



January 29, 2024

Kendra Boyle, Director, Fiscal Management Section
State and Local Government Finance Division and
North Carolina Local Government Commission

Re: Financial Performance Indicators of Concern

Please find listed below the City of Rocky Mount's plan to rectify the financial performance indicators of concern from our 2023 financial audit:

1. (Line 5) Operating net income loss for combined water and sewer of \$1,320,937 (excluding depreciation, including debt service principal, and interest).

To rectify this concern the City is taking several steps to improve revenues from sale of services.

First, the City Council received a cost-of-service analysis (COSA) in September 2022 and agreed to a multi-year plan to adjust water and sewer rates to support operational needs and planned capital improvements. Second, in the FY 2024 Adopted Budget, the City Council approved a 7.5% increase to water rates and an 8.5% increase to sewer rates (both effective July 1, 2023), per the recommendation of the previously mentioned COSA.

2. (Line 8) Water and sewer capital assets ratio of 0.44, which is lower than the target set by the Local Government Commission of 0.50.

To rectify this concern the City is continuing to carefully evaluate the condition of its capital infrastructure for water and sewer and moving forward with several projects in its Capital Improvement Program (CIP) to ensure the reliability of its assets, including replacement and relining of water and sewer lines, reconstruction of sewer outfalls, replacement and capacity expansion of sewer pump stations, and replacement of equipment at treatment plants.

3. (Line 10) Operating net income loss for electric of \$3,619,701 (excluding depreciation, including debt service principal, and interest).

This loss in FY 2023 is due to completion of capital projects in FY 2023 that were originally appropriated in FY 2022, as well as a reduction in revenue from sale of services. City electric experienced operating net income of positive \$10,291,791 combined in FY 2021 and FY 2022. The City's electric fund also completed \$6,052,940 in capital outlay in FY 2023, continuing several projects originally funded in prior years and building upon \$7,607,150 of capital outlay spent in FY 2022. The City is monitoring this situation to determine if any corrective action is required as a result of financial results in FY 2024.

4. (Line 16) The following material weaknesses were identified during the City's FY 2023 audit.
- a. Restatement of Prior Year Balances: Internal controls were not sufficient to timely detect material misstatements in the City's financial statements for the year ended June 30, 2022.
 - b. Reporting of Capital Assets and Related Balances: Material audit adjustments were required to properly report capital asset and related balances of the City as of and for the fiscal year ended June 30, 2023.
 - c. Accounts Payable: Misstatements were detected in the recognition and reporting of liabilities in the Sewer fund and government wide activities as of June 30, 2023.

The City was granted an extension to December 31, 2023, to submit our Annual Comprehensive Financial Report to the Local Government Commission and met this deadline. Due to employee turnover, vacancies, and having new auditors, additional time was needed to complete the audit during this year of transition. As such, our audit findings were a result of employee turnover and extended key personnel vacancies. We are working on filling all vacancies, providing continuous staff training and development, strengthening our internal controls through updating our processes and procedures, and improving coordination across city departments. This course of action will prevent future audit findings.

5. (Line 18) Finance officer bond below G.S. 159-29 required amount.

In FY 2023 the City's interim finance officer was bonded for \$250,000. Effective January 1, 2023, the fidelity bond requirements of G.S. 159-29 were revised that the bond for the City's finance officer needed to be increased to \$1,000,000 based on the City's annual budgeted funds. This concern was rectified in FY 2024, and the current finance officer is bonded for \$1,000,000.

Sincerely,

Mayor

Councilmember

Councilmember

Councilmember

Councilmember

Councilmember

Councilmember

Councilmember

City Manager

Finance Director