



Financial Management Services

City of Winston-Salem
P.O. Box 2511
Winston-Salem, NC 27102
336-722-8000
CityofWS.org

May 13, 2025

NC Local Government Commission
3200 Atlantic Avenue
Raleigh, North Carolina, 27604
Attention: Secretary of the Local Government Commission

Please find the City of Winston-Salem's responses regarding the financial performance indicators of concern in the City's FY 2024 Audit.

The City's FY 2024 audit was late due to unprecedented turnover in the Accounting and Reporting Division and difficulty filling these positions with qualified candidates. In addition, the City experienced a cyber event that resulted in the City's systems being unavailable for approximately six weeks during the network rebuild, which further delayed progress towards completing the audit. It is important to note that the City did not experience data loss because of the City's strong information system backup procedures. During the time of the audit preparation, the City's normal staffing in the Accounting and Reporting Division included two supervisors and five staff members. At one point during the audit, the division only had two employees and there was a period of two months where the division did not have a supervisor on staff, which required the Deputy Financial Officer to assume the duties of the Controller in addition to his own. Although the City contracted for assistance with temporary resources during this time, the division could not fully supplement the loss of five staff members in such a short time period. For the FY 24 audit, the department also contracted with Cherry Bekaert Advisory LLC for assistance in completing the financial statements (please note this is separate from Cherry Bekaert's audit team). Management plans to contract for assistance with the financial statements for FY25 as well. In October 2024, the City implemented a new pay and classification plan which has increased the starting salaries for these technical positions and this has improved our ability to hire qualified applicants. The department currently has one vacancy in the Accounting and Reporting Division and expect that position to be filled very soon.

The City's FY 2024 audit also included a budget violation as expenditures in the Public Assembly Facilities Management Fund exceeded appropriations. It is important to note that this was not the result of a payment to a vendor that exceeded budget but was the result of an accounting and reporting change that was determined to be necessary after June 30, 2024. Historically, the City reported the activity for the Benton Convention Center as a net expense based upon the payments made to the third-party management company (revenues collected by the third-party management company were not reported separately but were netted with

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CALL: 311 [336-727-8000]
TEXT: 855-481-LINK [5465]
citylink@cityofws.org

City Council: Mayor Allen Joines; Denise D. Adams, Mayor Pro Tempore, North Ward; Barbara Hanes Burke, Northeast Ward; Robert C. Clark, West Ward; John C. Larson, South Ward; Jeff MacIntosh, Northwest Ward; Kevin Mundy, Southwest Ward; Annette Scippio, East Ward; James Taylor, Jr., Southeast Ward; City Manager: W. Patrick Pate

expenses to report net expenses). Staff determined after June 30, 2024, that the historical reporting was incorrect and instead the activity should be reported individually as gross revenues and gross expenses. The change to report the gross expenditures resulted in expenses exceeding appropriations as reported, but the total paid to the vendor was within the budget. This issue does not indicate a problem with the City's systems or overall budgetary control.

The City also received an audit finding for FY 2024 that was classified as a material weakness in internal control. The City capitalized non-capital costs as part of construction in progress in prior years, for ease of total project expense tracking, that were ultimately deemed non-capital and expensed. The City recorded an entry to correct this as a prior-period adjustment in the Transit Fund for fiscal year 2023 as of June 30, 2024. The City will review procedures to determine how to best manage the operational tracking and financial accounting needs. We will evaluate discontinuing accumulation of non-capital costs in construction in progress or put a process in place to review the non-capitalized costs by project and by fund to ensure individually and in aggregate that no costs are material on an annual basis. In addition, in prior years, the City interpreted accounting guidance to allow for grants revenue recognition in the Transit Fund based on the federal funding appropriation. Upon review of the applicable accounting guidance, it was determined that recognition must take place based upon the timing of the formal award and execution of the grant agreement with the Federal Transit Administration. The City recorded an entry to correct this as a prior-period adjustment in the Transit Fund for fiscal year 2023 as of June 30, 2024. The City will document the accounting procedures for grants and communicate to the City's staff who are responsible for accounting and reporting.

Sincerely,

Kelly Latham, Chief Financial Officer

Robert C. Clark, Council Member,
Finance Committee Chair

Denise D. Adams, Mayor Pro Tempore,
Finance Committee Vice Chair

Mayor J. Allen Joines

Annette Scippio, Council Member,
Finance Committee Member

James Taylor, Jr., Council Member
Finance Committee Member

Jayme Waldeck, City Clerk

W. Patrick Pate, City Manager