

**CITY OF LAURINBURG
CITY COUNCIL SPECIAL MEETING
MAY 12, 2015
MUNICIPAL BUILDING
303 WEST CHURCH ST.
6:00 p.m.**

Minutes

The City Council of the City of Laurinburg held a special meeting on May 12, 2015 in the Council Chambers of the Municipal Building at 6:00 p.m. with the Honorable Thomas W. Parker III, Mayor, presiding. The following Councilmembers were present: Mary Jo Adams, Dolores A. Hammond, Curtis B. Leak, Andrew G. Williamson, Jr. and J.D. Willis.

Also present were Charles D. Nichols III, City Manager; Jennifer A. Tippett, City Clerk; and William P. Floyd, Jr., City Attorney.

Mayor Parker called the meeting to order at 6:00 p.m. The Invocation was given by Councilmember Adams.

AUDIT PROCEDURES

Mr. Carl Head of Gustaf C. Lundin & Company, LLP, explained that he had reviewed the City's FY 2013-2014 audit and financial reports since he presented the audit to Council in November, 2014.

Councilmember Willis explained that one of the main reasons for requesting the meeting with Mr. Head was questions Council had about delinquent taxes and other financial matters. He added that Council would like for the audit process to be improved and reduce deficiencies.

Upon questions by Councilmember Adams, Mr. Head explained that it is rare to meet the deadline of October 31st for completion of the annual audit. He added that most municipalities, with understanding from the Local Government Commission (LGC), complete audits by November 30th. He further added that if the audit extends past November 30th, the auditing contract would need to be amended. He explained that one item that delays completion of the audit is the number of journal entries that must be made.

Mrs. Carpenter explained that once the Trial Balance is given to the auditor, whether City staff or the auditor finds a mistake, it is an automatic journal entry.

Upon question by Councilmember Willis, Mr. Head explained that the City should have a journal entry policy.

Mr. Head then discussed the following:

- The beginning of the audit process is that he is given the Trial Balance which he compares to the prior year's Fund Balances and cash accounts and if he has questions, he asks the Finance Director.
- 90% of audits have journal entries due to the complexity of governmental accounting.
- Auditor is not supposed to prepare financial statements, but many governmental auditors prepare the financial statements with the understanding that the government accepts the work of the auditor.

Upon questions by Councilmember Hammond, Mr. Head explained the following:

- Ideally, items should not be discovered and journal entries required after the auditor is given the Trial Balances.
- He should receive the Trial Balance no later than six (6) to eight (8) weeks after June 30th.
- He suggested that before the audit, the Finance Director review the prior year's journal entries and problems.

A discussion ensued concerning the number of journal entries. Mr. Head explained that the number of journal entries for the City has averaged 35 each year. He added that it is normal to have small journal entries, perhaps 10. He further added that there should not be million dollar journal entries as there were with the last audit. He further added that the Industrial Park Project was a "nightmare" for the City and was the cause of many of the journal entries.

Upon question by Councilmember Willis, Mr. Head explained that there are simple ratios that can be done by staff in order to have the proper receivables and revenues on the books prior to the auditor receiving the Trial Balance. He added that the ratios would let staff know that something was wrong and that adjustments needed to be made prior to giving the auditor the Trial Balance.

Mr. Head then explained that in the previous audit, the other main finding was the budgeting issue in that funds were appropriated to balance the budget, but the City did not have the funds available to appropriate. He added that the General Statutes say that if you use a plug figure, or appropriated fund balance, to balance a budget, you must have the funds available to appropriate. He further added that until a few years ago, he did not know about this issue until he was contacted by the LGC that this should be an audit finding.

Mrs. Carpenter explained that the appropriation of fund balance had been discussed with Council and that it was known that the City did not have the funds. She added that what should have been done at that time was a budget amendment to remove the appropriation. She reiterated that the appropriation was not used.

Upon question by Councilmember Willis, Mrs. Carpenter explained that she did not know exactly when the appropriation of funds was discussed with Council, but it was after the audit.

Mayor Parker stated that it was discussed after-the-fact and that Council did not have prior knowledge.

Further discussion ensued concerning appropriation of funds in the Electric Fund in the FY 2013-2014 budget. Mr. Head explained that there is a big problem if the budget is passed without knowing what the balances are in the different funds.

Upon question by the City Manager, Mr. Head explained that a budget amendment could have been done in October; however, he was not sure if that would have been sufficient for the LGC and having an audit finding.

Upon question by Councilmember Leak, Mr. Head explained that if Council was going to use fund balances to balance budgets in the future, it must know what the balances are. He further added that until the audit is completed, the fund balance figures may not be 100% accurate; however, a budget or an interim budget must be passed by July 1 each year. He explained that hopefully the fund balances will be in good condition and he suggested that bank statements be balanced and all journal entries be completed in July. He added that no one has all journal entries posted by June 30. He further added that the key is to have decent fund balances or to not use fund balances at all.

A brief discussion ensued concerning appropriation of fund balance by the County in the budgeting process.

Discussion then ensued concerning ways to prevent the number of journal entries as follows:

- Make sure everything is posted in a timely manner.
- Test finances throughout the year.
- Teach staff to do the ratios Mr. Head discussed earlier.

Upon question by the City Manager, Mr. Head explained that he would spend a little more time with staff during the auditing process and work on reducing the number of repeat journal entries from year to year.

Upon question by Councilmember Willis, Mr. Head estimated 15-20 of the journal entries are the result of something not being posted in the system.

Councilmember Adams stated that some municipalities have interim audits and pay an independent auditor to come in and do monthly journal entries.

Councilmember Hammond explained that Mr. Head had indicated that an interim audit and performing the monthly journal entries would be costly.

Councilmember Willis suggested that the City Manager and Finance staff develop a plan to correct or reduce the problems with the audit.

Councilmember Adams commented that she thought procedures were put in place after the FY 2012-2013 audit to correct some of the deficiencies.

Mrs. Carpenter explained that Finance had begun entering fixed assets in the accounting system. She added that currently utility billing is running the Harris System and Accounting is running the Munis System, which makes it difficult because of importing files. She added that by December 1st, the goal was to have everything on Munis. She further added that this will also result in savings to the City because a server will not have to be replaced.

Discussion ensued concerning the financial and billing software. Mrs. Carpenter explained that Munis is modern and up-to-date technology; however, Harris is not, which is one (1) of the reasons for moving utility billing to Munis.

Upon question by Councilmember Adams, Mr. Head explained that integration into one (1) system could help with reducing errors, particularly with the enterprise funds.

Upon question by Councilmember Hammond, Mrs. Carpenter explained that she had researched other financial software. She added that staff had visited another North Carolina municipality that utilizes Munis Billing to make sure that it would work well for the City.

Mr. Head explained that with regard to journal entries, problem areas can be determined by looking at past journal entries. He further added that within six (6) weeks after June 30, he should be able to look at the journal entries and make sure the accounts are in balance and are valid.

Upon question by Councilmember Hammond, Mr. Head explained that Council should not be too concerned about the auditor preparing the financial statements; however, City staff does need to have a better understanding of the financial statements. He added that it would give the auditor a sense of confidence that there is enough knowledge at the City to review the financial statements and find errors without the auditor being 100% involved.

Upon question by Councilmember Willis, Mr. Head discussed transferring funds from the enterprise funds to the General Fund. He explained that the City has a written policy on that. He added that transfer of funds between the enterprise funds and the General Fund is looked down upon, and he didn't believe the City had been transferring money recently.

A discussion ensued concerning Management Fees which allows the General Fund to charge the enterprise funds for administration. Mrs. Carpenter explained that the City reviewed the formulas for Management Fees with the LGC.

A brief discussion ensued concerning the FY 2013-2014 audit and that the expenditures were approximately \$1 million under budget. Mr. Head explained that at the end of FY 2013-2014, the City used \$74,000.00 of Fund Balance.

Upon question by Councilmember Williamson, the City Manager explained that he and staff would come up with ideas and plans to address issues.

Councilmember Willis explained that he wanted the ideas and plans in writing.

ADJOURNMENT

Motion was made by Councilmember Hammond, seconded by Councilmember Williamson, and unanimously carried to adjourn.

The meeting adjourned at 6:55 p.m.

Thomas W. Parker III, Mayor

Jennifer A. Tippett, City Clerk