

**SPECIAL AUDIT COMMITTEE MEETING MINUTES  
WINSLOW CONFERENCE ROOM, 3<sup>rd</sup> 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.

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Mr. Ron O'Brien, Chair

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Paula Handberry, Executive Assistant to the City Council