# CITY OF ROANOKE, VIRGINIA

Management Letter

Year ended June 30, 2010

**KPMG LLP**
Suite 1710
10 S. Jefferson Street
Roanoke, VA 24011-1331

November 29, 2010

The Audit Committee of City Council
City of Roanoke, Virginia

Dear Members:

We have audited the 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 City of Roanoke, Virginia (the City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 29, 2010, which included a paragraph describing the adoption by the City of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective July 1, 2009. Other auditors audited the financial statements of the School Board of the City of Roanoke, Virginia (the School Board), the discretely presented component unit of the City, and certain operations of the Civic Facilities fund, a major enterprise fund included in the business-type activities of the City, as described in our report on the City's financial statements. This letter does not include the results of the other auditors' consideration of internal control over financial reporting or other operational matters that are reported on separately by those other auditors. In planning and performing our audit of the basic financial statements of the City, 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, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

**Procurement for Employee Health Insurance at GRTC**

During our Single Audit procedures in accordance with OMB Circular A-133 Compliance Supplement for the City, we noted certain findings related to expenditures for health insurance premiums by the Greater Roanoke Transit Company (GRTC or the Company), a blended component unit of the City. GRTC uses an insurance broker to act as an agent on behalf of management to actively seek out quotes from different insurance providers and negotiate the best price for GRTC. For the health insurance policy period from July 1, 2009 through June 30, 2010, the broker sent out a request for proposal (RFP) soliciting bids from insurance companies in accordance with procurement requirements on behalf of GRTC. However, upon review of the procurement file, we noted that the broker did not follow all of the requirements of FTA Circular C 4220.1E, which specify that an RFP must be publicly advertised and include a clause requiring verification from prospective vendors regarding suspension and debarment assurance requirements. Specifically, the RFP did not contain the necessary clause regarding suspension and debarment, and there

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative, a Swiss entity.

was no public announcement of GRTC's RFP for the annual health insurance contracts. In addition, FTA Circular C 4220.1E specifies that when a contract is awarded to a vendor that has an aggregate value of $500,000 or more, an entity should specify the amount of federal funds that will be used to finance the purchase in an announcement of the contract award for goods and services. Such amount should be expressed as a percentage of the total costs of the planned acquisition. No such announcement was made by the broker or management of GRTC to the selected health insurance provider.

GRTC currently has procurement policies in place that are in accordance with federal, state and local procurement requirements for purchases of goods and services, including health insurance premiums, and GRTC followed the appropriate procurement requirements for procurements made during the year ended June 30, 2010 with the exception of the findings noted above. We recommend GRTC implement a policy whereby a public announcement is made either via publication on GRTC's website or in a newspaper advertisement for potential awards of health insurance contracts with total expenditures expecting to exceed $50,000. We also recommend that the RFP include a clause regarding the verification of suspension and debarment which should be obtained and included in the procurement files prior to awarding the annual health insurance contract. In addition, since the annual health insurance premiums are expected to be greater than $500,000, GRTC should implement a policy to ensure the vendor awarded the health insurance contract is notified of the total amount of the award and the percentage expected to be reimbursed with federal funds.

*Management's Response*

The Company utilizes the services of a broker for health insurance coverage for the employees of Southwestern Virginia Transit Management Company. The contract between Greater Roanoke Transit Company and the Broker provides for the Broker to include a clause regarding the verification of suspension and debarment, which will be obtained and included in the procurement files prior to awarding the annual health insurance contract.

Management of the Company ensures that GRTC will place public notice on its website for potential awards of health insurance contracts and that the vendor awarded the health insurance contract will be notified of the total amount of the award and the percentage expected to be reimbursed with federal funds.

**Comprehensive Services Act – Expenditures for Youth Counseling Services**

During our audit procedures in accordance with the *Specifications for Audits of Counties, Cities and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia, we noted that two invoices from a third party vendor for youth counseling services performed by the vendor in accordance with the Comprehensive Services Act (CSA) were not approved by the CSA caseworker prior to being paid by the City of Roanoke's Department of Social Services. The caseworker noted on the two invoices that there were discrepancies with dates and hours the vendor listed as the service units delivered per the terms of the contract agreement between the City of Roanoke and third party vendor. Even though the invoices were noted as questionable by the caseworker, the invoices were still paid by the City of Roanoke's Department of Social Services. The invoices were submitted to the City in September 2009 and paid by the City in October 2009. The expenses were submitted for reimbursement under the CSA expense category by the City of Roanoke's Department of Social Services via the City's LASER transmittal to the Commonwealth of Virginia's Department of Social Services.

We recommend the City establish procedures to ensure that disbursements by the City of Roanoke's Department of Social Services for expenses related to services performed in accordance with the Comprehensive Services Act and reimbursed by the Commonwealth of Virginia have the necessary supporting documentation in accordance with the CSA requirements. The supporting documentation should consist of an invoice from the third party vendor performing the youth counseling services that shows the date, time and nature of the services performed for each unit of measurement per the terms of the contract agreement between the City of Roanoke and the third party vendors performing the counseling services in accordance with the CSA requirements. In addition, invoices should be reviewed and approved by the CSA caseworker prior to being approved for payment by the City of Roanoke's Department of Social Services and that any questionable costs or service units be investigated by management of the City of Roanoke to ensure expenses being submitted by the third party vendors are valid expenses in accordance with the CSA requirements.

*Management's Response*

The Department of Social Services has reviewed the invoices in question and discussed the issues noted with the staff responsible for processing vendor payments. Vendor invoices that do not specify the dates of service and the number of hours of contact time with the child will not be processed. Invoices on which a case worker has disallowed units of service claimed by the vendor will be adjusted as specified by the case worker.

* * * * *

We also would like to bring to your attention the following future accounting pronouncements impacting the City:

## FUTURE ACCOUNTING PRONOUNCEMENTS

### *GASB Statement No. 54*

In February 2009, the GASB issued Statement No. 54 entitled, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Statement No. 54). The objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the assigned

fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement No. 54 are effective for financial statements for periods beginning after June 15, 2010. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

***GASB Statement No. 59***

In June 2010, the GASB issued Statement No. 59 entitled, *Financial Instruments Omnibus* (GASB Statement No. 59). The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement provides for the following amendments:

- National Council on Governmental Accounting Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, is updated to be consistent with the amendments to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, regarding certain financial guarantees.

- GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, are amended to remove the fair value exemption for unallocated insurance contracts. The effect of this amendment is that investments in unallocated

insurance contracts should be reported as interest-earning investment contracts according to the provisions of paragraph 8 of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*

- GASB Statement No. 31 is clarified to indicate that a 2a7-like pool, as described in GASB Statement No. 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.

- GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, is amended to indicate that interest rate risk information should be disclosed only for debt investment pools—such as bond mutual funds and external bond investment pools—that do not meet the requirements to be reported as a 2a7-like pool.

- GASB Statement No. 53 is amended to:

  – Clarify that the net settlement characteristic of GASB Statement No. 53 that defines a derivative instrument is not met by a contract provision for a penalty payment for nonperformance,

  – Provide that financial guarantee contracts included in the scope of GASB Statement No. 53 are limited to financial guarantee contracts that are considered to be investment derivative instruments entered into primarily for the purpose of obtaining income or profit,

  – Clarify that certain contracts based on specific volumes of sales or service revenues are excluded from the scope of GASB Statement No. 53,

  – Provide that one of the "leveraged yield" criteria of GASB Statement No. 53 is met if the initial rate of return on the companion instrument has the potential for at least a doubled yield.

The provisions of GASB Statement No. 59 are effective for financial statements for periods beginning after June 15, 2010.

* * * * * * *

We understand that the City's management is familiar with GASB Statements No. 54 and No. 59 due to the required adoption of these Statements in fiscal year 2011. We recommend that the City's management continue to consider the provisions of the Statements listed above to evaluate the potential financial impacts on the City's financial statements.

* * * * *

Our audit procedures are designed primarily to enable us to form opinions on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

The City's written responses to our comments and recommendations identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the audit committee of the City, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP