



Agenda Abstract

BOARD OF COMMISSIONERS

Meeting Date:	Jan. 23, 2023
Department:	Admin/Financial Services
Agenda Section:	Presentations
Public hearing:	No
Date of public hearing:	N/A

PRESENTER/INFORMATION CONTACT

Town Manager Eric Peterson

ITEM TO BE CONSIDERED

Subject: Fiscal Year 2021 Audit and Annual Financial Report

Attachments:

None.

Summary:

April Adams (lead auditor, CPA and Assurance Partner, from Cherry Bekeart Accounting Firm) will present the results from the FY21 Annual Financial Report and answer questions from the town board.

The FY21 audit is over one year late being delivered. FY22 is over two months late, but fortunately about 60 days from completion, so progress is well ahead of last year. The primary reasons for the significant delays were discussed in the most recent budget message in June. Much of the delays are due to significant staff turnover over the past two years. Losing most of the town's accounting staff in a short period in early 2021 combined with eliminating three positions in streamlining effort (e.g., assistant finance director, accounts payable clerk, and billing supervisor) prior to this created a crisis. The result was accounting operations being left with 1.4 employees. Further turnover in the finance director position and difficulty filling vacancies exacerbated the situation. The town turned to the Isley CPA firm two times to provide interim finance directors during this time, as well as support in areas such as payroll and other daily operations. In the past two years, eight (8) different people have served as finance director or an interim. The town has relied on assistance from the Isley CPA firm as well as an external local government finance consultant to help the town through this challenging period. It's important to note the department is still operating with an interim director and has two key vacancies.

In prior years the annual report has included the word "comprehensive" in the title - Annual Comprehensive Financial Report. The statistical section, tables on various information at the end of the report, is not required in the audit, Local Government Commission, and bond rating firms and bond holders. It is helpful to have this additional information but not required. To avoid further delays on issuing the audit and since the next audit report will be coming out shortly, it was decided to proceed without the statistical section since there was not time to sufficiently vet the accuracy of all the data.

The town went over 25 consecutive years not only providing the "comprehensive" version of the audit, but also received the Government Finance Officers' Association Certificate of Achievement in Financial Reporting dating back to the 1990's. We plan on returning to this high level of reporting and to do so in a timely manner as soon as possible. The most immediate goal is full staffing of the department, getting new hires oriented, implementing improvements recommended in the SWOT (Strengths, Weaknesses, Opportunities, and Threats), providing the support, training, systems, and redundancy needed to build a strong and resilient operations. This is critical since

turnover and unexpected situations are inevitable, so we must ensure our financial operations are built to withstand the expected challenges that will arise without seeing the type of disruption that's occurred over the past two years. As the town board is aware, Hillsborough is not alone in having experienced these challenges as a large number of smaller local governments in North Carolina have or are going through similar difficulties with staffing and being late with key reports like the annual audit.

While the list of challenges that have arisen due to this situation are numerous, there have been several positive situations emerge:

- Existing staff have gained a lot of experience.
- The transition has provided an opportunity to assess operations from a fresh perspective to help build a more resilient, effective, and efficient department.
- Significant improvements have already been made to an exceptionally bureaucratic and inefficient procurement process.
- A SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis identifying key improvement steps and options is almost complete.
- A new finance director with considerable experience has been hired and starts Feb. 6.

The board will be hearing more updates on implementing elements of the SWOT soon and it will likely be a key part of the FY24-26 budget.

Financial impacts:

Staff recommendation and comments:

Action requested:

Receive presentation and report.