

Town of Spring Lake
Special Meeting of the Board of Aldermen
Municipal Building
300 Ruth Street
Spring Lake, NC 28390

February 21, 2024

MINUTES

6:00 pm

The Spring Lake Board of Aldermen held a Special Meeting in the Grady Howard Conference Room of the Spring Lake Municipal Building with Mayor Kia Anthony presiding.

Board Members Present:

Mayor Pro Tem Soñia L. Cooper
Aldерwoman Robyn Chadwick via Zoom/Joined in-person at 6:18 pm
Alderman Marvin Lackman
Alderman Raul Palacios
Aldерwoman Adrian Thompson

Others Present:

Tiffany Anderson, Local Government Commission
Carly Autry, Town Clerk
Kendra Boyle, Local Government Commission
Banard Lemon, Audio Visual Coordinator
Lieutenant Danny Sutton, Spring Lake Police Department

1. Call to order

Mayor Anthony declared a quorum and called the meeting to order.

2. Invocation and Pledge of Allegiance

Alderman Palacios gave the Invocation and led the Pledge of Allegiance.

3. Open Session – Audit Update from the LGC

Kendra Boyle stated she wanted to give the Audit Committee/Board an update on where the Town is with the audit as the LGC waived the requirement for the fiscal year 2021 audit of the basic financial statements. Ms. Boyle stated if the Town had expended a certain amount of money in Federal and State awards then a single audit would be required, but the Town did not meet that threshold in 2021, however, in 2021, FEMA approved a scope of work for the Town for some work that needed to be done related to Hurricane Florence, approximately around 2018. Ms. Boyle stated FEMA has agreed to reimburse the Town for expenditures related to repairs for that hurricane, and in 2022, approximately \$800,000 worth of expenditures were reimbursed. Ms. Boyle stated the LGC spoke to DPS, who is the State agency that disperses those funds for FEMA and they requested a Schedule of Expenditures of Federal Awards (SEFA) report and a program-specific audit on the FEMA expenditures so they can have some assurance the

expenditures submitted were allowable under the scope of work approved, which will be done by Cherry Bekaert, however, it is separate from the audit of the basic financial statements and it does not have to be done for this request made to FEMA but it could not hurt. Ms. Boyle stated a request was made to FEMA for an extension of the deadline to spend those funds that were approved in the scope of work, as all that work was supposed to have been done by 2020 or 2021 but have not heard back from FEMA yet, and need to make sure there is about \$6 million left and that they have every bit of information that could assist in deciding on that request and the Public Works Department will be asking for a change in the scope of work which may have already been submitted. Mayor Anthony asked for clarification if the \$6 million is coming back to the Town from FEMA and Ms. Boyle stated it would be reimbursed to the Town as the Town has to spend the money and then get reimbursed. Mayor Anthony asked if only \$800,000 was reimbursed and Ms. Boyle stated right only \$800,000 of expenditures were submitted and is not aware of any more expenditures related to that and the last time anything was submitted to FEMA was in August 2021. Mayor Anthony asked if there was \$6 million more that could be spent and Ms. Boyle stated yes but it is on very specific things that sort of relate to the DEQ report that Mr. Williams received a couple of weeks ago, which outlined some things that had been done, still needed to be done, and some routine maintenance that need to be taken care of that do not fall under the scope of FEMA. Mayor Anthony asked how long should the extension be because \$6 million is a lot to spend and Ms. Boyle stated she was not aware of how long was asked or what was asked for. Mrs. Anderson stated the initial extension was either June or July 2024 so the LGC is going back to FEMA to see if another extension can pass to at least either June or July 2024 and another scope of work of changes must be submitted and approved, and once approved, then an extension based on that scope of work can be requested. Mayor Pro Tem Cooper stated she is almost sure she remembers this money and a lot of it had to do with the hurricane and Ms. Boyle stated yes, all of this is related to the hurricane. Mayor Pro Tem Cooper stated the Town had different choices to make in the amount of money received depending on the route taken, which that money was received during Covid, and the Town was also taken over by the LGC, and asked what the Town's probability of getting an extension would be. Ms. Boyle stated DEQ is helping with that but they have not heard from FEMA so she is hoping this program-specific compliance report is not dependent on one another and hopes it can assist and make things run smoothly, as it is not an unreasonable request.

Ms. Boyle stated as far as the audit of the basic financial statements, that work has begun and Cherry Bekaert can start using its financial statement software to map things and start doing some testing, which they have identified three (3) areas that are going to need additional testing. Ms. Boyle stated payroll transactions will be heavily tested to assure them that they can issue an unmodified opinion, which is the goal, so there will be lots of questions regarding payroll transactions that happened in fiscal year 2022. Ms. Boyle stated the other category would be capital assets which was an issue in the office of the State Auditor's report, which they will pay a lot of attention to, which will require that there is a lot of work done to make sure the list they currently have is accurate and complete, and if there have been any deletions, they are accounted for properly and off the books, and whatever is left, the location is documented and what condition it is in and how it is or was used. Ms. Boyle stated the third category is the accounts receivables that are on the books right now and asked Debra Mack from Greg Isley a few months ago to pull the balances on the accounts receivable and those numbers were surprisingly high which means there are lots of accounts on the books that may or may not be accurate but right now it appears that there are over 200,000 active customers receivable and then one (1) million inactive customers that are sitting on the books. Mayor Pro Tem Cooper stated she is perplexed because in

receivables there is what you call DSO where you try to bring that number down as low as possible and asked if this has ever or seldom happened here in the Town. Ms. Boyle stated it may have happened and just is not being reflected in the books at the beginning of fiscal year 2022. Mayor Pro Tem Cooper asked if anybody such as Greg Isley has recommended writing this off as bad debt at this point. Ms. Boyle stated a methodology to write off that bad debt must be created and figured out what is bad debt and what does not belong on the books and use that methodology moving forward, which consists of a lot of research. Mayor Anthony stated that is going to be hard to do because of the 2021 audit and Ms. Boyle stated yes, but the 2020 audit can be looked at, as that number is available, and then look at how much of what is on there right now was added in 2021 that is not getting audited and come up with some type of methodology that can be applied uniformly and consistently going forward to write off, which would reflect the Town's fiscal year 2022 statements. Mayor Pro Tem Cooper asked if all this bad debt water bills and Ms. Boyle stated most of it is water bills and fire inspection fees that appear were either not invoiced or collected, not sure what is happening and why it is still sitting on the books. Ms. Boyle stated it may come to fruition that it never should have been on the books, just do not know, so that is why there are going to be a lot of questions about the Town's water and sewer billing and fire inspection fees. Alderman Palacios asked if the collection standpoint is known, referring to revenue, is the responsibility of revenue or finance and Ms. Boyle stated that is now known but it depends on why it is sitting on the books, but it could be because of journal entries that were made by finance, hiring people who were taking care of finances or it could be sitting out there at a high number because of the fraud. Alderman Palacios stated he remembers the Board was told in December 2021 that there was a high number of bad debts on the books and a plan was trying to be worked out. Ms. Boyle stated that has come to the LGC's attention in the past but does not think that it has risen to the level of being able to be researched yet a lot of questions will be asked to the Town Manager, the Town's billing staff, and needs the Board's support to get complete, accurate and well-researched answers, which would help for the auditor to give an unmodified opinion. Mayor Pro Tem Cooper asked if any of this showed up in any of the old audits and Ms. Boyle stated she did not recall seeing anything about an unusual number of accounts receivable so that could mean that it all happened in fiscal year 2021, which the majority of that was a total of about \$1.3-\$1.4 million in accounts receivable, however, majority of that is not something that happened in this fiscal year and hopefully research will confirm that it was in the past. Mayor Pro Tem Cooper asked if the data she and Mrs. Anderson were looking at provided a timeline and Ms. Boyle stated they could pull the data and research it to figure out how old it is. Mayor Anthony asked if that is what the LGC is about to start and Ms. Boyle stated yes, but there will be probably some accounts found at high balances that have not been paid and should have been paid and research why they have not been paid, which could have to do with write-offs of where people had bad bills. Alderman Palacios stated the Town does not have a standard practice of collecting or running that money off then that will be an issue and remembers that \$185,000 was the number given in December 2021 when the Board was initially told that when questions were asked about the process and no answer was given. Mayor Anthony stated she thinks during that time they had to determine if 2021 was even going to be audited. Alderman Palacios stated as a matter of practice for the Town, there are going to be write-offs in bad debt and previously wanted to know what is the process for the Town when that happens. Mayor Pro Tem Cooper stated the Finance Director should be leading that. Alderman Lackman asked before 2021 were there some practices in place for collection and Ms. Boyle stated she did not know, but for \$1.4 million to come up in the accounts receivable, she would assume no, and the unfortunate thing is that no matter how much is written off, it is going to be run through the books for the fiscal year 2022 but at least it will not be in fiscal year 2023-2024 but must get it established.

Mrs. Anderson stated she wanted to correct the total for all the customers, which is \$1.17 million, and \$963,000 of that is the total of inactive customers and \$214,000 of active customers. Mayor Pro Tem Cooper asked if these amounts may be written off or will be written off but will still try to collect and Ms. Boyle stated whatever will be done for those that are eligible for debt set off and will still try to collect some of that total of \$1.17 million but it looks like most of it, the \$900,000, are inactive customers, and once an accurate number is figured out, then a method can be put in place to try and make some collections. Ms. Boyle stated anything that is determined as not being accurate or is something that cannot be collected, then that is the amount that will run through fiscal year 2022's books. The Board and the LGC discussed what years these numbers came from and how. Mrs. Anderson stated these came from online convenience fees, cut-off fees, late fees, overpayments, and possibly fire inspection fees which may be the miscellaneous fees.

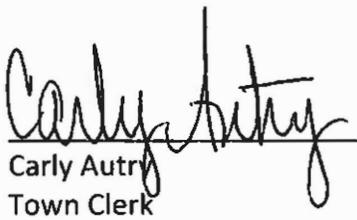
Mayor Anthony asked what the Board needs to do other than making sure the books are wide open so all information that is requested is received for a smooth process and Ms. Boyle stated the main thing is the Board's support. Mayor Pro Tem Cooper asked who is needed to help with that access and Ms. Boyle stated a lot of these answers are going to come from the Interim Town Manager, the Revenue Supervisor, and probably from Public Works. Alderman Palacios asked how long the overall process for this audit with the additional testing is and Ms. Boyle stated it depends on the results of the preliminary testing. Alderman Palacios asked how long a normal audit takes and Ms. Boyle stated a normal audit should be done in four (4) to six (6) months, but could be longer. Alderman Palacios asked if this was just to get to the 2022 audit and Ms. Boyle shook her head yes. Alderman Palacios asked if anything was being discussed or planned for the 2023 audit and Ms. Boyle stated she thinks 2023 will go much smoother as there will be less testing that must be done, however, there will be some additional payroll testing in that year because of certain transactions, but it should not be anywhere close to the level of testing that must be done for 2022. Alderman Palacios asked if Cherry Bekaert was doing that one too or if a commitment has been received and Ms. Boyle stated there is an audit contract for 2022 and was not sure if it is a multi-year contract. Mayor Anthony stated when talk started to take place about getting Cherry Bekaert's firm, the Town was looking at doing 2022 and 2023 and Ms. Boyle stated normally it is about a three-year contract, which helps them have some economy of scale for doing their contracts, but that does not mean the Town is obligated to them. Alderman Palacios asked if a cost estimate was received for the audit as he knows the Town is expecting a higher rate because of the extra testing and Ms. Boyle stated she believes the audit contract right now stands at about \$41,000 for one (1) year and \$45,000 is budgeted per Debra Mack. Mayor Pro Tem Cooper stated it was originally \$16,000. Ms. Boyle stated that \$41,000 is what the audit contract is for and then there will be the program compliance, which is an additional fee, so there may need to be a budget amendment. Alderman Palacios asked what is the program compliance and Ms. Boyle stated it is for the FEMA money filed from 2018 through 2021 and reimbursed in 2022, so that is why FEMA wants some work done in 2022 was because they reimbursed it. Mayor Pro Tem Cooper stated she is trying to understand how it goes from \$16,000 to \$41,000 for the audit and how can that be explained and Ms. Boyle stated she was not sure what the \$16,000 was based on or maybe that was based on the prior audits that were done, which was performed by S. Preston Douglas, but must factor in the level of fraud and skipping a year, plus nothing was paid for the fiscal year 2021. Ms. Boyle stated she will research how it went from \$16,000 to almost \$46,000 in the budget and will let the Board know. Mayor Pro Tem Cooper stated she understands that this is a unique situation, but just needs to know if this type of money will continue to be paid because she looks at municipalities' budgets of the same size as the

Town and knows they are not paying this type of money. Ms. Boyle stated the LGC must approve all the audit contracts for units of local government in North Carolina and units of local government about the size of the Town are paying at least \$25,000 to \$30,000 for audits and hopefully, she can find out from Cherry Bekaert was the audit is going to cost for 2023-2024 so Debra Mack can put it in next year's budget.

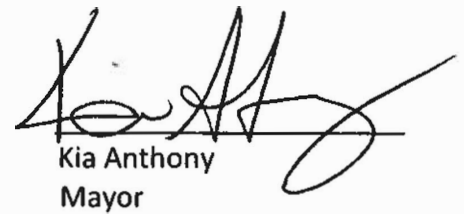
4. Adjournment

Action: There being no further business to come before the Board, Mayor Anthony adjourned the meeting at 6:33 pm.

ATTEST:


Carly Autry
Town Clerk




Kia Anthony
Mayor