

AUDIT COMMITTEE MEETING
November 18, 2021 @ 3:00 PM
Virtual Meeting

Council Members Present: CM Johnny Dawkins, Chair
CM Yvonne Kinston

Council Member Not Present: CM Larry Wright

Staff Present: Doug Hewett, City Manager
Jay Toland, Assistant City Manager
Telly Whitfield, Assistant City Manager
Elizabeth Somerindyke, Internal Audit Director
Ms. Rose Rasmussen, Internal Audit Staff
Ms. Amanda Rich, Internal Audit Staff
Dwayne Campbell, Chief Information Officer
Willie Johnson, Assistant Chief Information Officer
Assistant Chief James Nolette, Fayetteville Police Department
Major Robert Spatorico, Fayetteville Police Department
Lachelle P, Assistant City Attorney
Jody Picarella, Accounting Manager
Kim Toon, Purchasing Manager
Brittany McLaurin, Financial Reporting Manager
Andrea Tebbe, Executive Assistant to the City Council
Elizabeth Morin, Senior Administrative Assistant

Committee Members Present: Ron O'Brien
Amy Samperton, Vice-Chair

Others Present: Robbie Bittner, PBMares
Linda Murphy, PBMares
Amelia Necco, PBMares

1. Call to Order

- CM Dawkins called meeting to order at 3:00 PM

2. Approval of Agenda

MOTION: Ms. Amy Samperton moved to approve agenda

SECOND: CM Kinston

VOTE: Unanimous (4-0)

3. Approval of Minutes

MOTION: Ms. Amy Samperton moved to approve minutes from the August 5, 2021 Meeting

SECOND: CM Kinston

VOTE: UNANIMOUS (4-0)

4. Fiscal Year Ended June 30, 2021 Comprehensive Annual Report and Audit Results

– Presented by Mr. Robbie Bittner III, CPA, MBA, PBMares

Please see copy of attached print out of PowerPoint

Thank you on behalf of PBMares.

Components of the Annual Comprehensive Financial Report (ACFR) include:

- Management Discussion and Analysis- breakdown year to year comparisons of very high level
- Government-wide f/s- high level, all governmental activities
- Fund F/S-funds statements-, all business actives, major fund statements, general fund statements, grants funds statements, major enterprise funds statements
- Notes to the F/S- details of financial statements
- Required supplemental financial data required items that must be presented
- Oher supplemental data
- Statistical data
- Compliance

This is a draft, due to a glitch the report has not been finalized but PBMares anticipated final report November 19, 2021

There are 4 types of opinions

Adverse- financial statements not fairly presented

Disclaim- not enough information provided

Qualified- only 1 part not qualified

Unmodified- Clean report

General fund revenues report breaks down the City revenues by property tax and sales tax revenue. The trend is following the same as the past several years with an increase in grants due to COVID.

The tax rate for the year ended in June 30, 2021 is comparative to cities of similar size

Tax rate did not change this year and COF is in line with similar size cities.

Property tax collected dipped .3% on 2020 but rebounded back in 2021. Difference are related to OCVID Pandemic

Collections for COF are better than similar size cities

Expenditures- COF expenditures are Public Safety dominant (55%). This is consistent with the past 5 years

Fund Balance- there has been a consistent uptick in the amount.

Fund Balance- PBMares provided a breakdown of fund balance

For inventories	87,105
For prepaids	1,960,985
Restricted	
Stabilization by State Statute	25,411,219
For Central Business Tax District	113,843
For Cumberland County Recreation District	2,936,978
For Economic and Community Development	9,572
For donations	15,319
For Lake Valley Drive MSD	913
Committed	
Law Enforcement Officers' Special Separation Allowance	7,250,083
Assigned	
For subsequent year's expenditure	12,687,857
For special purpose assignments	8,898,451
For capital funding plan	10,142,762
Unassigned	23,573,783
Total fund balance	<u>\$ 93,088,870</u>

Discussion ensued

Legal Debt Margin- this is State's limit of allowed debt. COF is under the allowed limit.

Assessed Value	\$ 14,372,645,913
Debt Limit (8% of total assessed value)	1,149,811,673
Debt applicable to limit:	
Bonded debt	15,905,000
Limited obligation bonds	47,740,000
Capitalized Leases	26,739,954
Unamortized Premium	<u>2,175,832</u>
Subtotal	92,560,786
Authorized unissued debt	19,000,000
Total gross debt	111,560,786
Less: Statutory deductions	
Bonds authorized but unissued - Parks and Recreation Bonds	(19,000,000)
Total debt applicable to limit	92,560,786
Legal debt margin	\$ 1,057,250,887
Population	208,501
Legal debt margin - per capita	5,058

A breakdown of peer cities and COF was provided.

Municipalities (Population 100,000 and Over)	Legal Debt Limit (8% of Assessed Value)	Total Outstanding G.O.B and I.P Debt (Excluding Enterprise)	Outstanding Debt as a % of Legal Debt Limit
Cary	\$ 2,227,066	\$ 128,024	5.75%
Durham	2,889,138	216,431	7.49%
Fayetteville	1,128,997	29,179	2.58%
Greensboro	2,261,785	322,845	14.27%
High Point	787,864	72,891	9.25%
Wilmington	1,248,276	136,522	10.94%
Winston-Salem	1,836,499	235,657	12.83%

Compliance Results for the Year ended June 30, 2021

Other reports are issued along with the financial statements

Yellow Book report- Government Auditing Standards- report any non-compliance or fraud waste or abuse, inconsistencies or weaknesses

Opinion on COF Compliance Federal Single Audit Act

Opinion on State Single Audit Implementation Act and

Passenger Facilities Charges- fairness on charges from Airport revenues

Major Programs Tested

- Major Federal Programs tested:
 - Drinking Water State Revolving Fund– Federal Assistance Listing #66.458
 - Coronavirus Aid, Relief, and Economic Security Act – Federal Assistance Listing #21.019
 - Federal Transit Grant– Federal Assistance Listing #20.500/20.507
 - Highway Planning and Construction- Federal Assistance Listing #20.205
 - Airport Improvement Program- Federal Assistance Listing #20.106
- Major State Programs tested:
 - Nonstate System Street Aid Allocation (Powell Bill)

There are different levels of defiance

- Control Deficiency- 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.
- Significant Control Deficiency- 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

- Material Weakness- a significant deficiency, or combination of significant 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

In 2021; City of Fayetteville- No material weaknesses or significant deficiencies found. A letter will be issued per required communication standards. Letter will detail procedures and findings of PBMares.

MOTION: Mr. Ron O'Brien moved that Audit Committee accept the Audit Report from PBMares

SECOND: Ms. Amy Samperton

VOTE: UNANIMOUS (4-0)

Mr. Toland stated the next steps is for this report to go before Council now report has been finalized. Thank you to Mr. Hewett, Jodi Picarella, Brittany McLaurin, Kim Toon and SLT. The report is almost perfect and wanted to acknowledge the findings and staff support.

CM Dawkins requested this report be sent to all Audit Committee and City Council

5. Internal Audit Activities- Presented by Internal Audit Staff

- a. Police Department Confidential Funds (A2021-01)
- b. Vector- Fleet Contract (2020-04)
- c. Annual Audit Plan FY22

Police Department Confidential Funds

Background

- The Police Department's Vice Investigative Division administered & controlled an informant and expenditure cash fund used in covert operations.
- Budget was \$100,000 per fiscal year.

Scope

- Covered the period of December 1, 2019 through June 30, 2021;
- Sampled 7 (26%) of 27 personnel the utilized and maintained confidential funds; and Reviewed 201 expenditures totaling \$106,398

Internal Audit determined- Confidential Funds were administered in accordance with established procedures, Internal controls were satisfactory and no significant expectations noted.

Outstanding Audit Recommendations- from prior year Audits

- FY 2016 Recommendations
 - RMS disposal records did not provide adequate documentation
 - Management response was to update Operation Procedure
 - Not Implemented
- FY 2018 Recommendation
 - Documentation of review and timely reporting were lacking
 - Management response was to update Operation Procedure 5.8
 - Not implemented
- **PD has reported they have updated Operation Procedure and are reporting these as implemented.**

Questions

Why the dates on the Audit Report? Due to COVID Audit Department started at a later date and encompassed larger time period.

Are additional funds needed? Yes, typically department tried to budget but it can and has conflicted with Operational ability due to funds.

CM Dawkins will speak with CFO and City Manager to discuss more funds.

Is there a way to have a contingency funds available to have funds available? Needs more information- amount and timeframe. Will look to PD for advisement and information.

MOTION: Mr. Ron O'Brien moved to accept the Confidential Funds Audit

SECOND: Ms. Amy Samperton

VOTE: UNANIMOUS (4-0)

Vector Fleet Contract Audit

Background

- Contracted with Vector Fleet Mgt for 10 years, effective July 1, 2019;
- Goal to reduce overall fleet costs, improve availability, increase efficiency and reduce capital costs;
- Provide fleet mgt and maintenance to over 1,300 vehicles and equipment;
- Repairs could be subcontracted when cost savings or time constraints existed;
- Contract established a target and non-target cost model; and
- Target/non-target status established through life cycle guidelines with annual contract revisions.
- First three years' target cost commitment was \$7.3M for target units with shared savings;
- Annual adjustment for year four and subsequent for target cost commitment;
- Non-target cost consisted of hourly rate and markup costs for parts and subcontract for non-target units;
- Labor costs during daytime operational hours **not charged** as non-target costs for non-target units;
- Target units could be charged non-target costs due to deliberate actions or omissions;
- Services considered non-target costs for all City fleet (ex: welding, modifications)
- City fleet manager hired July 2019 to administer contract; and
- Net fleet costs for fiscal year 2020 were \$6.8 million, 11% increase from fiscal year 2019.

Objective

Assess whether the system of internal controls was adequate and appropriate for effective contract compliance with selected provisions of the executed contract as it relates to payments.

Scope

- Reviewed repair orders included in expenditures from July 1, 2019 through February 29, 2020;
- Covered \$3.2 million in fleet maintenance costs; and
- A total of 6,889 repair orders consisted of target, non-target and subcontracted fleet services provided to 1,150 City units
- **Internal Audit Concludes:**
 - Vague contract terms made it difficult to understand contract requirements, ultimately impacting the success of the fleet function; and
 - Lack of effective contract monitoring and oversight of the fleet contract created an environment that would be hard to detect fraud, waste and abuse.
- **Management Action Plan:**
 - Contract with the on-site Contractor was mutually dissolved on June 30, 2021;
 - Transitioned to a City operated fleet maintenance operation; and
 - Establish Fleet Committee, create and/or update current policies and procedures and schedule appropriate training.

Discussion ensued

Questions

What is happening concerning training? Consultant hired as Interim Fleet Manager. Offered all Vector employees position with COF. Training staff from Profit to municipality operations. Mechanics training on vehicles.

Vector Employees were offered positions with COF. Started July 2021

Will this be presented to City Council? Happy to update Council on performance of Fleet now that were “in house”.

There are 3 separate areas, Fire, Garbage and small vehicles, are some vehicles contracted out? COF is contracting as needed., we can work on all vehicles in house. Looking to grow staff. Thank you to City Management staff and Internal Audit Department.

MOTION: Ms. Amy Samperton moved to accept Vector Fleet Audit Report

SECOND: CM Kinston

VOTE: UNANIMOUS (4-0)

Office of Internal Audit Annual Audit Plan Proposed Engagements FY2022:

Impacts on FY2022 Plan:

- Covid-19 Pandemic
- Implementation & involvement in City’s HUB ERP project

Summary of FY22 Audit Plan:

- 5 Performance Audits
- 1 Follow-Up Audit
- 1 Attestation Project

Audit Projects Carried forward from 2020 or 2021 Work Plan

A.1 In Progress or Completed FY 2022-

Vector Fleet Contract- Asses adequacy and effectiveness of internal controls for contract compliance

Police Department Confidential Funds- Annual audit in accordance with police department policy due to accreditation

WEX Gas Cards follow up- Determine that previous recommendations have been implemented

Wireless Communication Usage(Cell Phones)- Asses the City’s wireless communication usage for potential cost savings

Changes to Employee Pay- Determine if adjustments to employee pay were approved, accurate, timely and supported

A.2 For Completion

Community Development Housing Rehabilitation Program- Asses housing loans to ensure compliance with the contract with AmeriNational

These 6 audits were on previous audit plans. The first 5 were either in progress, or completed and were waiting to be presented to the audit committee as of June 30, 2021. All of these have been presented to the audit committee except the Changes to Employee Pay which is currently being conducted.

The last audit for the Community Development Housing Rehabilitation Program has not been started.

B.1 Internal Audit Projects

Kronos Implementation (Fire and Police)- Determine adequacy of payroll processes and internal controls related to Kronos implementation

Procurement Card Program- Determine if the procurement card program is managed in compliance with policies and procedures

Sub recipient Grant Monitoring- Determine if the City is monitoring sub recipient activities to provide reasonable assurance that sub recipients are in compliance with grantor requirements.

Police Department Confidential Funds- Annual audit in accordance with police department policy due to accreditation

- Project will be started but not completed during the fiscal year.

C.1 Initial follow Up Audit Projects

Accounts Payable Timeliness- Determine if recommendations in the Accounts Payable Timeliness audit have been effectively implemented.

The new audit projects include:

- The Kronos Implementation for the Fire and Police Departments to determine if the implementation provided for the employees to be paid correctly with limited manual processes necessary.
- The City's Procurement Card Program to determine if there was sufficient oversight during the COVID-19 Pandemic due to some personnel working from home.

D. Attestation and Required Projects for 2021-2022

D.1 Initial Attestation projects

HUB ERP Oracle Access Controls Review- The review will analyze user access and test for consistency with personnel responsibilities.

D.2 Required Annual Review Projects

Proxy Card- City Policy #607 Proximity Card Access requires annual review of the proximity card systems to ensure proper controls were followed for activation and deactivation.

Conflict of Interest- City of Fayetteville's Code of Ethics. Section 2-95(j) requires annual conflict of interest process to be conducted by Internal Audit.

E. Internal Audit Management and Administration

HUB ERP Support- Allocated 200 hours for requested support of the ERP Implementation.

We have included a review of the user security for the new HUB ERP system to determine if users only have the access necessary do their jobs.

Our required annual reviews include proxy card access and conflict of interest.

Questions-

What is name of HUB ERP System? Oracle

What is cost? Mr. Toland will verify price and share with committee

In light of recent issues with Council, should more hours be considered for Conflict of Interest? Defer to City Manager, this item is out of Internal Audit Department realm.

Does COF need an outside Auditor to come and look into allegations? Mr. Hewett shared the Charter of the Audit Committee.

Discussion ensued

CM Kinston- Take this item to Council and let Council decide if they wish to hold and independent audit

A. Samperton would like to know City Manager and City Attorney preference? Mr. Hewett recommends allowing Council to decide.

CM Dawkins agrees with CM Kinston that this should be decided by City Council.

CM Kinston would like the other Audit Committee members' statements/opinions be expressed or shared with Council

MOTION: Mr. Ron O'Brien moved this item, the allegations of former CM Waddell, be discussed by Council at the December Work Session.

SECOND: Ms. Amy Samperton

VOTE: UNANIMOUS (4-0)

MOTION: Mr. Ron O'Brien moved to accept the Annual Audit Plan for FY 22

SECOND: CM Kinston

VOTE: UNANIMOUS (4-0)

6. Management report presented- Informational Purposes only

i. No action required

ii. Annual report to Council

7.Adjournment

Mr. Ron O'Brien moved to adjourn meeting at 4:22 PM

Council Member Johnny Dawkins, Chair

ATTEST:

Andrea Tebbe, Executive Assistant to the City Council