



Honorable Mayor Mitch Colvin and Members of the City Council

City of Fayetteville
433 Hay Street
Fayetteville, NC 28302

Re: Fiscal Year Ending June 30, 2022, Annual Report of the Audit Committee

Dear Mayor Colvin and City Council Members:

I am pleased to submit the Annual Report of actions and recommendations for the Audit Committee for fiscal year 2022 in accordance with the guidelines set forth in the City of Fayetteville, NC Audit Committee Charter.

The current Audit Committee of the City of Fayetteville consists of eight members:

Voting Members	Non-voting Members
Mayor Pro Tem Johnny Dawkins	Commissioner Ronna Rowe Garrett, PWC Chair
Council Member Derrick Thompson	Douglas Hewett, City Manager
Council Member D.J. Haire	Rose Rasmussen, CIA, Internal Audit Director
Ron O'Brien, FTCC	
Dr. Mfon Akpan, Methodist University	

Four outgoing members, Amy Samperton, FTCC, former Council Members Larry Wright and Yvonne Kinston, and Retired Internal Audit Director Elizabeth Somerindyke were a crucial part of the committee during the fiscal year.

The Audit Committee, established by a charter approved by City Council September 2015, serves as an advisory committee with a primary purpose to assist City Council in fulfilling its oversight responsibilities for the overall stewardship of the City's financial affairs.

The Audit Committee met four times over fiscal year 2022. The Audit Committee assisted the City Council by reviewing financial information, reviewing management reports, and providing independent recommendations regarding the scope, priority, and methods of audit related activities within the City.

Specifically, the Audit Committee attended to the following duties:

We received and reviewed the Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2021 from the independent auditors PBMares LLP.

We received and reviewed the Fiscal Year 2022 Internal Audit annual work plan and monitored progress in addressing the risk priorities for the fiscal year ended June 30, 2022.

We reviewed internal audit reports as they were released and were briefed on all pending and completed audit assignments by Internal Audit employees and, if applicable, department representatives.

Audits	Status as of 6/30/2022
Wireless Communication Usage	Report Issued and Approved August 2021
WEX Fuel Card Follow-up #2	Report Issued and Approved August 2021
Police Confidential Funds	Report Issued and Approved November 2021
Vector Fleet Contract	Report Issued and Approved November 2021
Fire Kronos Implementation	Report Issued and Approved January 2022
Changes to Employee Pay	Report Issued and Approved April 2022

We reviewed the progress of quarterly follow-up activities and discussed the action plan related to outstanding audit issues.

We discussed staffing concerns within the Internal Audit Department to determine if staffing was adequate in order for the department to meet its objectives. This will continue to be a focus moving into the next fiscal year as the Audit Committee is committed to assisting the City Council in fulfilling its oversight responsibilities for the overall stewardship of the City's resources and operations.

The Audit Committee members wish to express our appreciation to City staff that support our efforts and keep us informed of events and issues in the City. We look forward to continuing to serve the interests of the City of Fayetteville in the coming year.

Respectfully,

Audit Committee Chair

Attachment: Internal Audit Annual Report for Fiscal Year 2022



Internal Audit Annual Report

Fiscal Year 2022

Director of Internal Audit
Elizabeth Somerindyke

Senior Internal Auditor
Rose Rasmussen

Internal Auditor
Amanda Rich



OUR MISSION

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

Director of Internal Audit
Elizabeth Somerindyke

Senior Internal Auditor
Rose Rasmussen

Internal Auditor
Amanda Rich

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[Internal Audit | Fayetteville, NC \(fayettevillenc.gov\)](#)

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.

Key Performance Measures	FY 2021 Actual	FY 2022 Actual	FY 2023 Target
% of Internal Audit recommendations accepted by management	100%	100%	100%

Acceptance of audit recommendations is an indicator of service quality. In fiscal year 2022, management accepted and provided estimated implementation dates for 14 of 14 recommendations included in two audit reports issued during the fiscal year. These results exceed the 83% industry benchmark published by the Association of Local Government Auditors.

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

AUDITS	STATUS
<p>WEX Fuel Card Follow-up - Police (A2019-05F2) Overall, substantial progress was made related to the audit recommendations with 8 of 12 recommendations progressing to full resolution. The Police Department updated their WEX Fuel Card SOP on March 25, 2021 to include updates on the departmental monthly review, procedures for safeguarding fuel cards, and additional review requirements to ensure fuel card existence. The monthly review process included an evaluation of 8 WEX reports used to detect and follow-up on exceptions.</p>	<p>Report Issued August 2021</p>
<p>Wireless Communication Usage (A2021-02) Based upon test work performed, Internal Audit concluded:</p> <ol style="list-style-type: none"> 1. An opportunity existed for cost savings through increased oversight and accountability of cellular service plans; and 2. A clear system of inventory management is needed to safeguard devices. 	<p>Report Issued August 2021</p>
<p>Police Department Confidential Funds (A2021-01) The Vice Investigative Division administered the confidential funds in accordance with established procedures, and internal controls were satisfactory and worked effectively. There were no significant exceptions noted. However, corrective actions had not been finalized by management to address recommendations detailed in fiscal year 2016 and 2018 audit reports. Audit recommendations related to updating operating procedures remained not implemented.</p>	<p>Report Issued November 2021</p>
<p>Vector Fleet Contract (A2020-04) This audit highlighted vague contract terms that made it difficult to understand the contract requirements, ultimately impacting the success of the fleet function. Since the completion of the audit in September 2020, management transitioned the City of Fayetteville's fleet management services from the on-site Contractor to a City operated fleet maintenance operation with the strategic plan goal of being a financially sound city providing exemplary city services. The contract with the on-site Contractor was mutually dissolved on June 30, 2021. Therefore, audit recommendations related to contract terms were no longer applicable.</p> <p>However, in reference to Internal Audit's recommendations related to the oversight of fleet services, management intends to either implement or consider establishing a Fleet Committee, create and/or update current policies and procedures related to fleet management and maintenance, and prepare and schedule appropriate training.</p>	<p>Report Issued November 2021</p>
<p>Fire Kronos Implementation Audit (A2022-01) Based on the audit work performed, the Office of Internal Audit concluded overall the implementation was sufficient for employees to be paid correctly, but internal controls could be strengthened to include payroll policies, updated procedures, and a review and approval of payroll information in Kronos conducted by an independent party.</p>	<p>Report Issued January 2022</p>
<p>Changes to Employee Pay Audit Based upon test work performed, Internal Audit concluded controls were sufficient for base pay adjustments to be properly approved, accurately calculated, processed timely and adequately supported.</p> <p>Although not findings, Internal Audit identified the following improvement opportunities:</p> <ol style="list-style-type: none"> 1. Clarify guidelines to reduce the potential for varying interpretations. 	<p>Report Issued April 2022</p>

2. Consider reviewing the pay adjustment reasons and change codes to ensure coding is consistent and only codes necessary are carried forward into the new enterprise resource planning (ERP) system.	
Subrecipient Grant Monitoring Audit (A2022-04) The audit report was presented to the Audit Committee in October 2022. Based upon test work performed, Internal Audit concluded subrecipient agreements were in place and monitoring was performed. However, controls could be improved through: <ol style="list-style-type: none"> 1. Updates to agreement templates; 2. Staff training on use and monitoring of the funds, and 3. Establishing written procedures. 	Audit In Progress
Police Confidential Funds (A2022-05) The audit report was presented to the Audit Committee in October 2022. Based upon test work performed, Internal Audit concluded the 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.	Audit In Progress

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 2022, there were 9 incidents reported of which 33% 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	0	2	2
Conflicts of Interest	0	1	1
Customer Relations	1	0	1
Discrimination	1	0	1
Fraud	1	1	2
Kickbacks	0	1	1
Theft of Goods/Services	0	1	1
TOTAL	3	6	9

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 Violation (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 summarized assignments and dispositions for allegations reported and/or resolved during fiscal year 2022.

TABLE 2	ASSIGNMENT		
DISPOSITION	REFER	INVESTIGATE	TOTAL
Department Resolution	0	1	1
Non-Actionable	0	4	4
Unsubstantiated	0	1	1
Open/Ongoing Allegations	0	0	0
Substantiated	0	2	2
Substantiated – No Violation	0	0	0
Inconclusive	1	0	1
TOTAL	1	8	9

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 2022 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

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. As a response to the COVID-19 Pandemic, Internal Audit personnel provided training regarding fraud, waste and abuse through a recorded video in lieu of in person presentation. The video was presented to approximately 260 new employees during new employee orientation (NEO). This training has moved from bi-weekly to a monthly basis.

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.

Due to the COVID-19 Pandemic, Internal Audit's training and career development for fiscal year 2022 included webinars offered through the ALGA (Association of Local Government Auditors), the IIA (Institute of Internal Auditors), the ACFE (Association of Certified Fraud Examiners), and Cherry Bekaert LLP. 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.

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.