

RESOLUTION FOR RESPONSE TO INTERNAL CONTROL WEAKNESSES FOR  
FINANCIAL REPORTING AND FINANCIAL PERFORMANCE INDICATORS OF  
CONCERN (FPIC) FOR FUND BALANCE REDUCTION AND LATE SUBMISSION OF  
AUDIT

WHEREAS, the Town Council has received a presentation of the Financial Statements and Independent Audit for the Fiscal Year Ended June 30, 2022 from independent auditors, FORVIS, LLP; and,

WHEREAS, the Independent Auditors, FORVIS, LLP, has provided a favorable opinion for the Town's Annual Comprehensive Financial Statements; and,

WHEREAS, the Independent Auditors identified a material weakness in internal controls for financial reporting; and

WHEREAS, this material weakness caused an inaccurate reconciliation of certain asset and liability accounts which required material adjusting journal entries during the audit process to correct these improperly reported balances; and,

WHEREAS, the Independent Auditors have identified two Financial Performance Indicators of Concern that needs to be addressed by the Town Council; and,

WHEREAS, it is important that financial reporting be accurate and complete to disclose the financial condition of the Town and for management decision making; and,

WHEREAS, the Auditor's Findings, Recommendations, and Fiscal Matters have been discussed with the Town Manager and Fiscal Officer; and,

WHEREAS, 20 NCAC 03 .0508 requires the governing body to develop a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters" ("Response) signed by a majority of the members of the governing body; and submit such Response to the Secretary of the Local Government Commission within 60 days after the presentation.

NOW THEREFORE, BE IT RESOVLED by the Town Council of the Town of Carrboro, North Carolina adopts the following response to the Auditor's Findings, Recommendations, and Fiscal Matters for Audit Year Ended June 30, 2022:

- A. Material Weakness: The Schedule of Finding and Question Costs included as a material weakness that errors were identified in the balances provided for certain accounts including, lease related assets and liabilities upon implementation of GASB 87, capital assets, accounts receivable, and accounts payable. These errors resulted in the auditors having to

identify numerous adjusting journal entries to correct the improperly reported balances. Recommendation for auditors is that management conducts a thorough review of all balance sheet accounts, across funds, to ensure that the trial balances provided for audit do not contain material errors. The Council has stressed the importance of consistent processes to accounting staff and will take (or has taken) the following corrective actions:

1. The Finance Director is directed to employ an independent CPA to perform the following:
    - a. Review all balance sheet accounts, across funds;
    - b. Review and evaluate system processes for capital assets, accounts receivable and accounts payable;
    - c. Develop with finance staff procedures for reconciliations of all balance sheet accounts, across funds to ensure that trial balances do not contain errors; and,
    - d. Recommend needed training for the accounting staff.
  2. The above tasks in Item #1 above is to be completed no later than May 31, 2023.
  3. The Finance Director shall report to the Town Council on the outcome of the above by May 31, 2023.
- B. Fund Balance Reduction: To increase fund balance available for appropriation in the General Fund, the Town Council has adopted the following fund balance policy that requires general fund balance between 22.5% and 35.0%. If unassigned fund balance falls below 20.0%, the Town Manager is required to develop and implement a plan to rebuild the balance to 22.5% within one year; or if unassigned fund balance exceeds 35.0%; the Town Manager may set aside an amount in assigned fund balance for transfer to the capital projects fund for future projects (unless the Town Manager determines it necessary to maintain fund balance at the current level due to existence of other fiscal, economic and/or operating conditions). The percentage of fund balance available at June 30, 2022 is 37.96%. The Town Council is committed to compliance with the provisions of its fund balance policy. A copy of the policy we adopted is enclosed.
- C. Late Submission of Audit: This is the second consecutive year that the Town has submitted its audit report to the LGC after the required deadline. Last year the audit was submitted late due to the need for a single audit which was identified in late November 2021 by independent auditor's management review. This year the audit was delayed due to the errors identified in the balances provided for certain accounts including, lease related assets and liabilities upon implementation of GASB 87, capital assets, accounts receivable, and accounts payable. These errors resulted in the auditors having to identify numerous adjusting journal entries to correct the improperly reported balances. The steps in A.1. above when implemented and completed should eliminate incorrect at data in future years' audit.

- D. A copy of this resolution shall be provided to the Town Manager and Finance Director within five days of adoption.
- E. A copy of this resolution shall be provided to the Secretary of the Local Government Commission within 60 days of adoption