

CUMBERLAND COUNTY FINANCE COMMITTEE
COURTHOUSE, 117 DICK STREET, 5TH FLOOR, ROOM 564
APRIL 2, 2015 - 9:30 AM
MINUTES

MEMBERS PRESENT: Commissioner Marshall Faircloth, Chairman
 Commissioner Jeannette Council
 Commissioner Larry Lancaster

OTHERS: Amy Cannon, County Manager
 James Lawson, Deputy County Manager
 Melissa Cardinali, Assistant County Manager
 Tracy Jackson, Assistant County Manager
 Rick Moorefield, County Attorney
 Vicki Evans, Finance Director
 Sally Shutt, Governmental Affairs Officer
 Julean Self, Human Resources Deputy Director
 Dan Domico, Human Resources Analyst
 Eddie Burke, Cherry Bekaert, LLP
 Candice White, Clerk to the Board
 Press

Commissioner Faircloth called the meeting to order.

1. APPROVAL OF MINUTES – FEBRUARY 5, 2015 REGULAR MEETING

MOTION: Commissioner Lancaster moved to approve the February 5, 2015 meeting minutes.
SECOND: Commissioner Council
VOTE: UNANIMOUS (3-0)

2. CONSIDERATION OF CHANGES IN AUDIT STANDARDS REGARDING USE OF INTERNAL AUDITORS

BACKGROUND:

In 2004 the American Institute of Certified Public Accountants (AICPA) launched a clarity project in an effort to make Generally Accepted Auditing Standards (GAAS) easier to read, understand and apply. The final piece of this project relates to the internal audit function, which produced very specific guidelines for the use of internal auditors on an external audit. As an example of this arrangement, when Cherry Bekaert conducted the annual audit for the County in 2014, they were assisted by the County's internal auditor.

The plan was to continue the use of internal audit staff on the annual audit. However, there are some organizational structure issues addressed in the GAAS requirements that prevent Cherry Bekaert from utilizing the internal audit staff in the upcoming FY15 audit. One of the main factors is that the new standard requires the internal audit function to have a systematic and disciplined approach including quality. As the internal audit function is considered part of the

internal control structure, the approach and methodology must be in place for substantially all of the fiscal year in order for the external auditors to be able to rely on the work of the internal auditor. This clarification was issued in 2014 and effective for the County's June 30, 2015 year end. The timing of the release did not allow the County time to make the necessary organizational changes to comply with all the criteria needed for the internal audit function to be considered independent for purposes of involvement in the external audit.

Therefore, Cherry Bekaert is unable to utilize internal audit staff for the FY15 audit which will result in increased audit fees for the audit. The fee will increase by \$20,500 in the fiscal year 2015-16 budget. Additionally, an updated structure needs to be in place by July 1, 2015 that allows the external auditors to rely on the work of the County's internal audit staff.

RECOMMENDATION:

The recommendation of staff is to approve the audit fee increase of \$20,500 for the fiscal year 2015 audit and direct staff to reorganize the internal audit structure and review the recommendations of Cherry Bekaert in designing an internal audit structure that allows the County to return to the use of internal audit staff on the annual audit.

Melissa Cardinali, Assistant County Manager, introduced Eddie Burke, Partner with Cherry Bekaert, LLP, and reviewed the background information and recommendation as recorded above.

MOTION: Commissioner Lancaster moved to approve the recommendation of staff.

SECOND: Commissioner Council

DISCUSSION: Commissioner Edge asked whether the new standard affected the internal audit of non-profits/agencies the county funds. Ms. Cardinali stated the county's internal or self monitoring audits are not affected. Mr. Burke explained work that Cherry Bekaert assigned to the County's internal auditors will be subcontracted until the internal audit structure is reorganized and the County can return to the use of internal audit staff on annual audits.

VOTE: UNANIMOUS (3-0)

3. REPORT AND RECOMMENDATION REGARDING PHASE III OF CLASSIFICATION AND PAY STUDY

BACKGROUND:

In the Spring of 2011, the County began a comprehensive Classification and Pay Study that was conducted in phases.

Phase I of the Study involved a review of general County government positions and was implemented July 2012. Phase II involved a review of Human Services positions subject to the State Human Resources Act (i.e., positions assigned to the Department of Social Services and the Department of Public Health) and was implemented September 2013. However, due to

significant state issues and uncertainty involving NCFAST, Medicaid and NCTracks, the review of income maintenance caseworkers was delayed until the impact of these programs could be adequately assessed.

Phase III (i.e., the review of Income Maintenance Caseworker I positions assigned to DSS Recertification and Adult Medicaid teams) has now been completed. Based on DSS program and system changes, it has been determined that the level of responsibility for seventy-four (74) positions have increased. Therefore in coordination with the Office of State Human Resources, we are recommending that these positions be reclassified.

The Board previously set aside funding in the FY2015 budget for implementation of this final phase. The net annual projected costs of Phase III is \$96,127 after federal and state reimbursements.

RECOMMENDATION:

County Management and Human Resources recommend approval of the proposed actions for Phase III of the Classification and Pay Study.

James Lawson, Deputy County Manager, recognized Julean Self, Human Resources Deputy Director, and Dan Domico, Human Resources Analyst, and then reviewed the background information and recommendation as recorded above.

In response to a question posed by Commissioner Faircloth, Mr. Domico stated should the full Board approve Phase III, the effective date for the position reclassifications would be May 3, 2015.

MOTION: Commissioner Council to approve the proposed actions for Phase III of the Classification and Pay Study.

SECOND: Commissioner Lancaster

VOTE: UNANIMOUS (3-0)

4. CONSIDERATION OF FUNDING OF CONTINUUM OF CARE HOMELESS MANAGEMENT INFORMATION SYSTEM (HMIS)

BACKGROUND:

On March 12, 2015, the Continuum of Care (CoC) gave a presentation to the Fayetteville-Cumberland Liaison Committee, which included an overview of the CoC's structure and goals.

The CoC is designated as the lead agency responsible for working towards goals intended to provide more housing and services to our homeless population. An emphasis has been placed on developing an effective community-wide, coordinated intake and assessment process to better manage the referral process and available community resources. The U.S. Department of Housing and Urban Development (HUD) is requiring CoC programs to improve quality data management through the use of a HUD-approved Homeless Management Information System (HMIS) to better track client data and service provider outcomes. HUD also expects CoCs to

assign a system administrator to manage the HMIS. The CoC programs within North Carolina have been approved to use the Michigan Coalition Against Homelessness (MCAH) HMIS statewide. The annual fee for the HMIS is projected at \$15,000 - \$20,000; cost projections for a system administrator vary.

During the March 12th Fayetteville-Cumberland Liaison Committee meeting, the Committee voted unanimously to endorse the funding of future programs and for the City and County representatives to present this to their respective governing bodies for consideration. The intent would be for the City and County to share equally in the costs associated with implementing and managing an HMIS.

Since the March 12th meeting, the CoC has had additional discussion regarding the upcoming MCAH HMIS conversion and recommends assigning the system administrator role internally during the initial phase following the conversion. This will provide an opportunity to test, debug and resolve any issues with the system and fully assess system administrator responsibilities to determine the best alternative for carrying out this function moving forward. The County will also explore potential funding sources to help cover the future cost for administering the HMIS. It is important to note that the CoC has submitted an application for 501(c)(3) nonprofit status, which will allow the CoC to seek additional funding opportunities for housing/homelessness initiatives.

RECOMMENDATION:

In consideration of the Fayetteville-Cumberland Liaison Committee's request, County Management recommends:

1. Approval to fund the County's portion of the shared cost for the MCAH HMIS fee.
2. Utilize internal staff to carry out and assess the system administrator role to determine the future delivery of this function.

Mr. Lawson stated homelessness has come to the forefront for the City and the County and in recent months, more discussions have taken place among community partners to include more engagement by the faith community and the City and County. Mr. Lawson stated the discussions have gained momentum and a clear picture of issues that need attention is emerging. Mr. Lawson reviewed the background information and recommendations as recorded above.

Commissioner Council referenced the March 12 meeting of Fayetteville-Cumberland Liaison Committee and stated she favored utilizing internal staff. Commissioner Faircloth stated he is interested in keeping up with the truly homeless population and helping people who need a leg up. Commissioner Faircloth further stated quality data management through HMIS will narrow down and help define the homeless situation. Commissioner Edge stated the HMIS will provide an inventory of available resources and is a step in the right direction for the community.

MOTION: Commissioner Lancaster to approve the County's portion of the shared cost for the MCAH HMIS fee and utilize internal staff to carry out and assess the system administrator role to determine the future delivery of this function.

SECOND: Commissioner Council

VOTE: UNANIMOUS (3-0)

5. REVIEW OF PROPOSED SENATE BILL 369, SALES TAX FAIRNESS ACT

BACKGROUND:

Finance staff have been reviewing the financial implications of S369 which is an act to phase-in the conversion of the local sales and use taxes authorized under Articles 39, 40 and 42 to a state sales and use tax that is allocated to the counties and cities on a per capita basis as a local revenue source. Analysis included a review of the bill, calls to Department of Revenue staff and the NCACC staff as well as review of the Local Sales Tax Distribution Comparison provided by the Fiscal Research Division of the Legislative Services Commission. Financial implications include:

- Phase-in is a gradual change beginning 1/1/16, concluding with full implementation in fiscal year 2019
- Cumberland County showing a gain of over \$8 million in fiscal year 2019
- The municipalities showing a combined loss of over \$8 million in fiscal year 2019
- Inflation factor accounts for nearly all gain shown in the County's projection amount
- Counties lose authority and control of sales taxes previously levied by Counties
- Removal of County option to choose ad valorem method of sales tax distribution
- City hold harmless was not factored into any of the computations (S369 repeals the article that created hold harmless, which removes the basis going forward)
- 22.5% of the collected revenue will be set aside for school funding – impact is nearly break even in comparing current law to S369
- Article 46 (the one-quarter cent (.25¢) County Sales and Use Tax – County retains 100%) – This Article remains unchanged

RECOMMENDATION:

No action needed – for information purposes only.

Ms. Cannon stated when Senate Bill 369 – Sales Tax Fairness Act, moved forward as an actual bill, the Finance Department worked with County Management on a daily basis in an effort to understand the implications of the complicated bill. Vicki Evans, Finance Director, reviewed the background information and financial implications as recorded above. Ms. Evans stated the chart recorded below is only reflective of the impact on Cumberland County and the change in 2019.

Local Sales Tax Distribution Comparison for Cumberland County						
See Notes at the End of This Document for Calculation Information						
	FY 2013-14	FY 2018-19	FY 2018-19	FY 2018-19	FY 2018-19	
	Actual	Projection	Projection	Projection	Change	
		Current Law	Current Law With	SB 369	Compares Current Law to SB 369	
			No Adjustment		\$	%
			Factors			
TOTAL (statewide)	2,278,449,793	2,706,083,617	2,706,083,617	2,706,083,617		

Cumberland County	36,420,427	43,118,380	43,147,049	51,488,233	8,369,853	19.4%
Eastover	595,345	705,738	706,059	577,660	(128,078)	-18.1%
Falcon	50,976	60,800	60,828	50,941	(9,860)	-16.2%
Fayetteville	33,602,724	39,828,651	39,846,779	32,586,166	(7,242,485)	-18.2%
Godwin	22,649	26,772	26,785	21,673	(5,099)	-19.0%
Hope Mills	2,512,905	2,985,369	2,986,725	2,464,078	(521,291)	-17.5%
Linden	20,930	24,765	24,777	20,128	(4,637)	-18.7%
Spring Lake	1,901,853	2,261,865	2,262,891	1,875,108	(386,758)	-17.1%
Stedman	169,728	201,566	201,658	166,133	(35,433)	-17.6%
Wade	91,228	108,000	108,049	87,944	(20,055)	-18.6%
	75,388,765	89,321,906	89,371,600	89,338,064	16,157	

Notes:

FY 2013-14 Actual Distributions are from NC Department of Revenue Monthly Distribution Summaries, May 2013 - April 2014
All FY 2018-19 Projections assume 3.5% annual growth over FY 2013-14 actuals.

FY 2018-19 *Current Law With No Adjustment Factors* Column **does not compute the impact of adjustment factor repeal on City Hold Harmless distributions** made under G.S. 105-522. As such, projections are approximations.

FY 2018-19 *SB 369* Column uses county-level population projections from the Office of State Budget and Management, State Demographics Branch. Within a county, each municipality's population is allocated based on 2013 data.

- In a few instances, small municipalities that receive no funds in FY 2013-14 are projected to receive funds in FY 2018-19; this discrepancy comes from the per capita basis of the FY 2018-19 calculations.

Ms. Cannon explained the “city hold harmless” as referenced in the financial implications is actually the “Medicaid hold harmless”. Ms. Cannon stated when counties gave up a portion of their sales tax, they had to hold municipalities harmless. Ms. Cannon further stated S369 does not address “city hold harmless” which in essence means cities lose the hold harmless payment which is why there is such a significant loss to municipalities and gain to counties. Ms. Cannon also explained the 3.5% annual growth mentioned in the FY 2018-19 projections represents the sales tax growth factor, not inflation, and stated Cumberland County’s growth factor over the last year or two has not been 3.5% although some counties are seeing a 7% growth factor.

Commissioner Faircloth asked whether the county would have authority to add another one-quarter-cent sales tax. Ms. Cannon explained the proposal allows county commissioners to levy an additional quarter-cent local sales and use tax by resolution without referendum until December 31, 2019. Discussion followed regarding the possible risk of counties losing control of their taxing authority and the potential impacts therein. Rick Moorefield, County Attorney, suggested exercising caution in conversations with legislators because at this time there are no simple issues or straight forward solutions. Commissioner Faircloth stated he did not favor sending a resolution to the county’s legislative delegation but did favor keeping an eye on the proposed bill. Ms. Cannon stated staff will continue to monitor and provide feedback.

6. MONTHLY FINANCIAL REPORT

BACKGROUND:

The financial report is included as of February 28, 2015. Highlights include:

- Revenues
 - Current real and personal property taxes continue at the expected pace.
 - Motor vehicle tax revenues continue to appear strong this year.
 - Sales tax (report shows five collection months) collections show improvement over last fiscal year.
- Expenditures
 - Expenditures remain in line with budget and show no unusual patterns.
- Crown center expense summary/prepared food and beverage and motel tax
 - A combined year-to-date summary is provided.
 - Prepared food and beverage and motel tax summary included.

RECOMMENDATION:

No action needed – for information purposes only

Vicki Evans, Finance Director, reviewed the background information as recorded above. Ms. Evans stated Cumberland County was recognized by Farragut, a company that analyzes statewide collections, as being #9 out of 100 in the State for collection rates.

7. OTHER MATTERS OF BUSINESS

Ms. Cannon stated the county has been approached by the Housing Authority and a developer for a Rental Assistance Demonstration (RAD) project. Ms. Cannon stated the proposed project would demolish Grove View Terrace and rebuild a structure under the Housing Authority as a federal voucher system. Ms. Cannon stated details are still being finalized but the developer and Housing Authority have a deadline of May 15 to submit an application to the N. C. Housing Finance Agency. Ms. Cannon stated they have reached out to the City, County and PWC for assistance with the funding gap in the project between the bond amount and the total cost. Ms. Cannon stated it is her intention to bring the matter to the May committee meetings for consideration. Ms. Cannon stated it is a project worthy of consideration alongside other funding requests that will be presented through the budget process.

There being no further business, the meeting adjourned at 10:23 a.m.