



# INTERNAL AUDIT ANNUAL REPORT

FISCAL YEAR 2025

## Office of Internal Audit

### Director of Internal Audit

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## Our Mission

Provide independent, objective assurance and consulting services designed to add value and improve the City of Fayetteville's operations.

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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.

Key Performance Measures	FY 2024 Actual	FY 2025 Actual	FY 2026 Target
% of Internal Audit recommendations accepted by management	100%	100%	100%

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.

## Audit Services

<b>AUDITS</b>	<b>STATUS</b>
<b>Police Kronos Implementation Follow-up (A2022-02F)</b> <i>2 recommendations issued in January of 2024</i> <ul style="list-style-type: none"> <li>Fully Implemented - 2</li> </ul>	Report Issued October 2024
<b>Economic &amp; Community Development Loans – Neighborly (A2025-05)</b> <i>10 recommendations issued</i>	Report Issued February 2025
<b>Citywide Grants (A2025-03)</b> <i>12 recommendations issued</i>	Report Issued April 2025
<b>Downtown Republic Parking Contract (A2025-06)</b> <i>2 recommendations issued</i>	Report Issued August 2025
<b>Police Department Confidential Funds (2025-01)</b> <i>0 recommendations issued</i>	Report Issued August 2025

<b>REQUIRED REVIEWS &amp; CONSULTING SERVICES</b>	<b>STATUS</b>
Annual Proximity Card Review	Complete
Annual Conflict of Interest Review	Complete
HUB HCM Oracle Access Controls Review	Complete
HUB HCM Payroll Implementation	Continuous

## 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 2025, there were 11 incidents reported of which 73% were reported through the Fraud Hotline.

Table 1 summarizes the various types of allegations received.

<b>ALLEGATION TYPE</b>	<b>HOTLINE</b>	<b>NON-HOTLINE</b>	<b>TOTAL</b>
Conflict of Interest	0	1	1
Customer Relations	1	0	1
Employee Relations	1	0	1
Fraud	0	1	1
Policy Issues	3	0	3
Safety Issues & Sanitation	0	1	1
Theft of Time	1	0	1
Theft or Misuse of Company Assets/Services	1	0	1
Wage/Hour Issues	1	0	1
<b>Total</b>	<b>8</b>	<b>3</b>	<b>11</b>

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 (allegation was validated); Substantiated – No Violations (conditions cited were accurate but did not constitute a violation); Unsubstantiated; Department Resolution; or Inconclusive (available evidence is not sufficient to determine the validity of the allegation).

Table 2 summarizes assignments and dispositions for allegations reported and/or resolved during fiscal year 2025.

<b>DISPOSITION</b>	<b>REFER</b>	<b>INVESTIGATE</b>	<b>TOTAL</b>
Department Resolution	0	0	0
Non-Actionable	1	2	3
Unsubstantiated	1	2	3
Open/Ongoing Allegations	0	0	0
Substantiated	0	1	1
Substantiated – No Violations	0	2	2
Inconclusive	0	2	2
<b>Total</b>	<b>2</b>	<b>9</b>	<b>11</b>

### *Leadership and Other Accomplishments*

Internal Audit staff provided training to City employees through:

- Creation and distribution of required ethics training to all full time City employees, and
- A fraud, waste and abuse presentation given to 386 new City employees during new employee orientation.

Internal Audit staff celebrated Internal Audit Awareness Month during May by sending weekly citywide communications covering the following topics.

- What is Internal Audit?
- Could You Spot Fraud, Waste or Abuse?
- See Something? Say Something – Confidentially & Safely
- What are Internal Controls?

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. Additionally, the Audit Committee members were presented a summary presentation from the City’s external auditors regarding the annual financial report.

## Staff Training and Professional Development

Internal Audit staff completed training and professional development activities during fiscal year 2025. The training included, but was not limited to, local government auditing, ethics, fraud, communication, interpersonal skills, cyber security and emerging technologies. Internal Audit staff are members of the following professional organizations:

- The *Institute of Internal Auditors (IIA)* established in 1941, is an international professional association and is the internal audit profession's leader in standards, certification, education, research, and technical guidance throughout the world.
- The *Association of Certified Fraud Examiners (ACFE)*, established in 1988, is a professional association with a mission to reduce the incidence of fraud and white-collar crime and to assist the membership in fraud detection and deterrence.
- The *Association of Local Government Auditors (ALGA)*, established in 1989, is a professional association committed to providing an inclusive and thriving community for all local government auditors working together, making a difference for the public good.
- The *Information Systems Audit and Control Association (ISACA)*, established in 1967, is a professional association committed to the advancement of digital trust by empowering IT professionals to grow their skills and knowledge in audit, cybersecurity, emerging tech and more.

## 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. 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.