

**TOWN OF STOKESDALE
SPECIAL CALLED MEETING
DATE: October 26, 2020
TIME: 7:00 PM
Stokesdale Town Hall
8325 Angel Pardue Road
Stokesdale, North Carolina**

Attendance: Mayor Flynt, Thearon Hooks, Accountant Kim Thacker, Auditor Rex Rouse, Town Clerk Alisa Houk, Derek Foy, Jimmy Landreth. Jim Rigsbee was not present.

- I. Call meeting to Order:** Mayor Flynt opened the at 11:25am, we had some technical difficulties but finally got everyone on.
- II. Adopt the Agenda:** Mayor Flynt motioned to adopt the agenda. Thearon Hooks seconded the vote.

VOTE:

Mayor Flynt	Yes	Derek Foy	Yes
Thearon Hooks	Yes	Jimmy Landreth	Yes
Jim Rigsbee	absent		

Comments from the Floor: No comments

- III. Discussion with the Town’s Auditor Rex Rouse of Rouse, Rouse, Rouse, & Gardner PLLC** to receive an initial report on the Town’s finances. Mayor Flynt started by saying he has had several conversations with Mr. Rouse over last week or so. Some of the journal entries and different things. The Mayor said he had a conversation with Kim Thacker this morning some of these items may be a procedural issue. Mr. Rouse wanting things done one way and Kim was doing it another way. So, the Mayor is just trying to get everybody on the same page. We want to finish this audit up by the end of October. So, Mayor Flynt is going to turn the meeting over to Mr. Rouse.

Mr. Rouse began by saying that apparently there are a significant number of adjustment entries are going to have to be made to bring the books into accordance with General Accounting Principles. There were 78 journal entries made to the account beginning equity of balance which is kind of like a retained earns account in commercial businesses. The only entries that should be made to that is to close out last year’s revenue and expense account. Any other interest to that would be very rare. But there are 78 entries to the account. To the extent that we recorded a significant amount of material adjustment entries. This puts us in a position of auditing ourselves and may impair our independence. Therefore, Mr. Rouse suggest that the Town contract with another independent CPA possessing sufficient skills, knowledge and experience to bring the books into auditable condition. So that he can properly complete the audit. Now on the General Fund Account, Mr. Rouse said he has adjusted the balance a few items and about half of the revenue items. He has done very little with the Water and Sewer Fund. Mr. Rouse said he has gone far enough to convince himself that there are going to be so many adjusting entries that he is going to be impalred unless we have another independent CPA come in and

review the adjustments that need to be made to bring the books into accordance with General Accounting Principles.

Mayor Flynt said Mr. Rouse I think you were saying that the General Fund was off about \$2800, Mr. Rouse said no that was the bank account. There are five adjustments entries to bring the bank account into balance. There are two entries of about \$ 18,000, they are not the exact same amounts that offset each other. But there were five adjusting entries required to reconcile the bank account in the General Fund. There was one bank account that Mr. Rouse said he already knew about in the Water and Sewer Fund that was off \$ 75,000. The reconciliation where the income from FEMA was not recorded. Those are the accounts on the bank account. Mr. Rouse said he really hasn't done much with the revenue or expenses account. That is what your budget balance sheet is where most of your audit is aimed at. That is where he is finding a significant number of errors. Unless the beginning balance sheet and the ending balance sheet is correct it is impossible to have the income, statement correct.

Mayor Flynt said one last thing and then he will let Kim address you. You are saying in the Water Fund there was a duplication of bills for about \$142,000, do you want to touch on that. Mr. Rouse said there was a number of recorded entries that were duplicates. Kim stated that she really had not been able to make all the adjustments she wanted to make before I got started on the Water & Sewer Fund. But here we are at the end of October, our contract reads that the audit should be completed by October 31st. That is not going to be possible. The LGC does automatically grant an extension until December 31, 2020. Mr. Rouse thinks if he goes ahead and makes these adjustment entries that the independent CPA would be able to verify what he has done in just a matter of hours and not days.

Mayor Flynt said the last thing he wants to do, and he talked to Kim about it, going forward is to try to have some kind of agreement of when we want the books turned over to you. You usually want them September 1st. Mr. Rouse said two months is a fair amount of time to have them ready. Kim said she would like to have them ready in August.

Kim Thacker replied that Mr. Rouse made a very good point in reference to the balance sheet. Kim said as John said she spoke with him this morning, and Mr. Rouse made a specific point to the balance sheet. Kim said she has stated earlier that she thinks when the reports are done each month, she thinks it would be to start doing the balance sheet along with the reports each month with the budget verses actual and the income statement. She thinks if that is done monthly then we aren't going to have these issues at the end of the year. She thinks if they are done monthly and given to Council, she noticed when she came in last year the balance sheets just more or less stated the income, revenue, and assets. When we have accounts payable and those are kept up with monthly as well then, we are not going to have these issues at the end of the year. Kim asked Mr. Rouse if thought that would be good. Mr. Rouse said he agreed 100%. Kim said she did speak with John about this morning and so, she doesn't know if she has to recommend that to Council or as far as we need to go forward with this. Therefore, its kind of balance of checks, accounts payable are there, the receivables are there so if anything looks out of shape its going to reference back to the income statement.

Thearon Hooks said he thinks if those are accepted accounting principles, he doesn't think it should take a vote of council for her to do this, you just do it. Mayor Flynt agreed.

Tom Medlin asked Kim, what would that involve? Or what persons would that involve or entail to reconcile the accounts payable? Is there going to be anyone involved other than you in that process? Kim answered, no there would not be anyone else involved. That is just when the invoices are coming in. If the invoices come in say October, and they don't come in until November 2nd or 3rd, and they were actually for the October month, she thinks they need to be recorded on the balance sheets so Council can see as an account payable that they are outstanding. And therefore, they can be debited to the correct month they were supposed to be paid in. Derek spoke up and said he believes this was in the job descriptions as a Best Practices. Thearon asked Tom Medlin if this was going to impact the Separation of Duties policy at all. Tom said no, that is kind of why he was asking. As far as getting that information to her and getting it recorded. He doesn't see any problem with it. Mayor Flynt then asked Kim if she wanted to talk about the journal entries.

Kim Thacker said the journal entries that were entered that Mr. Rouse referencing to, she did enter the journal entries that he requested for 6/30/19 to be entered. She then received an email from Jay Stone that works with Mr. Rouse. She interpreted the email incorrectly. The email stated that Mr. Rouse was requesting the same exact balances for 7/1/19 and 6/30/19. So, therefore when I went in and did the journal entries which I should not have and I went in and did the entries to more or less offset and get the balances corrected to match 7/1/19 to 6/30/19 that is where the entries are coming from. It was her incorrect interpretation of that. So, therefore when she was going through for the end of the year trying to get the reports corrected for Mr. Rouse to review and audit it required more journal entries to offset those balances so, here we are. Going forward those will not be done anymore. They should have been done through the year and the 7/1/19 should have never been entered.

Mayor Flynt then asked Kim, you can't go back and change those journal entries. Kim said that is correct once she has given the reports to Mr. Rouse she is not allowed to go back and change anything.

Mr. Rouse said that would be last resort, he wants to try to take the Trial balances and make a lot of the adjustments to get the balance sheet right, particularly in the General Fund.

Mayor Flynt then asked so how do we correct this problem? Mr. Rouse said he thinks he needs to go ahead and make the journal entry adjustments that he sees. Then after he has made the adjusting entries that he sees that need to be made. We need to call in another independent CPA to verify are accurate and that he has the basis for preparing the financial statements or the other CPA may want to prepare the financial statements themselves and just let him audit. That is one of the options that he wanted to make early on. He wants the other independent CPA to make that call early on so we can get a handle on this. Mr. Rouse said he doesn't have strong feelings about preparing the financial statements, but he does have strong feelings on having another independent CPA coming in review the adjustments so he isn't impaired.

Mayor Flynt said well have a solution to the problem this year but do we have an agreement between you and Kim going forward? Mr. Rouse said if she gets an accurate balance sheet every month, he doesn't think there will be a problem. He said Kim is anxious to learn and will learn from all her mistakes. This was the second year he has had a lot of adjusting entries to make, but last year was largely due to the Town switching from old manual QuickBooks to the online

QuickBooks version. **Mayor Flynt** said the point to the meeting was to get everyone together and get everyone on the same the page. It will be up to Council to decide if we want to hire an independent CPA. Mr. Rouse gave us a name. Mayor Flynt has a list of three independent CPAs. **Dana Luther – Independent CPA works with Summerfield Carlotta Lytton – Independent CPA in Stokesdale, Mr. Rouse has worked with her before Richard Westmoreland - Independent CPA in Reidsville. Rouse would prefer that the Town select the CPA, then he will be glad to sit down with them and discuss what is needed. Mr. Rouse sad he just suggested those three because he knows them but Council needs to choose. Kim Thacker said she knows Carlotta Lytton and has worked with her before. Derek Foy asked Mr. Rouse to confirm that he understood him to say that it would only take another CPA 3 or 4 hour to review these numbers. Mr. Rouse said once he does the adjustments it shouldn't take another CPA but a few hours to review. Thearon Hooks asked Mr. Rouse as far as the State Audit Dept. where do we stand as far as doing this are there any reports or forms, we will have to complete for them to do this. Mr. Rouse said it is not unusual for Towns to use one audit firm to audit and another to review the audit before it is sent to the State. Derek Foy said it sounds like we are in agreement with Mr. Rouse to bring in an independent CPA to review the adjustments. Jimmy Landreth asked if it would be improper for Kim Thacker to pick the CPA? Mr. Rouse answered not at all. Kim Thacker said she knows Carlotta Lytton and they have worked well with each other in the past. Mayor Flynt motioned to hire one of the three Independent CPAs listed Dana Luther, Carlotta Lytton, Richard Westmoreland. Let Kim have a conversation with them and have a spending limit of up to \$2,000. The Mayor will make the final decision after the interviews. Derek Foy seconded the motion.**

VOTE:

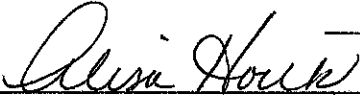
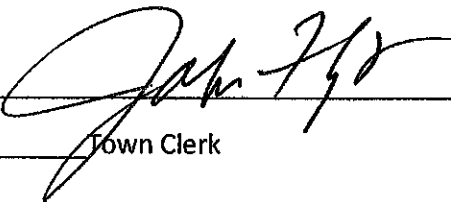
Mayor Flynt	Yes	Derek Foy	Yes
Thearon Hooks	Yes	Jimmy Landreth	Yes
Jim Rigsbee	absent		

Mayor Flynt motioned to adjourn; Thearon Hooks seconded the motion at 12:00 Noon

VOTE:

Mayor Flynt	Yes	Derek Foy	Yes
Thearon Hooks	Yes	Jimmy Landreth	Yes
Jim Rigsbee	absent		

Approved February 11, 2021

Attest:   Mayor
 Town Clerk