MINUTES OF ROANOKE CITY COUNCIL AUDIT COMMITTEE

February 2, 2009

1. CALL TO ORDER:

The meeting of the Audit Committee of Roanoke City Council was called to order in the Emergency Operations Center (EOC Room) of the Noel C. Taylor Municipal Building at 11:00 a.m. with Chairman, Sherman P. Lea, presiding.

- **The roll was called by Mrs. England**

Audit Committee Members Present:	Sherman P. Lea, Chair Mayor David A. Bowers (arrived late) Gwendolyn W. Mason Alvin L. Nash Anita J. Price Court G. Rosen David B. Trinkle
Audit Committee Members Absent:	None
Others Present:	Drew Harmon, Municipal Auditor Darlene Burcham, City Manager Bill Hackworth, City Attorney Ann Shawver, Director of Finance Stephanie Moon, City Clerk James Grigsby, Asst. City Manager/Operations Brian Townsend, Asst. City Manager/Community Development Andrea Trent, Acting Deputy Director of Finance Kathryn Fox, Accounting Supervisor Melinda Mayo, Public Information Officer Faye Gilchrist, Assistant to the City Manager Dawn Hope, Assistant Municipal Auditor Debbie Noble, Senior Auditor Ann Clark, Senior Auditor Doris England, Administrative Assistant (4) Citizens

2. APPROVAL OF MINUTES FROM DECEMBER 15, 2008, MEETING

Chairman Lea asked if there were any corrections or amendments to the minutes of the December 15, 2008, Audit Committee meeting. There were none. Mr. Nash moved and Ms. Mason seconded that the minutes be approved as distributed. A vote was taken and the motion carried. The minutes will be placed on the Consent Agenda for the next City Council meeting.

3. CITY OF ROANOKE

A. Comprehensive Annual Financial Report (CAFR) – Year Ended June 30, 2008

Chairman Lea ordered that Item A be received and filed. There were no objections to the order.

Chairman Lea recognized Ann Shawver, Director of Finance, for comments. Ms. Shawver recognized Andrea Trent, Acting Deputing Director of Finance, and Kathryn Fox, Accounting Supervisor, for their work on the CAFR. Ms. Shawver provided committee members the following overview:

- Ms. Shawver explained that the compliance section was not included in the 2008 CAFR due to the ongoing investigation of federal expenditures at the Greater Roanoke Transit Company. The section will be completed and filed with the federal clearing house.
- The implementation of GASB 45 went into effect for fiscal year ending 2008 to account for Post Employment Benefits Other than Pensions (OPEB). Ms. Shawver referred committee members to disclosures on pages 67, 75, and footnote 13 on pages 99-103, which refer to accounting and reporting of retiree medical insurance.
- Subsequent events – the 2008 CAFR includes a disclosure related to the City's subsequent issuance of approximately $30 million of debt in the fall of 2008. Additional disclosures related to the national financial crisis that began in the fall of 2008 were included on page 44 as well.
- Ms. Shawver highlighted the information on key balances, trends, and future expectations in the Letter of Transmittal and Management's Discussion and Analysis pages.
- Ms. Shawver highlighted the statistical tables that begin on page 127.
    - Ms. Mason asked if the net assets on page 127 [$225 million] included all City buildings, school buildings, and other capital assets such as Fleet. Ms. Shawver replied that it did. Net assets include all funds of the City – the General Fund, Enterprise Fund, Civic Facilities Fund, and Market Building.
    - Ms. Mason inquired about Business-Type Activities, which are also listed in Table 1 on page 127. Ms. Shawver explained that her handout listed the funds of the City and where they show up in the CAFR. Governmental Funds consist of the General Fund, Debt Service

Fund, Special Revenue Fund, and Capital Projects Fund. Proprietary Funds (business-type activities) include the Greater Roanoke Transit Company, Civic Facilities Fund, Parking Fund, and Market Building Fund. Internal Service Funds are also proprietary and include the Department of Technology Fund, Fleet Management Fund, and Risk Management Fund.
    - The City Capital Projects Fund and the School Capital Projects Fund are combined into one fund in the CAFR.
- Ms. Shawver referred committee members to page 47, the Statement of Net Assets. She explained there were columns listing Governmental Activities and Business-Type Activities. The column on the far right, Component Unit, refers to the Roanoke City Schools. She also went over the Total Assets and Total Net Assets for both the City and the Schools listed in this Exhibit A.
- Ms. Shawver referred to the Notes to the Basic Financial Statements beginning on page 62.

Chairman Lea asked if there were any further questions for Ms. Shawver. There were none.

4. CITY OF ROANOKE PENSION PLAN

A. Comprehensive Annual Financial Report (CAFR) – Year Ended June 30, 2008

Chairman Lea ordered that Item A be received and filed. There were no objections to the order.

Chairman Lea recognized Ann Shawver, Director of Finance, for comments. Ms. Shawver asked Andrea Trent to make comments on the CAFR. Ms. Trent stated the Pension CAFR was very similar to the City CAFR. It is broken down into five different sections – Introductory, Financial, Investment, Actuarial, and Statistical. Ms. Trent directed committee members to section three in the CAFR and stated the Pension Plan does assume a 7 ¾ percent rate of return over a five-year span. The market volatility that occurred after June 30, 2008, is also discussed as a subsequent event within the CAFR. Ms. Trent stated the Pension Plan is "weathering the storm." In two of the last five years, the rate of return was in the double digits. For June 30, 2008, there was a negative return for the fiscal year. However, Pension investments are viewed over the long-term; Ms. Trent stated she feels the pension investments are positioned appropriately for the market.

Ms. Trent noted the Pension CAFR is a subset of the City CAFR with information focusing just on the pension.

Chairman Lea recognized Mr. Nash for questions. Mr. Nash referred to page 13 of the CAFR and asked about the Receivables listed under the Assets column. Ms.

Trent replied that the Receivables could be a contribution at the end of the year that did not get posted before June 30 but applied to salaries related to that time. She also stated it could be related to income associated with bonds that were not posted by June 30.

Mr. Nash asked what Accounts Payable were under Liabilities. Ms. Trent stated that typically these would be due to some costs related to June 30, but she would check to determine exactly what it was. Ms. Shawver asked if it was for the amounts payable to professionals. Ms. Trent stated it could be, but the dollar amount was a little high for any one vendor; also, the cost for the investment consultant was under $100,000. Ms. Shawver stated that funds are moved into the Pension Plan as each payroll is processed, and there could be some funds coming in and payables going out after the June 30 date.

Mr. Nash asked if the Pension Plan owned anything other than financial assets. Ms. Trent responded that the Plan just owned investments related to the Trust; it does not own buildings, stadiums or interest therein.

Mr. Rosen asked the value of the Pension Plan. Ms. Trent stated it was under $300 million. She had not received the January figures, but at the end of December, its value was about $280 million, down 17 percent. Mr. Rosen also asked what the benefit to the City was by having its own pension plan rather than participating in the state's pension plan (Virginia Retirement System or VRS) and if this has an effect on recruiting employees who are currently under the state plan. Ms. Trent replied that historically the City has had a better benefit rate than the state. She noted that there were portability agreements, and the City can use those to attract employees. Ms. Trent continued that Roanoke, along with nine other larger localities in the state, established a separate plan some years ago, perhaps because it was more cost beneficial. She stated the contribution rate for the City was less than the state's contribution rate. Ms. Trent stated the City is more conservative and does not invest in hedge funds or similar investments.

Ms. Shawver stated that she and Ms. Trent are planning to review the plan and provide further briefings to the City Council over the next quarter.

Ms. Burcham described some of the issues with portability, the five year vesting, and the changes in the work force. Ms. Burcham noted that she and Ms. Shawver have discussed defined contribution plans, and explained that any changes that might occur in the future would not affect those employees already in the current plan.

Ms. Shawver noted that the City's plan uses investment professionals to get the best return possible for employees. She explained that even though some employers are moving toward the defined contribution plan, there is something to be said for the sophistication of investment strategies and asset allocations, and the pooling of resources that a defined benefit plan provides.

Mr. Rosen asked if the City had a policy on its retirement investments. Ms. Shawver responded that the City does have an adopted pension policy. Ms. Trent explained that asset allocations are set in certain segments of the market, and there is no specific investment area that has been barred or denied. Ms. Shawver asked committee members to refer to pages 37 – 39 of the Pension CAFR, which outlines the Pension Plan Investment Policy. She noted that page 38 outlines the specific asset classes and the target allocation for each. On pages 41 through 50, detailed holdings of the trust are listed. Ms. Trent explained that the credit quality indicators within the Pension Policy prohibit investments in certain areas such as junk bonds and some real estate categories. Mr. Harmon noted KPMG's capabilities and diligence in verifying asset values.

Chairman Lea asked if there were any further questions from the committee members. There were none.

5. UNFINISHED BUSINESS

Chairman Lea asked the Municipal Auditor, Drew Harmon, to comment on the storage building which was built and later taken down at the Civic Center. Mr. Harmon stated he had drafted a report on the investigation of the temporary storage shed at the Civic Center and would provide that report to the Audit Committee members in a few days. He gave committee members background information on the 5,600 square foot shed. Mr. Harmon stated the Civic Center began an expansion in 2002. Storage space in the coliseum was being converted to locker room space, and a storage area was needed for stages, set ups, and equipment. The City needed space close to the Civic Center that was not in the footprint of the expansion so items could be moved in and out easily. The City's Engineering Department looked for alternatives and found space within the parking area that could be used. Engineering designed the building based upon the slope in the parking lot and using the parking lot as the floor for the building. This was less expensive and eliminated having to dig a foundation and damage the parking lot. A contractor was selected and the building cost approximately $54,000 to construct. It was understood this building was only temporary; and after the renovations, the items would once again be stored within the Civic Center, thus freeing up that area of the parking lot.

Mr. Harmon stated that some questions arose regarding how the building was surplused. The City's Surplus Policy is designed to deal with tangible capital assets such as cars and equipment, not buildings and land. The temporary storage building was treated as surplus property. Mr. Harmon stated, from his review of the correspondence, in principle the City followed the Surplus Policy.

The building was offered internally to other departments, and there was an earnest effort by other departments to evaluate the cost to move the building to Public Works. Mr. Harmon stated that he had the Building Commissioner's Office look up standards and determined it would take $35,000 to $40,000 to take the building down and reconstruct it on the Public Works site. The estimate for a new building was around $58,000. Public Works did not have the funds available to move the building. The Civic Center was interested in realizing proceeds from the sale of the building, and it was then offered for sale to the public. There were 101 people who inquired about the building, based upon the for-sale sign that was posted on the building and word of mouth. Dr. Trinkle asked if this was posted to the online surplus sale, and Mr. Harmon replied that it was not. The sale extended over a 60-day period and calls were received from Maryland, Illinois, Tennessee, and all over Virginia according to the log maintained by Civic Center Operations. Mr. Harmon stated that an earnest opportunity was afforded to the public to make an offer on the building. There was no documentation on the negotiations, but it appears the same information was presented to each interested party. There were no firm offers and no written offers on record. Mr. Harmon noted that Civic Center management was aware that the building was to be given away in early March. There were 17 inquiries about the building after the building had been designated to be given away, and Civic Center management had approximately 23 days to contact interested parties who had called earlier about the building.

Mr. Harmon stated he had met with the contractor that removed the building and taken photos of the remaining pieces of the building. These pieces were on the contractor's property still in a state of raw materials, not reconstructed. The trusses were degraded to the point that they were probably not useable. Mr. Harmon verified the City made no payment to this contractor to remove the building. Mr. Harmon noted that the contractor had costs that likely exceeded any benefit he received from the building. Mr. Harmon stated he would have a written report for the committee members by the end of this week along with photographs of the pieces of the building.

Chairman Lea thanked Mr. Harmon for his comments. He then recognized Mr. Rosen for comments. Mr. Rosen asked if the relationship of the Purchasing Manager to the contractor was disclosed before the disposal of the building. Mr. Harmon replied that, based upon the correspondence that was given to him, the relationship was not disclosed until after the contractor had taken the building away. The date of disclosure of the relationship, according to the letter in the files, was May 11, 2007. Removal of the building began on April 25, 2007, and was completed on May 11, 2007.

Mr. Rosen asked Mr. Harmon if, beyond the fact that the relationship was not disclosed, there were any questionable practices associated with surplusing the building. Mr. Harmon replied that, based upon the facts and interviews, there was no intended misappropriation. Mr. Harmon stated there was some interest to get the building removed as quickly as possible.

Chairman Lea stated he had asked Mr. Harmon to provide the committee with a written report. Once that has been received, members may make comments on the report.

Chairman Lea asked if there were further questions on this matter. City Manager, Darlene Burcham, stated she would like to speak regarding this matter. Ms. Burcham stated those in senior management did not have prior knowledge of the relationship between the Purchasing Manager and the contractor who removed the building. She agreed it should have been disclosed up front as Mr. Rosen had suggested. Ms. Burcham also stated that appropriate personnel action had been taken. Ms. Burcham added that there was significant pressure from her to get the building removed because the building was occupying a large number of parking spaces that were sorely needed for events. Quite a few spaces had already been consumed in the addition, so the additional parking that the building was covering was much needed. Ms. Burcham stated the relationship did not help the individual who removed the building at all, and probably caused him to incur some expenses. Ms. Burcham stated she understood the concerns of committee members and felt those concerns herself.

Chairman Lea asked if there were further questions from the members of the committee. There were none. He reiterated that Mr. Harmon would be submitting a written report and the Audit Committee would review that report and then make comments on it.

6. ADJOURNMENT

There being no further business, the meeting was adjourned at 11:55 a.m.

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Sherman P. Lea, Chair