



April 1, 2025

City Council
City of Fayetteville
Fayetteville, NC

Attention: Mayor Mitch Colvin and City Council Members

This letter is intended to communicate certain matters related to the planned scope and timing of our audit of City of Fayetteville's ("City") financial statements and compliance as of and for the year ending June 30, 2025.

Communication

Effective two-way communication between our firm and the City Council is important to understanding matters related to the audit and developing a constructive working relationship.

Your insights may assist us in understanding the City and its environment, identifying appropriate sources of audit evidence, and providing information about specific transactions or events. We will discuss with you your oversight of the effectiveness of internal control and any areas where you request additional procedures to be undertaken. We expect that you will timely communicate to us any matters you consider relevant to the audit. Such matters might include strategic decisions that may significantly affect the nature, timing, and extent of audit procedures, your suspicion or detection of fraud, or any concerns you may have about the integrity or competence of senior management.

We will timely communicate to you any fraud involving senior management and other known or likely fraud, noncompliance with provisions of laws, statutes, regulations, rules, provisions of contracts or grant agreements or abuse that is likely to have a material effect on the financial statements. We will also communicate illegal acts, instances of noncompliance or fraud that come to our attention (unless they are clearly inconsequential), and disagreements with management and other serious difficulties encountered in performing the audit. We also will communicate to you and to management any significant deficiencies or material weaknesses in internal control that become known to us during the course of the audit. Additionally, we will communicate significant unusual transactions, matters that are difficult or contentious for which we consulted outside the engagement team, and circumstances that affect the form and content of the auditor's report. Other matters arising from the audit that are, in our professional judgment, significant and relevant to you in your oversight of the financial reporting process will be communicated to you in writing.

Shared Responsibilities for Independence

Independence is a joint responsibility and is managed most effectively when management, audit committees (or their equivalents), and audit firms work together in considering compliance with American Institute of Certified Public Accountants ("AICPA") and *Government Accountability Office* ("GAO") independence rules. For PBMAres to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and PBMAres each play an important role.

Our responsibilities:

1. AICPA and GAO rules require independence both of mind and in appearance when providing audit and other attestation services. PBMAres is to ensure that the AICPA and GAO's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
2. Maintain a system of quality management over compliance with independence rules and firm policies.

Your responsibilities:

1. Timely inform PBMAres, before the effective date of transactions or other business changes of the following:
 - a. New affiliates, directors, or officers.
 - b. Changes in the organizational structure or the reporting entity impacting affiliates such as subsidiaries, partnerships, related entities, investments, joint ventures, component units or jointly governed organizations.
2. Provide necessary affiliate information such as new or updated structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
3. Understand and conclude on the permissibility, prior to the authority and its affiliates, officer, directors, or persons in a decision-making capacity, engaging in business relationships with PBMAres.
4. Not entering into arrangements of nonaudit services resulting in PBMAres being involved in management decisions on behalf of the City.
5. Not entering into relationships resulting in close family members of PBMAres covered persons, temporarily or permanently acting as an officer, director, or person in an accounting, financial reporting or compliance oversight role at the City.

Our Independence Policies and Procedures

Our independence policies and procedures are designed to provide reasonable assurance our firm and its personnel comply with applicable professional independence standards. Our policies address financial interests, business and family relationships, and non-audit services that may be thought to bear on independence. For example, our partners and professional employees are restricted in their ability to own a direct financial interest or a material indirect financial interest in a client or any affiliate of a client. Also, if an immediate family member or close relative of a partner or professional employee is employed by a client in a key position, the incident must be reported and resolved in accordance with firm policy. In addition, our policies prohibit us from providing certain non-attest services and require audit clients to accept certain responsibilities in connection with the provision of permitted non-attest services.

The Audit Planning Process

Our audit approach places a strong emphasis on updating our understanding of how the City functions. This enables us to identify key audit components and tailor our procedures to the unique aspects of your operations. The development of a specific audit plan will begin by meeting with you and with management to update our understanding of business objectives, strategies, risks, and performance.

As part of updating our understanding of the City and its environment, we will update our understanding of your system of internal control. We will use this understanding to identify risks of material misstatement and noncompliance, which will provide us with a basis for designing and implementing responses to the assessed risks of material misstatement and noncompliance. We will also update our understanding of the users of the financial statements in order to establish an overall materiality level for audit purposes. We will conduct formal discussions among engagement team members to consider how and where your financial statements might be susceptible to material misstatement due to fraud or error or to instances of noncompliance.

The Concept of Materiality in Planning and Executing the Audit

We apply the concept of materiality in both planning and performing the audit, evaluating the effect of identified misstatements or noncompliance on the audit, and the effect of uncorrected misstatements, if any, on the financial statements, forming the opinion in our report on the financial statements, and determining or reporting in accordance with *Government Auditing Standards* and other compliance reporting requirements. Our determination of materiality is a matter of professional judgment and is affected by our perception of the financial and compliance information needs of users of the financial statements. We establish performance materiality at an amount less than materiality for the financial statements as a whole to allow for the risk of misstatements that may not be detected by the audit. We use performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. We will accumulate misstatements identified during the audit, other than those that are clearly trivial. At the end of the audit, we will inform you of all individual uncorrected misstatements aggregated by us in connection with our evaluation of our audit test results.

Significant Risks of Material Misstatement

Our audit of the financial statements includes the performance of risk assessment procedures in order to identify risks of material misstatement, whether due to fraud or error. As part of these risk assessment procedures, we determine whether any risks identified are a significant risk. A significant risk is an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur, or that is to be treated as a significant risk in accordance with auditing standards generally accepted in the United States of America. As part of our initial risk assessment procedures, we identified the following risks as significant risks. Additional significant risks may be identified as we perform additional audit procedures.

Risk Name	Risk Description	Planned Response
Fraudulent Revenue Recognition	Risk that revenue is fraudulent reported for storm water fees which drives rate covenant for revenue bonds.	PBMares will evaluate all revenue streams and determine if any pose a higher risk of fraud. PBMares will then perform detail testing and will confirm various revenue streams with Federal and State sources.
Management Override of Controls	Risk that management can circumvent controls in place to commit fraud.	PBMares will gain an understanding over the City's controls over financial reporting and journal entries, inquire of individuals involved in the financial reporting process, and perform journal entry testing.
Accounts payable completeness/cutoff	Risk that expense is booked in an incorrect period, risk there are unrecorded liabilities.	PBMares will perform search for unrecorded liabilities by selecting disbursements subsequent to period end to verify if these were properly included or excluded in AP at year-end.

Our Approach to Internal Control and Compliance Relevant to the Audit

Our audit of the financial statements, including compliance, will include updating our understanding of internal control over financial reporting and compliance sufficient to plan the audit and determine the nature, timing, and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control over financial reporting and compliance or identify significant deficiencies or material weaknesses. Our review and understanding of the City's internal control over financial reporting and compliance is not undertaken for the purpose of expressing an opinion on the effectiveness of internal control.

We will issue a report on internal control over financial reporting and compliance and other matters related to the financial statements. This report describes the scope of testing of internal control over financial reporting and compliance and the results of our tests of internal control over financial reporting and compliance. Our report on internal control over financial reporting and compliance and other matters will include any significant deficiencies and material weaknesses in the system of which we become aware as a result of updating our understanding of internal control and performing tests of internal control over financial reporting and noncompliance and other matters consistent with the requirements of *Government Auditing Standards* issued by the Comptroller General of the United States.

Mayor Mitch Colvin and City Council Members
City of Fayetteville
April 1, 2025
Page 5

We will also issue reports on compliance for each major federal program and on internal control over compliance; consistent with the requirement of *the Single Audit Act and Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* at 2 CFR 200 (Uniform Guidance), the State Single Audit Implementation Act (“Act”), and the U.S. Office of Management and Budget’s (OMB) Compliance Supplement. These reports describe the scope of testing of internal control and compliance and the results of our tests of internal control and compliance, consistent with the Single Audit Act; Uniform Guidance, State Single Audit Implementation Act, and 14 Code of Federal Regulations (CFR) Part 158, “Passenger Facility Charges” (PFC program). We will include any significant deficiencies and material weaknesses in the system of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control over each major program, report any noncompliance that could have a direct and material effect on each major program and report any known or likely fraud affecting a federal award consistent with the Single Audit Act; Uniform Guidance, State Single Audit Implementation Act, and the U.S. Office of Management and Budget’s (OMB) Compliance Supplement.

Timing of the Audit

We will schedule audit field work for mutually agreed upon dates. Management’s adherence to its closing schedule and timely completion of information used by us in performance of the audit is essential to timely completion of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the City.

This communication is intended solely for the information and use of the City Council and management and is not intended to be, and should not be, used by anyone other than this specified party.

Sincerely,

PBMares, LLP



Robert E. Bittner, III
Partner