



**City of Fayetteville, NC
Audit Committee Meeting**

August 31, 2023 @3:00 pm

1st Floor – Lafayette Room

433 Hay Street, Fayetteville, NC 28301



Audit Committee Meeting
August 31, 2023 @ 3:00 pm

AGENDA

1. Call to Order
2. Approval of Agenda
3. Approval of Meeting Minutes
4. Management Reports (*Summary presented by Internal Audit staff*)
 - a. Quarterly Management Implementation Status Report
5. Internal Audit Activities (*Presented by Internal Audit staff*):
 - a. PRM Nonresident Fees Implementation Follow-up Audit
 - b. Police Confidential Funds Audit
 - c. FY2024 Audit Plan
6. Adjournment

Attachments:

- a) Draft Meeting Minutes – August 7, 2023
- b) Quarterly Management Implementation Status Report 4th Quarter FYE23
- c) PRM Nonresident Fees Implementation Follow-up Audit Report (A2016-05F)
- d) Police Department Confidential Funds Audit Report (2023-01)
- e) FY2024 Audit Plan
- f) Internal Audit Annual Report FY23 (Informational Purposes Only)

**SPECIAL AUDIT COMMITTEE MEETING MINUTES
WINSLOW CONFERENCE ROOM, 3rd FLOOR
CITY HALL, 433 HAY STREET, FAYETTEVILLE
MONDAY, AUGUST 7, 2023
3:00 P.M.**

Committee Members Present: D.J. Haire, Council Member (joined via Zoom)
Derrick Thompson, Council Member
Johnny Dawkins, Mayor Pro Tem (left at 3:36 P.M.)
Dr. Mfon Akpan, Vice Chair (joined via Zoom)

Committee Members Absent: Ron O'Brien, Chair

Staff Present: Kelly Olivera, Assistant City Manager
Rose Rasmussen, Internal Audit Director
Christina Zimmerman, Sr. Internal Auditor
Amanda Mott, Accounting Manager
Jody Picarella, Chief Financial Officer
Brittany McLaurin, Assistant Chief Financial Officer
Lachelle Pulliam, Assistant City Attorney
Paula Handberry, Executive Assistant to the City Council

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

1. Call to Order

Dr. Mfon Akpan called the meeting to order at 3:00 PM

2. Approval of Agenda

MOTION: Mayor Pro Tem Dawkins moved to approve the agenda
SECOND: Council Member Thompson
VOTE: UNANIMOUS (4-0)

3. Approval of Minutes

MOTION: Council Member Thompson moved to approve the April 27, 2023 minutes.
SECOND: Mayor Pro Tem Dawkins
VOTE: UNANIMOUS (4-0)

4. Fiscal Year Ended June 30, 2022 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 taking the time and working to complete this task.

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

Council Member Thompson asked does the City have a risk fund. Ms. Jody Picarella, Chief Financial Officer responded Internal Service Funds.

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, 2022 were:

- Unrestricted Intergovernmental 46%
- Ad valorem taxes 40%
- Restricted Intergovernmental 6%
- Sales and Services 3%
- Permits and fees 2%
- Miscellaneous 2%
- Other Taxes 1%
- Interest income 0%

In the past six years the ad valorem taxes have stayed fairly the same. There was a jump in Unrestricted Intergovernmental taxes in 2021 and 2022 due to COVID-19 relief funding.

Previously, the tax rate was based on population of 100,000. It’s now based on expenditures.

The property tax levy collection for all taxes declined during 2020 to 2021 due to the pandemic. The collection is now back to normal.

The breakdown for the General Fund Expenditures for the Year Ended June 30, 2022 were:

- Public Safety 54.2%
- Administration 20.2%
- Recreation 8.6%
- Debt Service 8.3%
- Transportation 7.0%
- Environmental 3%

Council Member Haire asked why was the Airport not included in this breakdown, Mr. Bittner responded the Airport is its own Enterprise Fund. This information begins on page E-6 through E-8 and L-6 in the Annual Comprehensive Financial Report.

The General Fund Balance has shown significant growth over the past six years. The breakdown of this fund can be found on page F-65.

The Fund Balance available as a percentage of General Fund Net Expenditures for the Year Ended June 30, 2022 shows similarity year after year.

The outstanding debt as a percent of legal debt limit for Fayetteville is less than 5%. Council Member Thompson asked what does legal debt limit 8% of assessed value mean. Mr. Bittner responded the state will not allow more debt to be issued than 8 % of their assessment.

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 Material Weakness:

- **Finding: 2022-001:** Material Compliance Violation and Material Weakness in Internal Control over Compliance – Timeliness of Audited Financial Statements Submission

- **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.
- **Finding: 2022-002:** Material Weakness in Internal Control – FEMA Revenue and Receivable
- **Cause:** High staff turnover and a misunderstanding in the application of GASB GAAP as it relates to revenue recognition in non-exchange transactions.
- **Recommendation:** Hire sufficient staff in the Finance Department as well as adhere to GASB revenue recognition criteria when recording non-exchange grant revenue transactions.

Discussion ensued.

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

- LGERS Pension Allocation
- Accounts Receivable Reconciliation
- Accounts Payable Cutoff
- SMAP Compliance – Report Submission

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

Council Member Haire asked about the hiring issues mentioned at the last Audit Committee Meeting. Ms. Rose Rasmussen responded Ms. Christina Zimmerman was promoted to Senior Internal Auditor. The Internal Auditor vacancy has been posted.

Mrs. Lachelle Pulliam, Assistant City Attorney asked should the City use the rule for calculating leases. Mr. Bittner responded the calculations are based on the incremental borrowing rate.

MOTION: Council Member Thompson moved to accept the Fiscal Year Ended June 30, 2022 Annual Comprehensive Financial Report, Audit Results and LGERS Results

SECOND: Council Member Haire

VOTE: UNANIMOUS (3-0)

5. Adjournment

Dr. Mfon Akpan moved to adjourn meeting at 3:43 P.M.

Mr. Ron O'Brien, Chair

Paula Handberry, Executive Assistant to the City Council

DRAFT



August 31, 2023

Members of the Audit Committee,

Enclosed is the updated Quarterly Management Implementation Status Report.

The attached report provides members of the Audit Committee with an update on the progress of management's implementation of recommendations made by the Office of Internal Audit. Departmental management updates will be provided quarterly at each regularly scheduled Audit Committee Meeting.

A short summary of the progress updates are provided to allow a quick assessment of the audit report recommendations NOT fully implemented. The attached report represents updates given by management on the progress made to implement Internal Audit's recommendations. Except as otherwise noted, no assessment on the progress of the recommendations has been performed by the Office of Internal Audit.

Please provide us with any questions or ideas for improving this report to enhance your ability to monitor the effective implementation of recommendations.

A summary of the report will be presented. We welcome discussion on the management updates.

Respectfully,
Rose Rasmussen
Internal Audit Director

Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)

	<u>Date Released</u>	Issued	Accepted	Implemented	<u>Recommendations</u>	
					Partially Implemented	Not Implemented
Contract Practices and Procedures A2016-06	October 2017	3	3	3	0	0
Performances Measures A2018-04	January 2019	4	4	4	0	0
PRM Nonresident Fees A2016-05	January 2019	7	7	7	0	0
Code Violation Enforcement and Collections A2019-06	August 2019	7	7	7	0	0
Residential Solid Waste Fees A2019-04	October 2019	5	5	3	1	1
Police Payroll A2020-01	August 2020					
Police Department		14	14	14	0	0
Finance Department		4	4	4	0	0
Accounts Payable Timeliness A2020-02	January 2021	5	5	5	0	0
Wireless Communication Usage A2021-02	August 2021	7	6	6	0	0
Vector Fleet Contract A2020-04	November 2021	3	3	2	0	1
Fire Kronos Implementation A2022-01	January 2022	4	4	2	2	0
Subrecipient Grant Monitoring A2022-04	August 2022	8	8	8	0	0
Procurement Card A2022-03	January 2023	1	1	1	0	0

*This Report does not include the Permitting and Inspections Follow-up Audit.

**Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)**

KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
	Recommendation	Management Response	Management Follow-up Response – August 31, 2023	Management Follow-up Response – April 27, 2023
A2019-04 Residential Solid Waste Fees				

Status of Recommendations on April 27, 2023:				
Implemented	Partially Implemented	Not Implemented	Total	
1	3	1	5	
*This report reflects responses for the 4 outstanding recommendations.				
1.1	<p>Solicit City Council’s support on updates necessary to the City Code of Ordinances Chapter 22, Solid Waste as it will be essential to ensure adherence to the City Code of Ordinances;</p>	<p>Management will seek council direction regarding level/scope of solid waste services. Full implementation of ‘Recommendation #1’ is contingent upon continuation of the ‘existing’ level/scope of services within solid waste division with no significant additions such as service to multi-family units or commercial facilities.</p> <p>Responsible Party: Public Services Director</p> <p>Implementation Date: Management will seek Council support in the format of a preliminary work session presentation by April 30, 2020 and follow up ordinance updates by September 30, 2020 contingent upon continuation of the ‘existing’ level/scope of services within the solid waste division.</p>	<p style="text-align: center;">Implemented</p> <p>On January 27, 2023, the Council passed the Solid Waste Ordinance.</p> <ul style="list-style-type: none"> • In preparation for this new ordinance taking effect on July 1, 2023, the Solid Waste Division educated residents by tagging non-compliant issues throughout June 2023. • At the same time, MarComm launched the "Know What Right Looks Like" campaign to inform residents. • Currently, the Solid Waste Division uses the tagging system and RAPID to correct non-compliant setouts under the new Solid Waste Ordinance. • The SW PIS further educates residents by 	<p style="text-align: center;">Partially Implemented</p> <p>Council Adopted the Solid Waste Ordinance on January 27, 2023.</p> <p>Additional Next Steps:</p> <ul style="list-style-type: none"> • Adjusted timeline to fit the goal of <u>implementing the new ordinance for July 1, 2023</u>, to include education. (Education will extend beyond July 1, 2023). • Working with MarComm to create a plan for educating residents. <p>For example:</p> <ul style="list-style-type: none"> • Meet with all the neighborhood watch groups • Reach out to churches and assemblies • Use SW PIS and Corporate Communications for • Social media,

Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)

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A2019-04 Residential Solid Waste Fees

			<p>updating the SW website, FAQ and creating educational videos.</p>	<ul style="list-style-type: none"> Flyers/Mailers, and other forms of education, etc. Create processes/tools for RAPID SWCE to educate and enforce the new limits in the ordinance. <p>The "Know what right looks like" messaging efforts will.</p> <ol style="list-style-type: none"> 1. Create awareness through education on the exceptional services provided by the City of Fayetteville Solid Waste. <p>Create a call to action of compliance with the updated Solid Waste ordinance.</p>
1.2	<p>Coordinate with the City Attorney’s office to update the City Code of Ordinances to allow solid waste services to be provided consistently and ensure the residential solid waste fees are being assessed appropriately. Any updates to the City Code of Ordinances should ensure compliance with North Carolina General Statutes.</p>	<p>Management will seek council direction regarding level/scope of solid waste services. Full implementation of ‘Recommendation #1’ is contingent upon continuation of the ‘existing’ level/scope of services within solid waste division with no significant additions such as service to multi-family units or commercial facilities.</p>	<p>Implemented</p> <p>See response for 1.1</p>	<p>Partially Implemented</p> <p>See response for 1.1</p>

Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)

KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
	Recommendation	Management Response	Management Follow-up Response – August 31, 2023	Management Follow-up Response – April 27, 2023

A2019-04 Residential Solid Waste Fees

		<p>Responsible Party: Public Services Director</p> <p>Implementation Date: Management will seek Council support in the format of a preliminary work session presentation by April 30, 2020 and follow up ordinance updates by September 30, 2020 contingent upon continuation of the ‘existing’ level/scope of services within the solid waste division.</p>		
2.2	Develop a process to add, activate and inactivate addresses in Fleetmind as needed to maintain current, accurate, valid data.	Management concurs with the need to develop a process to add, activate and inactivate addresses in Fleetmind to maintain a current, accurate, and valid data base. However, this process is contingent upon the outcomes of ‘Recommendation #1’. Further, full implementation of these processes involves compliance and cooperation from entities outside the direct control and influence of the Solid Waste Division such as CoF’s Planning Division, Cumberland County and FleetMind Vendor.	<p>Partially Implemented</p> <p>Although some Fleetmind upgrades are complete, the Fleetmind system is not consistent. SW will complete an RFP for the Fleet-onboarding system before the end of FY24.</p> <p>Routesmart street data is outdated and will be updated in FY24.</p> <p>Upon completing "Recommendation 1" and</p>	<p>Partially Implemented</p> <p>Although some Fleetmind upgrades are complete, the Fleetmind system is not consistent. SW will complete an RFP for the Fleet-onboarding system before the end of FY23.</p> <p>Routesmart street data is outdated and will be updated in FY24.</p> <p>Upon completing "Recommendation 1" and</p>

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Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)

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A2019-04 Residential Solid Waste Fees

		<p>Implementation dates provided below are for those activities that are within the direct control and influence of the Solid Waste Division as well as what can be accomplished within Council appropriated budgetary limits.</p> <p>Responsible Party: Public Services Director</p> <p>Implementation Date: Public Services Solid Waste Division will develop a process to add, activate and inactivate addresses in Fleetmind to maintain a current, accurate, and valid data base by June 30, 2022 contingent upon management responses.</p>	<p>updating Routesmart and Fleetmind, SW will vet the onboarding data to align with any necessary ordinance revisions.</p>	<p>updating Routesmart, SW will vet the onboarding data to align with any necessary ordinance revisions.</p>
2.3	Develop comprehensive written policies and procedures to maintain Fleetmind data integrity, once the processes are established.	Management concurs with the need to develop comprehensive written policies and procedures to maintain Fleetmind data integrity. However, this process is contingent upon the outcomes of ‘Recommendation #1’. Further, full implementation of these processes involves compliance and cooperation from entities outside the	<p>Not Implemented</p> <p>The SW team will commence writing policies and procedures to uphold data integrity (the overall accuracy, completeness, and consistency of data) for Fleetmind and Routesmart following the Council's</p>	<p>Not Implemented</p> <p>Solid Waste Management will begin writing policies and procedures to maintain data integrity for Fleetmind and Routesmart once the Solid Waste Ordinance is updated.</p>

Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)

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	Recommendation	Management Response	Management Follow-up Response – August 31, 2023	Management Follow-up Response – April 27, 2023

A2019-04 Residential Solid Waste Fees

		<p>direct control and influence of the Solid Waste Division such as CoF’s Planning Division, Cumberland County and FleetMind Vendor. Implementation dates provided below are for those activities that are within the direct control and influence of the Solid Waste Division as well as what can be accomplished within Council appropriated budgetary limits.</p> <p>Responsible Party: Public Services Director</p> <p>Implementation Date: Public Services Solid Waste Division will develop comprehensive written policies and procedures to maintain Fleetmind data integrity by June 30, 2022 contingent upon management responses.</p>	<p>approval of the SW Ordinance and updating Routesmart street data. In FY24, the staff will also upgrade the onboarding system to replace Fleetmind. The new ordinance took effect on July 1, 2023.</p>	
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**Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)**

KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
	Recommendation	Management Response	Management Follow-up Response – August 31, 2023	Management Follow-up Response – April 27, 2023

A2020-04 Vector Fleet Contract Audit

Status of Recommendations on April 27, 2023:			
Implemented	Partially Implemented	Not Implemented	Total
2	0	1	3

*This report reflects responses for the 1 outstanding recommendation.

1.3	<p>Establish a Fleet Maintenance Committee comprised of representatives from various City departments that utilize fleet services. A Committee chair, preferably a manager from the City Manager’s Office, should lead the group. The Committee’s purpose should be to address fleet-related issues, such as developing fleet policies and procedures, and resolving fleet service-related issues. The Fleet Manager’s role should be to staff the Committee and bring topics and analysis to the Committee for discussion.</p>	<p>a. Management believes establishing a “Fleet Committee” could be valuable and provide some desired clarity in accountability, areas of responsibility, establishment of agreed Standard Operating Procedures (SOP’s) and process improvements. The resulting recommendations will be either implemented or submitted to the City Manager’s Office for consideration(s).</p> <p>b. Management will establish a weekly scheduled meeting with the Fleet Management and Maintenance Staff: Fleet Manager will facilitate this meeting. In addition management will schedule a monthly meeting with the full Fleet Committee, facilitated by a Staff member from the City Manager’s Office.</p>	<p>Not Implemented</p> <p>Fleet has established weekly meeting times with departments to discuss maintenance concerns, status, new equipment and other issues or concerns that arise.</p> <p>Fleet has a centralized policy but needs to continue to update with changes.</p> <p>A Fleet Maintenance Committee still needs to be identified and have regular meetings.</p>	<p>Not Implemented</p> <p>Currently there are meetings with Fleet and the individual departments on a bi-weekly basis. The City hired a permanent Fleet Manager 7/25/2022.</p> <p>Fleet has established a Centralized Fleet Maintenance Policy as a baseline for moving forward.</p> <p>Work on establishing the Fleet Maintenance Committee will begin after baseline data analysis sets are identified.</p>
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**Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)**

KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
	Recommendation	Management Response	Management Follow-up Response – August 31, 2023	Management Follow-up Response – April 27, 2023

A2020-04 Vector Fleet Contract Audit

		<p>Responsible Party: Chief Financial Officer or his/her Designee</p> <p>Implementation Date: a. January 31, 2022 – Seek City Manager’s Office approval to establish committee and select facilitator and members. b. February 28, 2022 – Conduct kick-off meeting</p>		
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**Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)**

KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
	Recommendation	Management Response	Management Follow-up Response – August 31, 2023	Management Follow-up Response – April 27, 2023
A2022-01 Fire Kronos Implementation Audit				

Status of Recommendations on April 27, 2023:				
Implemented	Partially Implemented	Not Implemented	Total	
2	2	0	4	
*This report reflects responses for the 2 outstanding recommendations.				
1.1	Work with the Human Resource Development Department and the City Attorney’s Office and establish written payroll policies.	<p>Now that the transition is nearly complete, the department can codify its practices, aligned with the functionality of the new systems. The department has been made aware of a pending upgrade to the Kronos and Telestaff software platforms that necessitates delay of implementing any new policies until system changes are known. In the interim, the department has requested review of its payroll practices by a third party consultant. The department plans to have its new processes defined by policy no later than June 30, 2022.</p> <p>Responsible Party: Deputy Chief of Human Resources</p> <p>Implementation Date: June 30, 2022</p>	<p>Partially Implemented</p> <p>A written draft of the process under the current system has been completed. The department is still relegated to waiting upon the system upgrades to be completed before codifying into policy. The department has not received any feedback from the third party consultant at the time of this report.</p> <p>No payroll related issues were noted during the third party review.</p> <p>Latest update indicates Kronos upgrade tentatively planned for November 2022.</p> <p>Integration of department’s staffing program, time keeping program and payroll system was</p>	<p>Partially Implemented</p> <p>A written draft of the process under the current system has been completed. The department is still relegated to waiting upon the system upgrades to be completed before codifying into policy. The department has not received any feedback from the third party consultant at the time of this report.</p> <p>No payroll related issues were noted during the third party review.</p> <p>Latest update indicates Kronos upgrade tentatively planned for November 2022.</p> <p>Integration of department’s staffing program, time keeping program and payroll system was</p>

Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)

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	Recommendation	Management Response	Management Follow-up Response – August 31, 2023	Management Follow-up Response – April 27, 2023

A2022-01 Fire Kronos Implementation Audit

			initiated in March 2023 but many errors have been presented without an identified resolution. These issues have to be resolved before written guidance can be finalized and codified. It is still a work in progress.	initiated in March 2023 but many errors have been presented without an identified resolution. These issues have to be resolved before written guidance can be finalized and codified. It is still a work in progress.
1.2	Update and maintain documented payroll procedures to align with current payroll processes. The procedures should be sufficient for alternate employees to process departmental payroll.	Now that the transition is nearly complete, the department can codify its practices, aligned with the functionality of the new systems. The department has been made aware of a pending upgrade to the Kronos and Telestaff software platforms that necessitates delay of implementing any new policies until system changes are known. In the interim, the department has requested review of its payroll practices by a third party consultant. The department plans to have its new processes defined by policy no later than June 30, 2022. Responsible Party: Deputy Chief of Human Resources	Partially Implemented A written draft of the process under the current system has been completed. The department is still relegated to waiting upon the system upgrades to be completed before codifying into policy. The department has not received any feedback from the third party consultant at the time of this report. Adequate guidance is included in the draft document to effectuate bi-weekly payroll. Latest update indicates Kronos upgrade tentatively planned for November 2022.	Partially Implemented A written draft of the process under the current system has been completed. The department is still relegated to waiting upon the system upgrades to be completed before codifying into policy. The department has not received any feedback from the third party consultant at the time of this report. Adequate guidance is included in the draft document to effectuate bi-weekly payroll. Latest update indicates Kronos upgrade tentatively planned for November 2022.

Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)

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A2022-01 Fire Kronos Implementation Audit				
		Implementation Date: June 30, 2022	Integration of department's staffing program, time keeping program and payroll system was initiated in March 2023 but many errors have been presented without an identified resolution. These issues have to be resolved before written guidance can be finalized and codified. It is still a work in progress.	Integration of department's staffing program, time keeping program and payroll system was initiated in March 2023 but many errors have been presented without an identified resolution. These issues have to be resolved before written guidance can be finalized and codified. It is still a work in progress.

Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)

KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
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A2022-04 Subrecipient Grant Monitoring Audit

Status of Recommendations on April 27, 2023:			
Implemented	Partially Implemented	Not Implemented	Total
4	4	0	8
*This report reflects responses for the 4 outstanding recommendations.			
1.1	With guidance from the City Attorney’s Office, update the agreement templates with the required provisions and identifying subaward information to comply with all federal, state, and City requirements.	On July 14, 2021 the Department contracted with Civitas, LLC for on call technical assistance to ensure compliance with the Code of Federal Regulations (CFR) that pertains to all Housing and Urban Development (HUD) grant entitlements under the purview of the Economic and Community Development Department (ECD). Responsible Party: Director of Economic and Community Development, Economic and Community Development Assistant Director, and Business Manager Implementation Date: 07/01/2022	<p style="text-align: center;">Implemented</p>
			<p style="text-align: center;">Partially Implemented:</p> <p>Subrecipient agreement template has been updated using the suggested template from HUD including required provisions and identifying subaward information to comply with all federal, state, and City requirements.</p> <p>Updated agreement will be implemented July 1, 2023.</p>
2.1	Use the risk assessment to create a risk based monitoring schedule for each program year. For each subrecipient, the schedule should include, but not be limited to:	The ECD uses a risk assessment annually as part of its application process for subrecipients. However, the risk assessment does not impact the frequency and depth of our annual monitoring of subrecipients.	<p style="text-align: center;">Implemented</p>
			<p style="text-align: center;">Partially Implemented:</p> <p>ECD will continue to use a risk assessment annually to determine which subrecipients will receive funding. In</p>

Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)

KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
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A2022-04 Subrecipient Grant Monitoring Audit

	<ul style="list-style-type: none"> The frequency of monitoring; and The extent of the monitoring to include if it will be on-site or virtual. 	<p>ECD will continue to monitor all subrecipients in-depth and on an annual basis at approximately the sixth month of the year-long agreements. For new subrecipients, the Department provides onsite technical training on the front-end of the contract.</p> <p>Responsible Party: Director of Economic and Community Development, Economic and Community Development Assistant Director, and Business Manager</p> <p>Implementation Date: 07/01/2022</p>		<p>addition, a monitoring risk assessment tool has been created that will be an exhibit to the subrecipient contract and identify the frequency and depth of monitoring required for the subrecipient.</p> <p>This new monitoring risk assessment will be implemented July 1, 2023.</p>
2.2	<p>Create and implement written procedures on subrecipient monitoring to include, but not limited to:</p> <ul style="list-style-type: none"> Documentation requirements; Determining if costs were an eligible use of funds and in accordance with contract terms; Checking for suspension and debarment of subrecipients and 	<p>On August 23, 2021 the Department contracted with Urban Design Ventures, LLC to develop a program-wide standard operating procedure that includes guidance on subrecipient monitoring. This standard operating procedure will be implemented by December of 2022.</p> <p>Responsible Party: Director of Economic and Community Development, Economic and</p>	Implemented	<p>Partially Implemented:</p> <p>The implementation of the standard operating procedure manual is nearly complete. The final document has been prepared and is out for printing and binding. Staff will be trained continuously on how to use the document as a resource.</p>

**Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)**

KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
	Recommendation	Management Response	Management Follow-up Response – August 31, 2023	Management Follow-up Response – April 27, 2023

A2022-04 Subrecipient Grant Monitoring Audit

	<p>contractors of the subrecipients;</p> <ul style="list-style-type: none"> • Determining if conflict of interests existed with contractors of the subrecipients, and • Conducting an inventory of property purchased using grant funds. 	<p>Community Development Assistant Director, and Business Manager</p> <p>Implementation Date: 12/31/2022</p>		
3.1	<p>The Economic & Community Development Department management should establish written procedures to have agreements ready to be fully executed once funds are appropriated by City Council.</p>	<p>Management is in agreement with the recommendation, but there are circumstances that could affect its implementation which have to be resolved. This deficiency is attributable to three causes: 1) Nearly full turnover of staff, 2) Influx of work due to COVID recovery funding, and 3) delays in “loading” the budget in the financial system due to a misunderstanding of 24 CFR Part 570.200(h). The Department will monitor agreements to ensure that they will be executed within the month of July annually and will work with Finance to ensure funds are made available in a timely manner.</p>	Implemented	<p>Partially Implemented:</p> <p>ECD’s standard operating procedures manual is nearly complete. The final document has been prepared and is out for printing and binding. Staff will be trained continuously on how to use the document as a resource. An updated subrecipient agreement template will be implemented July 1, 2023. Managers will prepare their agreements and route for signatures in July.</p>

Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)

KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
	Recommendation	Management Response	Management Follow-up Response – August 31, 2023	Management Follow-up Response – April 27, 2023

A2022-04 Subrecipient Grant Monitoring Audit

		<p>Responsible Party: Director of Economic and Community Development, Economic and Community Development Assistant Director, and Business Manager</p> <p>Implementation Date: 08/01/2022</p>		
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Office of Internal Audit
Quarterly Management Implementation Status Report
Fiscal Year 2022-2023 (4th Quarter)

KEY	Not Implemented	Partially Implemented	Implemented	Past Implementation Date
	Recommendation	Management Response	Management Follow-up Response – August 31, 2023	Management Follow-up Response – April 27, 2023

A2022-03 Procurement Card

Status of Recommendations on April 27, 2023:			
Implemented	Partially Implemented	Not Implemented	Total
0	0	1	1

*This report reflects responses for the 1 outstanding recommendation.

1	<p>Finance Department management should update Policy #312 along with corresponding training materials and include but not limit the update to:</p> <ul style="list-style-type: none"> • Use of the Oracle online purchasing platform; • Restrictions on use of personal online shopping accounts; • Restrictions on shipping to home addresses; • Requirements and definition of business purpose with examples provided; • Documentation requirements and restrictions for food purchases; • Current business processes, i.e. changes due to Oracle HUB implementation; and • A formal process for card and transaction limit increase requests. 	<p>Management concurs with the recommendation. Policy #312 and training materials will be updated and distributed to City Pcard holders. Policy #312 needs updated to reflect the current Oracle business processes to include documentation requirements and business purpose. Policy #312 will also be updated to include restrictions on personal shopping accounts, shipping to home addresses, and limitations on food purchases. Management will establish a formal process for credit limit increase requests.</p> <p>Responsible Party: Chief Financial Officer or designee</p> <p>Implementation Date: July 1, 2023</p>	Implemented	<p>Not Implemented</p> <p>Staff are working on updating Policy #312 as noted as well as training materials for distribution to card holders. Staff are also working on a formal process to request credit limit increases. Implementation is expected to occur on or before July 1, 2023.</p>
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Office of Internal Audit

**PRM Nonresident Fees Implementation
Follow-up Audit (A2016-05F)**

August 2023

Internal Audit Director

Rose Rasmussen

Senior Internal Auditor

Christina Zimmerman



Date: August 31, 2023

To: Michael Gibson, Parks, Recreation & Maintenance Director
James McMillan, Assistant Parks, Recreation & Maintenance Director - Recreation
Jessica Legette, Assistant Parks, Recreation & Maintenance Director - Administration

From: Rose Rasmussen, Internal Audit Director

Cc: Audit Committee
Douglas J. Hewett, City Manager

Re: PRM Nonresident Fees Implementation Follow-up Compliance Audit (A2016-05F)
Originally Issued January 30, 2019

The Office of Internal Audit completed a follow-up audit on the Parks, Recreation & Maintenance Nonresident Fees Implementation Audit approved by the Audit Committee on January 30, 2019.

The original report can be found through the Office of Internal Audit website at:
<https://www.fayettevillenc.gov/city-services/city-manager-s-office/internal-audit/internal-audit-reports>

Objective and Scope

Determine whether management implemented corrective actions to the audit recommendations reported by the Office of Internal Audit.

The scope of the follow-up audit was limited to the findings and accepted recommendations in the original audit of the nonresident fees implementation. This included observations, review of documents and electronic files, to include FY2023 adopted fee schedule, *Fayetteville-Cumberland Parks & Recreation Non-Resident Fee Policy*, department records and current RecTrac user access.

Background

The original audit report, dated January 2019, had seven agreed upon recommendations. The audit provided improvements for management in areas including, compliance (policy, procedures and training), safeguarding documentation and information systems (RecTrac).

As of the April 28, 2022 Corrective Action Plan provided to the Audit Committee, the Department reported all accepted recommendations as fully implemented.

Summary Results

Testing included an evaluation of the seven agreed upon recommendations to determine if corrective actions were implemented as reported. The Department fully implemented three recommendations by updating the fee schedule and departmental policy. However, the four remaining recommendations were determined to be either partially implemented or not implemented.

Status of Recommendations:		
Implemented	Partially Implemented	Not Implemented
3	2	2

The Department implemented recommendations by updating the Fiscal Year 2020 fee schedule and the *Fayetteville-Cumberland Parks & Recreation Non-Resident Fee Policy* with a revised date of August 1, 2023.

Movement toward implementation was made by establishing a quality review program to verify documentation, fees charged and age group of sports registrants. However, this quality review program was not implemented across all programs and activities.

A conflict of interest remained with Parks, Recreation and Maintenance (PRM) personnel administering user access to the RecTrac management system. The number of users with administrative access went from three personnel as of the April 25, 2019 corrective action plan to 28 according to the report of active user access as of March 24, 2023. This access allows the user to change dates on receipts, change drawer numbers and change general ledger dates. Additionally, 78 former employees were identified as active users within the system. Internal Audit provided the department with a list of user access for verification and deactivation. The department reviewed and took appropriate and immediate action to correct the users access and account status for the former employees.

Internal Audit will continue to recommend the Department strengthen processes and controls by:

- Expanding the quality review process for all departmental fees; and
- Implement a review of the RecTrac Audit Log, at a minimum monthly but more often if possible. This review should be conducted by an employee who does not have administrative access and is in a position within the Department that allows them to address any exceptions noted.

Conclusion

The Office of Internal Audit has concluded the Parks, Recreation & Maintenance Nonresident Fees follow-up Audit and expresses appreciation for the assistance provided by Department staff. Internal Audit encourages the Department to continue working toward full implementation of outstanding recommendations.

Appendix A:

DEPARTMENT: Fayetteville-Cumberland Parks, Recreation and Maintenance

AUDIT: Parks, Recreation and Maintenance Nonresident Fees Implementation (A2016-05)

ORIGINALLY ISSUED: January 30, 2019

The Office of Internal Audit has completed follow-up on the Parks, Recreation and Maintenance Nonresident Fees Implementation Audit approved by the Audit Committee on January 30, 2019. Internal Audit’s objective was to determine whether management implemented corrective actions to the audit recommendations reported by the Office of Internal Audit.

Results

<i>IMPLEMENTED¹</i>	<i>PARTIALLY IMPLEMENTED</i>	<i>NOT IMPLEMENTED</i>
3	2	2

Finding Number	Summary of Original Recommendation Dated January 30, 2019	Current Observation	Implementation Disposition:		
			Initial Implementation Date	Reported Implementation Date	Status as of August 31, 2023
<i>1. Fees were not always charged correctly.</i>					
1.1	Amend written <i>Fayetteville-Cumberland Parks & Recreation Non-Resident Fee Policy</i> to provide clear guidance on how to accurately and consistently charge fees. The policy should include, but not be limited to: a. Define the process for determining whether the resident or nonresident fee should be charged;	<i>The Fayetteville-Cumberland Parks & Recreation Non-Resident Fee Policy revised August 1, 2023</i> addressed the recommendations.	<i>July 01, 2019</i>	<i>October 2019 CAP DATE January 23, 2020</i>	<i>Implemented</i>

¹ For recommendation number 2, the Department did not concur with the entire recommendation. The Department only implemented the areas that management concurred with in the management responses to the original audit report.

	<p>b. Establish specific guidance on what areas, if any, of Fort Bragg should be charged the resident fees; and</p> <p>c. Establish specific guidance and expectations on charging swimming pool and Adult Open Play Athletic fees.</p>				
1.2	<p>Once the policy and procedures are updated, management should provide training to PRM personnel involved in charging and monitoring of the parks and recreation program fees.</p>	<p>Department personnel conducted monthly or bi-monthly meetings and provided training to staff on policy changes and any other topics of interest.</p> <p>Internal Audit reviewed four meeting agendas for meetings between January and February of 2019. Each agenda included the resident/nonresident fees as an item of discussion.</p> <p>The Department should ensure these meetings and training include any changes made to the policy effective August 1, 2023. Based on Internal Audit inquiry, the Department stated this training will be provided this fall.</p>	<i>July 01, 2019</i>	<i>October 2019 CAP DATE January 23, 2020</i>	<i>Partially Implemented</i>
1.3	<p>Management should develop a quality review program for the fees and conduct an adequate number of appropriate quality reviews in a timely manner. The documented results should be maintained and utilized as</p>	<p>The Department developed and implemented a quality review process for the athletic programs. Maintained documentation was reviewed. However, Internal Audit could not verify if the information obtained through</p>	<i>July 01, 2019</i>	<i>October 2019 CAP DATE January 23, 2020</i>	<i>Partially Implemented</i>

	measures of effectiveness during performance evaluations.	these quality reviews were utilized as measures of effectiveness during performance evaluations. An adequate number of quality reviews should be conducted for all departmental fees, not just athletic programs.			
2. Fees were not always transparent on the fee schedule.					
2	The Office of Internal Audit recommends management update the existing fee schedule to provide additional transparency and clarity for City Council and citizens. This should include, but not be limited to, all fees applicable for the resident and nonresident rates, and fees for regularly scheduled programs led by PRM personnel.	Management partially concurred with this recommendation. The Department did not concur with the recommendations regarding leisure activities and golf lessons. The fees for those programs have not been updated on the fee schedule as stated in the original audit report. For the recommendations originally concurred to by the Department, the Fiscal Year 2020 fee schedule adopted by City Council effective July 1, 2019 was updated to include: <ul style="list-style-type: none"> • A set fee for Youth Amateur Athletic Union Traveling Teams; • Intercession School Workday Camp with a daily rate; and • Summer Day Camp with a pro-rated daily rate. Whenever practical, the Department should include fees	<i>July 1, 2019</i>	<i>July 1, 2019</i>	<i>Implemented (Recommendations Department Concurred with Only)</i>

		on the Fee Schedule for City Council's approval.			
3. Sufficient documentation to validate fees charges was not maintained.					
3	<p>The Office of Internal Audit recommends management amend the written <i>Fayetteville-Cumberland Parks & Recreation Non-Resident Fee Policy</i> to ensure clear guidance is provided on documentation for resident and nonresident fees. This policy should be amended to include sufficient guidance to allow an individual who is unfamiliar with the operations to perform the necessary activities.</p> <p>Improvements to the policy based on Internal Audit's observations should include, but not be limited to:</p> <ol style="list-style-type: none"> Types of documentation considered sufficient and insufficient; Frequency for updating documentation; and Documentation maintenance, retention and destruction requirements which should ensure adherence to the security of sensitive and confidential information and the State's retention requirements. 	<p>The updated written <i>Fayetteville-Cumberland Parks & Recreation Fee Policy</i> revised August 1, 2023 included a list of acceptable documents for proof of residency and provided instructions for documents to be updated every two years. In addition, the updated policy guides employees to the City of Fayetteville Records Management Policy #109.</p>	July 01, 2019	October 2019 CAP DATE January 23, 2020	Implemented

4. Internal controls need strengthened.					
4.1	Management should consider having RecTrac administration supervised by the Information Technology Department. This should not only alleviate the current conflict of interest but would allow personnel to supervise this with knowledge of the need for segregation of duties, access controls and security over RecTrac.	<p>Based on Internal Audit review, a conflict of interest still existed with the Parks, Recreation and Maintenance (PRM) Department staff administering RecTrac.</p> <p>City management stated that due to the functionality of RecTrac, moving administrative rights to Information Technology staff would negatively impact operations in the PRM Department. Therefore, PRM management will implement a review of the RecTrac Audit Log, at a minimum monthly but more often if possible. This review should be conducted by an employee who does not have administrative access and is in a position within the Department that allows them to address any exceptions noted.</p>	<i>March 01, 2019</i>	<i>CAP DATE April 28, 2022</i>	<i>Not Implemented</i>
4.2	Management should review RecTrac user access to ensure users only have access for which there is a necessary business need. This should include but not be limited to determining if a necessary business need exists for the ability to change receipt and general ledger dates, drawers, and pay codes.	<p>Internal Audit reviewed a report of active user access as of March 24, 2023 which included 78 former employees. Once a list of these exceptions was provided to the Department the access was deactivated.</p> <p>In addition, the active user access report showed 28 current employees with administrative access. However, the corrective</p>	<i>March 01, 2019</i>	<i>CAP DATE April 25, 2019</i>	<i>Not Implemented</i>

		<p>action plan dated April 25, 2019, management stated that administrative access had been reduced to the Business Manager and Analysts.</p> <p>Based on Internal Audit inquiry, the Department stated an update to RecTrac requires administrative access to set up and update activities. Therefore, these users would need to retain this access.</p> <p>The RecTrac Audit Log review noted in 4.1 should be conducted in a manner that will at a minimum determine if employees with administrative access are changing receipt and general ledger dates, drawers, and pay codes to circumvent controls in place that were designed to prevent fraud, waste and abuse.</p>		
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Office of Internal Audit

**Police Department Confidential Funds
Audit 2023-01**

August 2023

Director of Internal Audit
Rose Rasmussen, CIA

Internal Auditor
Christina Zimmerman

DRAFT



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Internal Audit Director
Rose Rasmussen, CIA

Internal Auditor
Christina Zimmerman

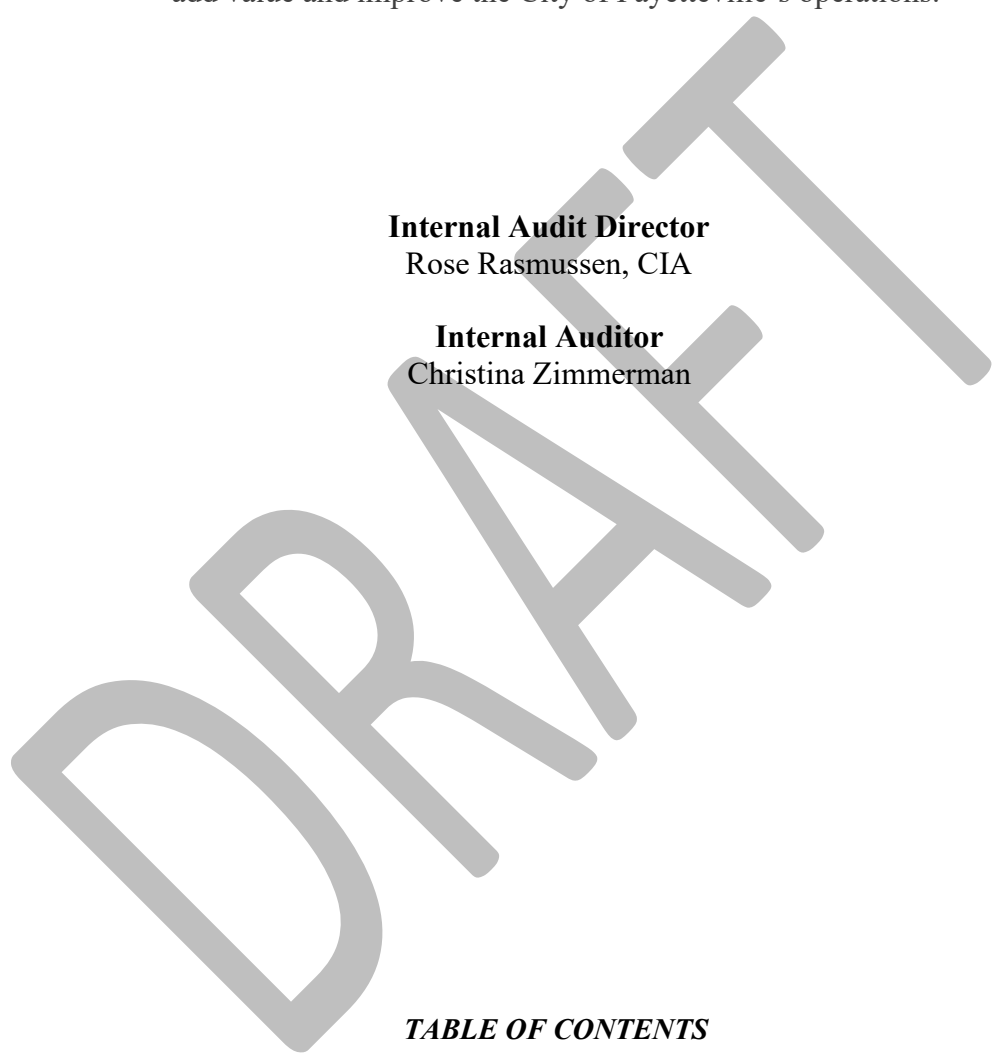


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Mailing Address: 433 Hay Street, Fayetteville, NC 28301

Police Department Confidential Funds Highlights

Objectives:

To determine if:

- Confidential funds were sufficiently administered;
- Proper internal controls were in place to safeguard confidential funds;
- Use of the funds were properly authorized, approved and recorded; and
- Complete and accurate records were maintained.

Scope:

June 1, 2022 through May 31, 2023

Background:

- The Vice Investigations Division administered and controlled the cash fund;
- The annual budget was \$100,000;
- Enabled the unit to operate by concealing their identity; and
- Cash was safeguarded and monitored for authorized use within the Division.

Highlights:

- During the audit scope, **20** personnel maintained or used confidential funds;
- The sample size was **6** officers that maintained or used funds;
- The sample included **61** transactions excluding Administrative Transfer of Funds; and
- Expenditures audited totaled **\$25,295.00**.

Conclusion:

Based on the work performed, the Office of Internal Audit concluded the Division was:

1. Generally in compliance with the applicable policies, procedures and guidelines; and
2. Adequate internal controls existed for the Police Department's confidential funds.

Although no significant exceptions were noted, areas to strengthen existing controls were provided to management.

BACKGROUND

The Fayetteville Police Department's Vice Investigations Division administered and controlled an informant/expenditure cash fund. The units within this Division conducted covert operations and had a budget of \$100,000 for each fiscal year. The Narcotics Unit Lieutenant was the primary cash custodian with the responsibility of safeguarding the physical cash and ensuring authorized use of the funds. In addition, cash ledgers were maintained, and receipts were completed each time funds were spent by personnel who received or used cash. By using these funds, the units were able to conceal their identity from criminals, vendors and the public. This fund had the following allowable uses:

1. Pay informants or citizen sources;
2. Purchase contraband; or
3. Expenses incurred while working undercover or investigative operations.

AUDIT OBJECTIVES

The objectives of the audit were to determine if:

- Confidential funds were sufficiently administered in accordance with established laws, regulations, guidelines, policies and procedures;
- Proper internal controls existed and were working as intended to safeguard confidential funds from loss, theft or fraud;
- Expenditures and withdrawals from the funds were properly authorized, approved and recorded; and
- Complete and accurate manual records were maintained for all deposits, withdrawals and other transactions affecting the confidential fund accounts.

AUDIT SCOPE

The scope of the audit covered the fund activity from June 1, 2022 through May 31, 2023 with the following limitation:

- When officer's partner with outside agencies, the information available, to include validating the existence of purchased contraband, is limited due to the sensitive nature of the work performed.

Internal Audit selected a sample of six officers to complete testing. The sample of expenditures reviewed during the audit scope included 61 transactions totaling \$25,295.00. The transactions represent 25% of the FY23 adopted budget for Confidential Funds and 34% of the funds received by the Division during the audit scope.

AUDIT METHODOLOGY

To review compliance and determine the adequacy of internal controls, Internal Audit:

- Reviewed applicable written policies, procedures, and guidelines;
- Interviewed Police Department personnel involved in the administration, maintenance and use of confidential funds;
- Completed an onsite cash count for each officer in the sample to reconcile with the ledger maintained by the officer;
- Reviewed the accounting records and documents pertaining to confidential funds to include training provided through PowerDMS; and
- Traced contraband seized during operations to the Property and Evidence Room.

***FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT'S RESPONSES***

Based on the audit work performed, the Office of Internal Audit concluded the Police Department's Vice Investigations Division was generally in compliance with applicable policies, procedures, and guidelines; and adequate internal controls existed for the Police Department's confidential funds. There were no significant exceptions noted.

CONCLUSION

Although no significant exceptions were noted, Internal Audit made recommendations to Police Department management for areas that would strengthen existing internal controls.

Internal Audit would like to thank Department personnel for their assistance and numerous courtesies extended during the completion of this audit.

DRAFT



Office of Internal Audit

Annual Audit Plan

Fiscal Year 2024

Internal Audit Director
Rose Rasmussen, CIA

Senior Internal Auditor
Christina Zimmerman



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Internal Audit Director

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Mailing Address: 433 Hay Street, Fayetteville, NC 28301



August 31, 2023

Members of the Audit Committee

Enclosed is the proposed Fiscal Year 2024 Audit Plan for the Office of Internal Audit.

The results of the FY2024 Audit Plan are presented along with the estimated time allocation for audits and projects. Actual scheduling of selected projects may be affected by personnel turnover, special audits, and unforeseen circumstances in these projects.

The FY2024 plan includes two carry forward audits, three new audits, three follow up audits, two required annual reviews, and three consulting services.

The Office of Internal Audit will continue to provide support to other City Departments with the implementation of the City's Oracle HUB project. Therefore, minor adjustments to this plan may be made on an as needed basis.

I welcome discussion on the proposed audit plan and request approval.

Respectfully,
Rose Rasmussen, CIA
Internal Audit Director

A. Audit Projects Carried Forward from 2023 Work Plan		
A.1. Name of Audit Projects In-Progress	Potential Risks	Estimated Hours
A2022-02 Kronos Implementation (Police)	<i>Employees paid incorrectly; Violations of FLSA resulting in fines; theft</i>	270
Total Hours for Audit Projects In-Progress		270
A.2. Name of Audit Projects For Completion	Potential Risks	Estimated Hours
A2020-02F Accounts Payable Timeliness	<i>Vendors not paid timely; overspending; unable to take advantage of discounts offered; theft</i>	100
Total Hours for Audit Projects For Completion		100
TOTAL HOURS FOR AUDIT PROJECTS CARRIED FORWARD FROM 2023 WORK PLAN		370

B. New Audit Projects for 2023-2024		
B.1. Name of Initial Audit Projects	Potential Risks	Estimated Hours
A2024-01 Police Department Confidential Funds	<i>Theft, misuse, or loss of funds</i>	160
A2024-02 Transit Grants	<i>Barred from applying for grants; not awarded grants; fines; penalties; paying back grant funds</i>	440
A2024-03 Fleet Management	<i>Additional cost for parts/materials, labor, rental vehicles; delayed operation due to vehicles down or out of service</i>	440
TOTAL HOURS FOR NEW AUDIT PROJECTS FOR 2023-2024		1040

C. Follow-up Projects for 2023-2024		
C.1. Name of Follow-up Audit Projects	Potential Risks	Estimated Hours
A2020-01F Police Payroll	<i>Wasted labor hours through manual processes; Employees paid incorrectly; Violations of FLSA resulting in fines; theft</i>	200
A2022-03F Procurement Card	<i>Theft, misuse or loss of funds</i>	20
A2022-04F Sub Recipient Grant Monitoring	<i>Fines; Loss of future grant funds; repayment of funds; Subrecipients not paid timely; theft</i>	160
TOTAL HOURS FOR FOLLOW-UP AUDIT PROJECTS		380

D. Required Reviews and Consulting Services for 2023-2024		
D.1. Name of Required Annual Reviews	Potential Risks	Estimated Hours
R2024-01 Proxy Card	<i>Unsecure, unsafe buildings</i>	280
R2024-02 Conflict of Interest	<i>Kickbacks</i>	220
Total Hours for Required Annual Reviews		500
D.2. Name of Consulting Services	Estimated Hours	
C2024-01 HUB HCM Oracle Access Controls Review	200	
C2024-02 HUB HCM Payroll Implementation	496	
C2024-03 Transit Cash Handling	320	
Total Hours for Consulting Services		1016
TOTAL HOURS FOR REQUIRED REVIEWS AND CONSULTING SERVICES 1516		

E. Internal Audit Management and Administration	
E.1. Description	Estimated Hours
Office Management/Support	1709
Staff Development	110
Approved Holidays	272
Approved Employee Leave	459
Total Hours for Audit Management and Administration 2550	
TOTAL HOURS FOR FY 2023-2024 WORK PLAN 5856	

F. Future Audit Projects 2024 - 2029	
F.1. Name of Future Follow-up Audit Projects	Estimated Hours
A2016-02F2 Permitting and Inspections	200
A2016-06F Contract Practices and Procedures	200
A2018-04F Performance Measures	200
A2019-04F Residential Solid Waste Fees	200
A2019-06F Code Violation Enforcement and Collections	200
A2021-02F Wireless Communication Usage	200
A2020-04F Vector Fleet Contract	200
A2022-01F Fire Kronos Implementation	200
Total Hours for Future Follow-up Audit Projects 1600	

F.2. Name of Future New Audit Pro jects	Estimated Hours
Small Asset Management	240
Downtown Parking Collection	960
Citywide Payroll Processes	960
Off Boarding Access Rights	480
Body Camera Policy Compliance	480
American Rescue Plan Act (ARPA) of 2021 Compliance	960
Emergency Rental Assistance Program (ERAP)	960
CARES Act Funding	480
Asset Forfeiture Program	320
Take Home Vehicles	320
Performance Bond Compliance	480
Stormwater Drainage Assistance	480
Sales and Use Tax Administration	320
Fire Inspection Billings and Collections	480
FAST Farebox Receipting	960
Fixed Assets	640
Accidents and Subrogation of Claims	480
Fuel Management	480
Dependent Eligibility	640
Billing and Collections of Leases	480
Accounts Receivable	240
Airport Parking Operations	640
Airport Rental Car Concession Agreements	960
Benefits on Leave without Pay	480
Cash Receipts	960
Solid Waste Routes	320
Benefit Deductions	480
Economic & Community Development Loans – Neighborly	480
Inspections – iDT	400
Kace	360
Permitting – iDT	400
Software Licenses	400
Total Hours for Future New Audit Projects	16760
TOTAL HOURS FOR FUTURE AUDIT PROJECTS	18360



Office of Internal Audit

Internal Audit Annual Report

Fiscal Year 2023

Director of Internal Audit
Rose Rasmussen, CIA

Senior Internal Auditor
Christina Zimmerman



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Director of Internal Audit
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Mailing Address: 433 Hay Street, Fayetteville, NC 28301

INTRODUCTION

According to *City of Fayetteville, NC Internal Audit Charter*, the Internal Audit Director will annually report to the Audit Committee and the City Manager on the internal audit activity’s purpose, authority, responsibility and performance relative to its annual audit plan. The Internal Audit Director is also responsible for reporting significant risk exposures, control issues, fraud risks, governance issues, and other matters needed or requested by the Audit Committee and the City Manager.

PURPOSE/MISSION

The mission of the Office of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the City of Fayetteville’s operations. The Office of Internal Audit helps the City of Fayetteville’s management team accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

<u>Key Performance Measures</u>	<u>FY 2022 Actual</u>	<u>FY 2023 Actual</u>	<u>FY 2024 Target</u>
% of Internal Audit recommendations accepted by management	100%	100%	100%

Acceptance of audit recommendations is an indicator of service quality. In fiscal year 2023, management accepted and provided estimated implementation dates for all nine recommendations included in two audit reports issued during the fiscal year. These results exceed the 95% industry benchmark published in the 2022 Association of Local Government Auditors (ALGA) Benchmarking Report.

AUTHORITY

The Office of Internal Audit shall have full, free, and unrestricted access to any and all of the City of Fayetteville’s records, physical properties and personnel pertinent to carrying out any engagement. All employees are expected to assist the Office of Internal Audit in fulfilling its roles and responsibilities. The internal auditors will also have free and unrestricted access to the City Council and the Audit Committee.

RESPONSIBILITY

Audit coverage will encompass, as deemed appropriate by the Internal Audit Director, independent reviews and evaluations of any and all management operations and activities to appraise:

- Measures taken to safeguard assets, including tests of existence and ownership as appropriate.
- Reliability, consistency, and integrity of financial and operating information.
- Compliance with policies, plans, standards, laws, and regulations that could have significant impact on operations.
- Economy and efficiency in the use of resources.
- Effectiveness in the accomplishment of the mission, objectives, and goals established for the City’s operations and projects.
- Managing and responding to the Fraud hotline.

INTERNAL AUDIT SERVICES

AUDITS	STATUS
<p>Subrecipient Grant Monitoring Audit (A2022-04) The Economic & Community Development Department had subrecipient agreements in place and staff were monitoring subrecipients. However, controls could be improved through:</p> <ol style="list-style-type: none"> 1. Annually reviewing and updating agreement templates as needed; 2. Using a risk assessment to determine the frequency and extent of monitoring; 3. Staff training on use and monitoring of the funds, and 4. Establishing written procedures. 	Report Issued October 2022
<p>Police Confidential Funds (A2022-05) The Police Department Vice Investigations Division was generally in compliance with the applicable guidelines; and adequate internal controls existed. There were no significant exceptions noted. In addition, findings from prior years were implemented through updates to operating procedures.</p>	Report Issued October 2022
<p>Procurement Card (A2022-03) The procurement card program was generally in compliance. However, controls could be improved by updating Policy #312 along with corresponding training materials. Internal Audit will also conduct an ongoing review of the approval workflows in Oracle HUB to determine if proper review and approvals are being completed.</p>	Report Issued January 2023
<p>Evidence and Property Management Follow-up #2 (A2018-01F2) The Police Department made substantial progress towards fully implementing the 20 recommendations. At the conclusion of the audit, seven recommendations were fully implemented and nine progressing toward full resolution. Internal Audit will continue to recommend the Police Department strengthen processes and controls through:</p> <ol style="list-style-type: none"> 1. Establishing quality review processes; 2. Updating operating procedures; 3. Staff training, and 4. Continuously evaluating the security of storage locations. 	Report Issued April 2023
<p>Parks, Recreation & Maintenance Nonresident Fees Follow-up (A2016-05F) The Parks, Recreation & Maintenance Department implemented three of the seven agreed upon recommendations by updating the fee schedule and departmental policy. However, the four remaining recommendations were determined to be either partially implemented or not implemented. A conflict of interest remains within the administration of the RecTrac system. Internal Audit continues to recommend staff take action to address the remaining four recommendations as outlined in the original report.</p>	In Progress
<p>Police Confidential Funds (2023-01) The Police Department Vice Investigations Division was generally in compliance with applicable policies, procedures, and guidelines; and adequate internal controls existed for the Police Department’s confidential funds. There were no significant exceptions noted.</p>	In Progress

Required Reviews and Consulting Services	STATUS
<p>HUB Oracle ERP Access Controls Review (C2022-01) As the City transitions to the Oracle HUB Enterprise Resource Planning Software, Internal Audit continues to review security access and license usage to identify staff with more access than needed to do their job. The updates made to access will reduce costs associated with unnecessary licenses.</p>	In Progress
<p>Finance Yearend Closeout (C2022-02) Due to staff turnover and the implementation of Oracle HUB, the Finance Department were behind in completing FY2022 closeout. Internal Audit staff assisted as needed.</p>	Complete
<p>Proximity Card (R2023-01) Pursuant to City Policy #607 Proximity Card Access, effective July 27, 2020 and revised August 02, 2022, Internal Audit conducted the annual required review of the proximity card systems to ensure proper controls were followed. Based upon this review, Internal Audit concluded controls could be improved through:</p> <ol style="list-style-type: none"> 1. Completing the C-Cure software and access control system implementation at the FAST Transit Center and the City's Grove Street location; 2. Staff training on the C-Cure software; 3. Ensuring temporary cards are set to expire timely; and 4. Not reusing cards previously issued to City employees. 	Complete
<p>Conflict of Interest (R2023-02) The Office of Internal Audit distributed and reviewed the annual conflict of interest questionnaires provided to the Mayor, City Council, City management and a random sample of City employees as required by the City's Code of Ethics, Section 2-95(j) Conflict of Interest Questionnaire. Internal Audit issued a memo to the City Manager and City Attorney of any potential conflicts noted during the review.</p>	Complete

FRAUD, WASTE AND ABUSE INVESTIGATIONS

The Office of Internal Audit also manages suspected cases of fraud, waste and abuse reported by employees, vendors and citizens. Such cases may be reported in various ways to include: in-person, telephone, e-mail or the City's Fraud Hotline. The City's Fraud Hotline is operated by a third party and reports can be made anonymously either over the telephone or online.

For fiscal year 2023, there were 12 incidents reported of which 75% were reported through the Fraud Hotline. Table 1 summarizes the various types of allegations received.

TABLE 1	%	%	100%
ALLEGATION TYPE	HOTLINE	NON-HOTLINE	TOTAL
Accounting / Audit Irregularities	1	1	2
Customer Relations	1	0	1
Fraud	3	0	3
Safety Issues/Sanitation	1	0	1
Theft of Cash	2	0	2
Theft of Goods/Services	0	1	1
Theft of Time	0	1	1
Workplace Violence/Threats	1	0	1
TOTAL	9	3	12

Allegations may be investigated by the Office of Internal Audit, referred to a City department (generally for lower risk issues), referred to a non-City agency (if relating to matters outside City jurisdiction or

requiring external law enforcement), and/or deemed non-actionable. Non-actionable allegations result from insufficient or dated information, prior corrective action, immateriality or inappropriate use of the Hotline. If referred to a City department, the Office of Internal Audit generally requests the department to investigate, take appropriate action and communicate the results to the Office of Internal Audit within 30 days.

Resolved allegations are categorized as:

- **Substantiated:** The allegation of fraud, waste or abuse was validated.
- **Substantiated – No Violation:** The condition(s) cited were accurate but did not constitute as fraud, waste or abuse.
- **Unsubstantiated:** The facts did not support the allegation and/or the allegation was proven not to be true.
- **Department Resolution:** These allegations are generally not fraud, waste or abuse related and are more appropriately handled by the department (i.e., personnel issues).
- **Inconclusive:** Available evidence was not sufficient to determine the validity of the allegation.

Table 2 summarized assignments and dispositions for allegations reported and/or resolved during fiscal year 2023.

TABLE 2 DISPOSITION	ASSIGNMENT		
	REFER	INVESTIGATE	TOTAL
Department Resolution	1	0	1
Non-Actionable	7	0	7
Unsubstantiated	0	0	0
Open/Ongoing Allegations	0	0	0
Substantiated	1	1	3
Substantiated – No Violation	0	1	0
Inconclusive	0	1	1
TOTAL	9	3	12

The City’s Fraud, Waste and Abuse Policy is intended to enhance employee awareness and reporting of suspected fraud, waste and abuse. Allegations resolved during fiscal year 2023 resulted in the following:

- Improved procedures and/or management controls;
- Employee safety improvements;
- Enhanced awareness of and/or compliance with existing regulations and/or policies; and
- Situation appropriate personnel-related actions.

LEADERSHIP AND OTHER ACCOMPLISHMENTS

Internal Audit staff provided fraud, waste, and abuse training to approximately 311 new employees during new employee orientation. This training changed from being conducted once a month to a bi-weekly basis and is a great opportunity to engage with new staff.

Internal Audit staff continued to provide support to peer departments by completing data validation for the implementation of Payroll in Oracle HUB and assisting the Budget & Evaluation Department with the FY24 annual budget process.

On a quarterly basis a Management Implementation Status Report was prepared and distributed to the Audit Committee members to help Committee members fulfill their responsibilities of oversight.

Internal Audit staff completed training and career development for fiscal year 2023 in various ways including webinars and in person courses offered through the ALGA (Association of Local Government

Auditors), the IIA (Institute of Internal Auditors), the ACFE (Association of Certified Fraud Examiners), and the North Carolina Office of State Budget and Management. This training included specific training for local government auditors, ethics, fraud, and Governmental Accounting Standards updates. Internal Audit personnel are members of ALGA, the IIA and the ACFE. Staff also began working toward obtaining Certified Fraud Examiner (CFE) credentials.

SUMMARY

In summary, Internal Audit staff took on new endeavors and made a strong effort to complete as many audits and projects as possible during the past fiscal year. Staff continued to work towards helping the City meet its key objectives by completing Internal Audit tasks as effectively and efficiently as possible and providing support to peer departments whenever necessary. Internal Audit's success this past fiscal year was made possible as a result of the support of the City Manager's office, and the hard work of each of the department's personnel. Over the past year the strengths and skills of Internal Audit personnel developed in a way that contributed to the success of the Office. Internal Audit strived to ensure the scope of each audit engagement added value to the organization and good customer service was provided.