

MINUTES

Audit Committee of Roanoke City Council

Location: Council Conference Room
Noel C. Taylor Municipal Building, Room 451 South

Date: December 17, 2012

Time: 1:03 p.m. to 1:40 p.m.

Attendees: Court Rosen, Audit Committee Chair
Ray Ferris, Audit Committee Member
Sherman Lea, Audit Committee Member
Mayor David Bowers, Ex-Officio Member of the Audit Committee
Drew Harmon, Municipal Auditor
Dawn Hope Mullins, Assistant Municipal Auditor
Pam Mosdell, Information Systems Auditor
Debbie Noble, Senior Auditor
Ann Shawver, Director of Finance
Daniel Callaghan, City Attorney
Chris Morrill, City Manager
Brian Townsend, Assistant City Manager – Community Development
Sherman Stovall, Assistant City Manager – Operations
Stephanie Moon, City Clerk
Margaret Lindsey, RCPS Director of Accounting
Tim Conner, KPMG Partner
Denise Martin, KPMG Senior Manager
Dorothy Hoskins, Senior Accountant
Rene Satterwhite, Accounting Supervisor

1. Call to Order:

Mr. Rosen called the meeting to order at 1:03 p.m.

2. Presentation of Audit Results Related to the June 30, 2012 Comprehensive Annual Financial Report (CAFR):

Mr. Conner and Ms. Martin presented KPMG's communications with the Audit Committee for the Fiscal Year ended June 30, 2012. Mr. Conner began by noting that KPMG had issued unqualified opinions on the City of Roanoke's financial statements.

Ms. Martin provided an overview of KPMG's auditing procedures and areas of focus during the audit. She noted that procedures were also performed on selected federal grant programs, as

required under single audit requirements issued by the Federal Office of Management & Budget.

Mr. Conner reminded the Audit Committee that again this year other auditors audited the financial statements of the School Board and certain operations of the Civic Facilities fund as described in KPMG's audit reports for the City. Mr. Conner discussed KPMG's responsibilities under professional standards, his firm's consideration of internal control over financial reporting, and the concept of materiality. No fraudulent activity was identified during the course of the audit. He noted that there were three (3) new auditing standards applied in this year's audit, all related to other information that accompanies the financial statements in the CAFR. There were also two new GASB financial reporting pronouncements that were in effect, neither of which had any impact on the City's CAFR.

Mr. Conner reviewed information related to the Roanoke River Flood Reduction Project. He stated that the flood reduction infrastructure was capitalized using the modified approach and confirmed this was reasonable based on the nature of the assets involved. Mr. Conner noted that additional details related to the donation of this significant capital asset to the City from the U.S Army Corps of Engineers have been included in the notes to the financial statements in the CAFR.

Related to management judgments and accounting estimates, Mr. Conner discussed the allowance for uncollectible taxes and the accruals for workers' compensation and healthcare benefits. KPMG recommended the City review its risk management programs as a best practice and given significant accruals experienced in fiscal year 2012. Additional information related to risk management is available in KPMG's Letter on Internal Control provided to management and members of the Audit Committee.

Mr. Conner discussed the items included in the Summary of Uncorrected Audit Differences. He noted that in fiscal year 2012, management refined its processes for capitalizing construction in progress (CIP) costs. As a result, management identified several capital assets that should have been depreciated in prior years. KPMG also identified capital expenditures that should have been recorded in the Capital Projects Fund during fiscal year 2012 that were also not considered material. Details of both items are included in the written Communication to the Audit Committee distributed as part of the Audit Committee package.

Mr. Conner stated that KPMG encountered no significant difficulties in performing the audit. He noted that the capital asset issues described earlier did require substantial audit effort. Mr. Conner expressed his appreciation for the assistance provided by Municipal Auditing staff in auditing the Roanoke River Flood Reduction assets.

Mr. Conner next reviewed KPMG's reports regarding:

- Internal control over financial reporting, compliance, and other matters required by *Government Auditing Standards*.

- Compliance with federal grant requirements that could have a direct and material effect on each major program and on internal control over compliance, as required by OMB Circular A-133.
- Compliance with Commonwealth of Virginia laws, regulations contracts and grant agreements, as required by the Virginia Auditor of Public Accounts.

Mr. Conner stated there was one significant deficiency in internal control over financial reporting cited relating to capital asset accounting, as discussed earlier in the meeting.

KPMG cited no internal control or compliance findings for major federal grant programs tested. Mr. Conner commended management on this achievement, noting that KPMG tested ten (10) programs accounting for over 50% of the total grant funds expended by the City in fiscal year 2012. Mr. Conner noted that KPMG had inadvertently not listed one (1) of the programs tested on the schedule of findings and questioned costs [page 179] and that this omission had since been corrected.

In testing compliance with Virginia laws, KPMG identified two (2) Conflict of Interest disclosure forms that were not timely filed with the City Clerk's office. Mr. Conner commented that this is a fairly common finding and is often beyond management's control.

Mr. Conner briefly commented on an upcoming financial reporting pronouncement which will require school systems to record their portion of the net unfunded balance of the cost of Virginia Retirement System pension benefits. This standard, effective in Fiscal Year 2015, is getting a lot of attention as many school systems may have to record very large net unfunded liabilities on their statement of net assets.

Finally, Mr. Conner noted that KPMG had issued unqualified opinions on two related entities:

- Greater Roanoke Transit Company [GRTC] Financial Statements.
- City of Roanoke Pension Plan Financial Statements.

Mr. Conner recently presented the audit results to the GRTC Board and plans to meet with the Board of Trustees for the Pension Plan in January 2013.

There were no questions from the Committee. Mr. Rosen thanked Mr. Conner and Ms. Martin for their work.

3. Comments on the CAFR and Audit for the Year Ending June 30, 2012:

Ms. Shawver began by acknowledging Ms. Satterwhite and Ms. Hoskins for their efforts in preparing the CAFRs for the City and City Pension Plan. Ms. Shawver thanked both ladies for their hard work and commitment.

Ms. Shawver observed that the audience for the City CAFR is primarily investors, citizens, elected and appointed officials. She stated that it is essential that the City be able to provide

independently audited financial statements to rating agencies. Ms. Shawver noted that City management will be meeting with rating agencies in late January 2013.

Ms. Shawver spoke about the Governmental Accounting Standards Board (GASB) and explained GASB's role as the standard-setting body for governmental financial reporting. She contrasted the GASB's role that of the Government Finance Officers Association [GFOA]; an organization that provides training and guidance to state and local government finance professionals. Ms. Shawver noted that the City applies for the GFOA's Certificate of Achievement for Excellence in Financial Reporting each year for both the City and Pension CAFRs.

Ms. Shawver observed that it is the employees and retirees that participate in the pension plan who are the primary audience for the Pension CAFR. The information in the Pension CAFR is quite extensive and detailed, and should promote confidence among employees and retirees that the plan is properly managed.

Ms. Shawver noted that the Plan's funded ratio at June 30, 2012, remains strong at above 80% of the actuarial estimated accrued liability. The funded ratio has dropped over recent years due to a volatile stock market. Indications are that market volatility will continue and management is overseeing the Plan with that in mind.

The Committee received and filed KPMG's reports, the City CAFR, and the Pension CAFR without objection.

4. Other Business:

There was no other business.

5. Adjournment:

Mr. Rosen adjourned the meeting at 1:40 p.m.

Drew Harmon, CPA, CIA
Municipal Auditor
Audit Committee Secretary