

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Honorable Mayor and
Members of the Town Council
Town of Carrboro, NC

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Carrboro, North Carolina (the "Town"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 20, 2023, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principles. The financial statements of the Carrboro Tourism Development Authority were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Carrboro Tourism Development Authority.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Town's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

FORVIS,LLP

High Point, NC
February 20, 2023

Independent Auditor's Report on Compliance for the Major Federal Program and on Internal Control over Compliance in Required by the Uniform Guidance and the State Single Audit Implementation Act

Honorable Mayor and
Members of the Town Council
Town of Carrboro, NC

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the Town of Carrboro, North Carolina's (the "Town") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on the Town's major federal program for the year ended June 30, 2022. The Town's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Town complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act. Our responsibilities under those standards, the Uniform Guidance and the State Single Audit Implementation Act are further described in the "Auditor's Responsibilities for the Audit of Compliance" section of our report.

We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Town's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Town's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control over compliance was for the limited purpose described in the “Auditor’s Responsibilities for the Audit of Compliance” section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

FORVIS,LLP

**High Point, NC
February 20, 2023**

Independent Auditor's Report on Compliance for the Major State Program and on Internal Control over Compliance in Accordance with Applicable Sections of OMB Uniform Guidance and the State Single Audit Implementation Act

Honorable Mayor and
Members of the Town Council
Town of Carrboro, NC

Report on Compliance for the Major State Program

Opinion on the Major State Program

We have audited the Town of Carrboro, North Carolina's (the "Town") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on the Town's major state program for the year ended June 30, 2022. The Town's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Town complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2022.

Basis for Opinion on the Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and applicable sections of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Our responsibilities under those standards, the Uniform Guidance and the State Single Audit Implementation Act are further described in the "Auditor's Responsibilities for the Audit of Compliance" section of our report.

We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major state program. Our audit does not provide a legal determination of the Town's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Town's state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town's compliance with the requirements of the major state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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Our consideration of internal control over compliance was for the limited purpose described in the “Auditor’s Responsibilities for the Audit of Compliance” section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the applicable sections of the Uniform Guidance and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

FORVIS,LLP

**High Point, NC
February 20, 2023**

Schedule of Findings and Questioned Costs

I. Summary of Auditor's Results

Financial Statements

Type of Auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? X Yes No
- Significant deficiency(s) Yes X None reported

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? Yes X No
- Significant deficiency(s) Yes X None reported
- Noncompliance material to federal awards? Yes X No

Type of Auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Section 200.516(a)?

 Yes X No

Identification of major federal program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants – Entitlement Grants Cluster

Dollar threshold used to distinguish between Type A and Type B Programs:

\$ 750,000

Auditee qualified as a low-risk auditee?

 Yes X No

**Town of Carrboro, North Carolina
Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

III. Findings and Questioned Costs Related to the Audit of Federal Awards

No findings noted.

IV. Findings and Questioned Costs Related to the Audit of State Awards

No findings noted.



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Corrective Action Plan

Finding 2022-001: Internal Control over Financial Reporting

Name of Contact Person: Arche McAdoo, Finance Director

Corrective Action: In the Schedule of Findings and Questioned Costs for the Year Ended June 30, 2022, the auditors have identified a material weakness related to financial reporting. 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.

Except for GASB 87, the Town followed its established review and reconciliation processes. GASB 87 was a new requirement related to lease assets and liabilities that was required to be implemented during the year. Based on input from other municipalities, the Town chose to use DebtBook, proprietary software, for the implementation and accounting for Town leases. Unfortunately, we did not reconcile the data in DebtBook with the Town's general ledger.

To provide for increased accuracy in the data for financial reporting in the future, the Town will employ a CPA through one of the temporary accounting agencies to:

- a) Review all balance sheet accounts, across funds;
- b) Review and assess system processes for capital assets, accounts receivable and accounts payable;
- c) Assist with the development of revised procedures, if necessary; and
- d) Identify training needs for the Town's accounting staff.

The CPA will be retained as soon as possible to ensure that trial balances for the June 30, 2023 audit does not contain errors.

Town of Carrboro, North Carolina
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2022

Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	State Number	Grant Number	Current Year Expenditures	
				Federal Expenditures (Direct and Pass-Through)	State Expenditures
Federal Grants					
U.S Department of Transportation:					
Passed through the North Carolina Department of Transportation:					
Highway Planning and Construction Cluster					
Highway Planning and Construction (Federal Aid Highway Program):					
Morgan Creek Greenway	20.205		EL-4828A	\$ 26,477	\$ -
Jones Creek Greenway	20.205		C-5181	14,457	-
S. Greensboro Street S/W	20.205		C-5650	22,150	-
Total Highway Planning and Construction Cluster				63,084	-
Total passed through North Carolina Department of Transportation				63,084	-
Total U.S. DOT assistance				63,084	-
U.S. Department of the Treasury:					
Direct Programs:					
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds					
	21.027		NC0075	306,522	-
Total Coronavirus State and Local Fiscal Recovery Funds				306,522	-
Total U.S. Department of the Treasury Assistance				306,522	-
U.S. Department of Housing and Urban Development:					
Passed through Orange County:					
COVID-19 - Community Development Block Grants/Entitlement Grants					
	14.218		20-V-3525	703,066	-
Total Community Development Block Grants/Entitlement Grants				703,066	-
Total U.S. Department of Housing and Urban Development Assistance				703,066	-
U.S. Environmental Protection Agency:					
Passed through North Carolina Department of Environmental Quality:					
Nonpoint Source Implementation Grants					
	66.460			1,274	-
Total Nonpoint Source Implementation Grants				1,274	-
Total U.S. Environmental Protection Agency				1,274	-
State Grants					
North Carolina Department of Transportation:					
Powell Bill					
		DOT-4	2000040184	-	563,454
Total North Carolina Department of Transportation Assistance				-	563,454
North Carolina Department of Environmental Quality:					
Volkswagen Mitigation Settlement					
		DEQ-31	1000010794	-	8,000
Volkswagen Mitigation Settlement		DEQ-31	1000010772	-	10,000
Total North Carolina Department of Environmental Quality				-	18,000
Orange County ABC Board					
ABC Board Grant					
				-	10,000
Total assistance				\$ 1,073,946	\$ 591,454

Notes to Schedule of Expenditures of Federal and State Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and state grant activity of the Town of Carrboro under the programs of the federal government and the State of North Carolina for the year ended June 30, 2022. The information in this SEFSA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the SEFSA presents only a selected portion of the operations of the Town it is not intended to and does not present the financial position, changes in net position, and, where applicable, cash flows thereof of the Town.

2. Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Town of Carrboro has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.