.0 Reschedule Audit Committee Meeting July 25, 2019

Ms. Somerindyke stated the committee does not normally meet in July since it is the end of the quarter and has asked if the committee would like to reschedule for August.

The committee was in consensus to reschedule the July meeting for August 8, 2019.

8.0 Adjournment

There being no further business, the meeting adjourned at 4:26 p.m.

Respectfully submitted,

JENNIFER AYRE
Deputy Clerk
05022019

DARSWEIL ROGERS
Chairman

DRAFT