

MINUTES OF GREATER ROANOKE TRANSIT COMPANY AUDIT COMMITTEE

October 5, 2009

1. CALL TO ORDER:

The meeting of the Greater Roanoke Transit Company Audit Committee was called to order in the Emergency Operations Center (EOC Room #159) of the Noel C. Taylor Municipal Building at 11:10 a.m. with Vice Chairman, Dr. David B. Tinkle, presiding.

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

Audit Committee

Members Present: Dr. David B. Trinkle, Vice Chairman
Mayor David A. Bowers
Dr. M. Rupert Cutler
Gwendolyn W. Mason
Court G. Rosen

Audit Committee

Members Absent: Sherman P. Lea
Anita J. Price

Others Present:

Drew Harmon, Municipal Auditor
William M. Hackworth, City Attorney
Ann Shawver, Director of Finance
Darlene Burcham, City Manager
Evelyn Powers, City Treasurer
James Grigsby, Asst. City Manager/Operations
Brian Townsend, Asst. City Mgr./Community Development
Carl Palmer, General Manager, GRTC
Gary Tegenkamp, Assistant City Attorney III
Faye Gilchrist, Assistant to the City Manager
Melinda Mayo, Public Information Officer
Debbie Noble, Senior Auditor
Ann Clark, Senior Auditor
Doris England, Administrative Assistant
Sharlene Day, U.S. Attorney's Office
(2) Gentlemen from U.S. Attorney's Office
(3) Members of the Media

2. INTERNAL AUDIT REPORTS:

- A. Investigation: GRTC Furniture Replacement Project
- B. Investigation: GRTC Credit Card, Fuel, and Travel Expenses

Vice Chairman Trinkle recognized Mr. Harmon for comments. Mr. Harmon stated he wished to thank those who helped with the audits including members of his staff, the City of Roanoke Police Department, the Virginia State Police, the U.S. Attorney's Office, and the U.S. Postal Service Inspector. Mr. Harmon also thanked the City administration and First Transit for their help and cooperation with the audits.

Mr. Harmon stated there was a summary page at the front of the report, but there were a lot of details within the report that were worthwhile to read. This was not a planned audit, but was an investigation that arose out of the KPMG external audit. Mr. Harmon explained that \$225,000 was spent for furniture and decorations for this project, and his office estimated conservatively that it overspent by \$55,000. Documents were forged and fabricated, and cannot be discussed because it is a criminal issue; and it also relates back to the grant funding from the Federal Transit Administration.

Mr. Harmon stated the question being asked was, "How did this happen?" He explained it was due to the tone at the top of the organization. The General Manager and Assistant General Manager were not following the rules and were not asking their staff to follow the rules either. As a result, this is what happened. This project was initially budgeted at \$100,000 but there were no formal estimates prepared, and most of the furniture that was retired was in good to fair condition. The furniture was retired by using an internal bidding process, which is not allowed at the City. The City or the Schools would probably have been interested in acquiring the furniture; however, it was sold for virtually nothing. Of the items bid upon by employees at GRTC, 40 of the 59 items went to one bidder so it was not a competitive bidding process.

Mr. Rosen asked if Auditing had determined why there was no function for oversight by First Transit. Mr. Harmon replied that Municipal Auditing did not evaluate beyond what happened onsite in Roanoke. He stated that he knew that First Transit's regional representative, Bill Williamson, visited on occasion to check on operations, but he stated he did not know of their internal supervisory procedures. Based on interviews, Mr. Harmon determined that First Transit does adopt the locality's procedures, which is what they supposedly did here. There was very little structure in terms of policy and procedures that First Transit provided as to how things are supposed to be done. Mr. Rosen asked if Mr. Williamson was continuing to oversee the operations at GRTC, and if so, would Municipal Auditing be keeping a close scrutiny on those operations to be sure things were done right. Mr. Harmon replied that Mr. Williamson would continue to oversee operations and that the City does have a GRTC Board and Officers to oversee it as well. He explained that Municipal Auditing had done very limited auditing at GRTC in the past because he thought the coverage was there with the City's external auditors auditing GRTC annually, and the Federal Transit Association performing an audit there every three years.

Ms. Mason asked the City Manager why City Council was the managing body for GRTC instead of an appointed Board with members trained in public transportation. Ms. Burcham responded that at the time the City took over the public transportation from a private company, it was her understanding that the City Council wanted to serve as the Board of Directors. She explained that it is a local decision. Having polled other localities and served in other localities herself, she stated that there were always representatives of the local governing body as a part of the Board, though not necessarily the total Board. Ms. Burcham gave several examples of jurisdictions that have staff participation and private citizen appointment in addition to the representatives from the local governing body serving on the Board.

Dr. Cutler asked if these people were administrative or advisory. Ms. Burcham responded that they were all operational and responsible for appointing staff directors. Ms. Burcham explained that the reason for having a separate company has to do with the unionization of the bus operators as well as the maintenance groups. She also stated the City has a large financial investment in GRTC, and again reiterated that it was up to City Council as to how the Board should be structured.

Ms. Mason stated she would like for City Council to discuss the structure of the GRTC governing body in more detail at a future time. Vice Chairman Trinkle agreed and asked Municipal Auditor, Drew Harmon, to also be available for that discussion. Dr. Cutler added that having served on the Board of the Water Authority where he, as well as Ms. Burcham and other members, were very much involved, it was quite different than the GRTC Board which has essentially been rubber-stamping whatever came before the Board. He stated that would have to change.

Vice Chairman Trinkle asked Mr. Harmon to continue with his comments. Mr. Harmon stated that he had kept City administration informed as these issues developed, and administration had increased the reporting requirements from GRTC including more substantive reporting and a five-year capital plan. These requirements were initiated as early as March or April 2009. Ms. Burcham added that First Transit had also stepped up their oversight by requiring more approvals at the regional director level. Mr. Harmon explained the audit report had recommended, with the heavy funding through grants, that GRTC have a project process that requires estimates along with a person responsible and dedicated to oversee those projects. He added that the Board should be made fully aware of what was going on. He recommended the Board visit the site and meet at least once a year. Mr. Harmon stated that Municipal Auditing would be doing an annual plan for GRTC. He recently viewed what San Antonio, Texas, had done with their transit system while on a peer review there, and had a good idea of what he would like to see audited at GRTC.

Mr. Harmon asked if there were any further questions regarding the audit. There were none. Vice Chairman Trinkle ordered that the audit report of the

Investigation: GRTC Furniture Replacement Project be received and filed. There were no objections to the order.

Vice Chairman Trinkle recognized Mr. Harmon for comments on the Investigation: GRTC Credit Card, Fuel, and Travel Expenses audit report. Mr. Harmon stated this audit examined credit card and fuel purchases and the general managers' role in this usage. He stated that the use of credit cards requires management's control, and this was not in place at GRTC. Recommendations in this audit report suggest that a policy be implemented; the City's policy is a good role model. It also suggests that the general managers' credit card usage be reviewed by the City's Assistant City Manager.

Ms. Mason asked Mr. Harmon to clarify that the City's credit card is not supposed to be used to purchase alcohol. Mr. Harmon stated that was correct; there is City policy that prohibits the purchase of alcohol with the City's credit card. Ms. Mason also asked if the general manager to whom he had referred was no longer an employee of GRTC. Mr. Harmon stated that was also correct. He further explained that the credit cards at GRTC were with that organization and handled by another bank separate from the one that handles the City's credit card purchases. Ms. Burcham stated that First Transit's credit card policy also prohibits the purchase of alcohol. Vice Chairman Trinkle asked what the response from First Transit to this audit had been other than to terminate specific employees. Ms. Burcham replied that when these issues began to come forth, First Transit stated by letter that they would be responsible for whatever came out of the investigation. First Transit has also stepped up oversight of this function and created lower thresholds for approval. Ms. Burcham stated that senior representatives of First Transit had contacted City administration and are prepared to make restitution when the appropriate amount has been determined. She stated the primary amount would be to the federal government since this was the area in which these costs were allocated. Mr. Burcham further explained that City administration, along with the help of Mr. Harmon and others, is in the process of trying to determine what that amount might be. Once this audit report was made public, First Transit contacted the City and stated they were prepared to meet their obligations. Therefore, no city, state, or federal monies will be lost since First Transit will be making restitution.

Dr. Cutler asked if the City of Roanoke has a multi-year contract with this company to manage our transit system and if the contract was up for renewal. Ms. Burcham responded that the contract with First Transit is up for renewal next spring, and she has advised City Council that while the City could do an automatic renewal for an additional period, she feels it is in the City's best interests to issue a new RFP. That RFP has been issued. The City will be receiving proposals; and when they have been reviewed, a recommendation will be brought before the Board of Directors of GRTC. Dr. Cutler asked if the City owns the buses and the building of GRTC. Ms. Burcham stated they are owned by the company. Dr. Cutler asked Mr. Harmon to clarify the entities involved in

GRTC. Mr. Harmon explained that the City of Roanoke owns the Greater Roanoke Transit Company or GRTC. The City has contracted with First Transit to administer that company. All the employees, except for the General Manager and Assistant General Manager, are employed by Southwest Virginia Transit Management Company. Southwest Virginia Transit Management Company is owned by First Transit. Dr. Cutler asked if the management of GRTC went to a bidder other than First Transit, then everything else within the company would stay in place, including the fleet of buses, building, etc. Mr. Harmon replied that it would.

Mr. Rosen asked if the City could require the successful bidder for the management of GRTC to provide an audit from an external auditing firm each year. Mr. Harmon replied that financial statement audits are being performed at GRTC each year by an external auditor, but they look at materiality so the larger dollar amounts are what are examined in depth. Vice Chairman Trinkle asked if there was any internal payment for the services of Municipal Auditing to audit GRTC. Mr. Harmon replied there was not. Vice Chairman Trinkle stated he would suggest there be internal service billing written into the new contract so that Municipal Auditing would receive reimbursement for auditing services at GRTC. Mr. Rosen stated he felt the contract should state the City Auditor could come in twice a year to perform audits without prior notice. Mr. Harmon explained that he does have open access to audit at GRTC, and Municipal Auditing has done inventory audits there. Currently, an audit of the grants is performed each year by the City's external auditor, and the FTA performs an audit of GRTC every three years looking at grants and projects. Now the Department of Rail and Transportation, which is a state agency, performed an audit just after the period that Municipal Auditing was there. Mr. Harmon explained that with all these audits, his department thought there was coverage. However, he does feel that it is better to look at operations with the City auditor staff. Vice Chairman Trinkle agreed and reiterated that he felt reimbursement should be made by GRTC to Municipal Auditing for those services and stated within the audit plan. Mr. Harmon stated he was open to discussion of whatever City Council wanted. He does feel that access is necessary and the freedom to schedule audits as they wish. As for internal billing, it would be somewhat similar to administrative overhead.

Mr. Rosen asked what could be done to prevent this from happening again. Mr. Harmon replied that much had already been done in that it has been recognized that the Board of Directors should be more actively engaged and have more oversight of the management and operations by the managing company. Also, he stated his department would be doing more auditing there. Mr. Harmon said he felt more reporting should be required and the City Manager's office should take a more active role of liaison, which they have in recent times.

Ms. Shawver explained to the committee that GRTC does get reported annually as one of the City of Roanoke's enterprise funds in the City's financial statements. Therefore, GRTC and its assets are part of the City. Ms. Shawver

stated she believed that would change if GRTC were set up like the Water Authority. It would come out of the City's financial statements and would have stand-alone financials like the Water Authority does now.

Mr. Grigsby also explained to the committee that once the issue at GRTC became evident, City administration submitted a letter to First Transit requesting nine additional reporting oversights. He stated all of those are in place now, and the City is receiving monthly financial reports. He stated they had looked at all the recommendations contained in both these audit reports and had submitted them to First Transit. He noted they would have everything completed on those recommendations by the end of next week. He stated that First Transit had been very responsive to those requests. Mr. Grigsby stated that he used to meet with the manager of GRTC once a month; now he meets with him weekly. Vice Chairman Trinkle stated that perhaps at the next Board meeting, in addition to addressing the Board of Directors makeup, they could go over those nine initiatives and their oversight in more detail. Perhaps that could become a regular agenda item.

Vice Chairman Trinkle ordered that the audit report of the Investigation: GRTC Credit Card, Fuel, and Travel Expenses be received and filed. There were no objections to the order.

3. UNFINISHED BUSINESS:

There was no unfinished business to come before the Committee.

4. NEW BUSINESS:

There was no new business to come before the Committee.

5. ADJOURNMENT:

There being no further business, the meeting was adjourned at 11:43 a.m.



David B. Trinkle, Vice Chairman