

# MINUTES OF ROANOKE CITY COUNCIL AUDIT COMMITTEE

June 2, 2008

## 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  
Beverly T. Fitzpatrick, Jr.  
Gwendolyn W. Mason  
Alvin L. Nash

### **Audit Committee**

**Members Absent:** Mayor C. Nelson Harris  
David B. Trinkle, Vice-Chair  
Brian J. Wishneff

**Others Present:** Drew Harmon, Municipal Auditor  
William M. Hackworth, City Attorney  
Jesse A. Hall, Director of Finance  
Darlene Burcham, City Manager  
James Grigsby, Asst. City Manager/Operations  
R. Timothy Conner, Partner, KPMG LLP  
Peter J. Ragone, II, Senior Manager, KPMG LLP  
Ann Shawver, Deputy Director of Finance  
Melinda Mayo, Public Information Officer  
Stephanie Moon, City Clerk  
Debbie Noble, Senior Auditor  
Doris England, Administrative Assistant  
(2) Citizens  
(4) Members of the Media

## 2. APPROVAL OF MINUTES FROM FEBRUARY 4, 2008, MEETING

Chairman Lea asked if there were any corrections or amendments to the minutes of the February 4, 2008, Audit Committee meeting. There were none. Ms. Mason moved and Mr. Nash 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. INTERNAL AUDIT REPORTS

- A. Private Branch Exchange (PBX)
- B. Purchasing Cards

Chairman Lea ordered that items A and B be received and filed. There were no objections to the order. Chairman Lea recognized Mr. Harmon for comments. Mr. Harmon explained that the Private Branch Exchange is associated with the Department of Technology and provides telephone service for the Municipal Building as well as outlying departments such as Parks and Recreation. The system was installed in 2002, and this is the first time it has been audited. In general, the service and rates are good. Mr. Harmon stated that the issues raised were in terms of documenting procedures. There are two or three key people who primarily manage the system and do so very well, but given their tenure with the City and proximity of their possible retirement, as well as the complexity of what they do, it is felt their procedures should be documented. Secondly, in checking the contract which was signed in 2002, it was noted that the City had been paying some overcharges. The Department of Technology will be refunded approximately \$30,000 now, and we have avoided future payments of another \$20,000 to \$30,000.

Ms. Mason asked if the City had an established policy and procedure on the usage of telephones by employees. Mr. Harmon stated the City has Administrative Procedures on Lotus Notes, which is available to employees, and there is a communications section which describes the appropriate use of telephones. Ms. Burcham stated that every City employee, upon being hired, is required to sign an agreement that verifies he or she has seen and agrees to abide by the guidelines of telephone/computer/electronic usage. She stated that, regrettably, there have been a few occasions in which employees were disciplined for telephone or computer abuse.

Chairman Lea recognized Mr. Harmon for comments on the Purchasing Cards audit. Mr. Harmon stated this was an annual audit. In prior years, the audit was performed on procedures in place for the City overall, including programs in place through Purchasing and the records received in Finance. This particular audit focused on the department level, on who was using the p-card, and any increased level of expenditure over the years. The two departments selected for the audit were Civic Facilities and Human Resources. Approximately 500 transactions were examined, receipts were verified, and the purchases were checked for appropriateness. A sample of purchases was traced to the actual items/models in use by the departments. This process

checked for the risk of purchasing a higher end model and later exchanging it for a lower model at a lesser price. Everything was found to be in good shape; and only minor things, such as a missing signature, were noted and discussed with the departments.

Chairman Lea asked if the committee could deduce from this audit that there was no wide-spread abuse of the usage of credit cards within the City. Mr. Harmon stated this audit was a good indicator although every department was not audited. Other departments have been audited such as the Fire Department and Fleet Management. Mr. Harmon stated he feels good controls are in place. Purchasing looks for anything unusual, as in purchases or vendors; and Finance checks a sample monthly to verify that p-card statements are signed by the department managers. Mr. Nash asked if the p-card transactions can be tracked one hundred percent. Mr. Harmon replied that he believes it provides a good paper trail. Data can be examined in the online banking system to provide the person making the purchase, where it is bought, and a description is supposed to be provided to indicate what the purchase is for.

Ms. Mason asked if Mr. Harmon could envision any circumstance wherein he would recommend not using the purchasing cards. Mr. Harmon stated that p-cards are widely used by both public and private agencies. They are used by all levels of government and have proven to be very efficient. He continued that he could not see any reason not to use them as a tool for procurement. He stated there was no more risk involved in using purchasing cards than there is in using requisitions. Going back to requisitions would create a volume of paper work that would take longer to go through the system, and he stated he could not foresee p-cards being eliminated as a tool for procurement. Ms. Mason asked if the City received rebates for using the credit cards. Ms. Burcham stated the City received just under \$100,000 last year in rebates.

Ms. Burcham informed the committee that Roanoke was one of the last jurisdictions in this area to adopt the purchasing card program. It was seen as a way to add efficiency to the organization. She stated that some notoriety had been given as to the number of cards issued; but as the report notes, the vendor has made a requirement that each person using a card has that card issued to him or her. Prior to this, a card was issued to a department or division. Ms. Burcham stated that from an audit standpoint, she felt the current requirement would be better in that it identifies the individual purchaser. She added that any person who is issued a p-card has to acknowledge receipt and responsibilities they have as a user of that credit card. The City has the ability, with that documentation, to address any infractions if they occur. There are multiple signatures and reviews of the p-card transactions, and Ms. Burcham stated she believes the use of the cards has improved efficiency and effectiveness and allowed employees to get the items they need to get the job done quickly.

#### 4. UNFINISHED BUSINESS

There was no unfinished business to come before the committee.

#### 5. NEW BUSINESS

- A. KPMG External Auditors – General Audit Plan for Fiscal Year Ending June 30, 2008
- B. Letter from Auditor of Public Accounts

Chairman Lea ordered that item A be received and filed. There were no objections to the order. Chairman Lea recognized Mr. Timothy Conner of KPMG for comments. Mr. Conner distributed a shorter version of the General Audit Plan to go over with the committee members. He reviewed the members of the Engagement Team listed in the plan and introduced his associate, Pete Ragone, who will return as the audit engagement manager.

The four entities to be audited include the following:

- City of Roanoke, Virginia
- School Board of the City of Roanoke
- Greater Roanoke Transit Company (GRTC) – Transit Operations
- City of Roanoke Pension Plan

Mr. Conner reviewed the reports that would be issued to each entity. He noted this would be the second year of reporting on Applying Agreed-upon Procedures on Sheriff's Internal Controls, which is required by the Auditor of Public Accounts (APA). Mr. Conner also stated that the Municipal Auditing Department would be assisting in that area.

Mr. Conner went over the Engagement Timetable stating that planning and interim fieldwork would take place during the May to July timeframe. This is also when the single audit testwork will be done. Final audit fieldwork is scheduled to take place from mid September through October with reporting and letters by the end of November. Mr. Conner noted that planning meetings had already taken place in April with the Finance Department which included representatives from the School Board. He stated that KPMG had met with Mr. Baker, who is with the Schools, on May 28 for a planning debriefing.

Mr. Conner introduced Pete Ragone to give an overview of the audit approach and the single audit approach. Mr. Ragone went over the four steps of the audit approach, which are listed below.

- Planning
- Control Evaluation
- Substantive Testing
- Completion

Mr. Ragone referred committee members to page seven of the Audit Plan and reviewed the programs anticipated for A-133 Single Audit. These are tested for Federal expenditures and include the following:

- Child Nutrition
- Food Stamps
- Federal Transit Capital and Operating Grants (GRTC)
- Workforce Investment Act (WIA)
- Adoption Assistance
- To Be Determined (TBD) – more programs may also have to be audited

Mr. Conner referred committee members to the new GASB Pronouncements that are effective for FY08. Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions (OPEB)*, is of most significance for the City. Mr. Conner stated the other pronouncements have minimal effect, are non-applicable, or just involve disclosure requirements. There is a new Statement on Auditing Standards (SAS) 114, which is *The Auditor's Communication With Those Charged With Governance*. Mr. Conner stated this will have more impact on those auditors who have not been meeting with the governing body or had end-of-year meetings, such as this one today. It is a requirement for the auditors to communicate with the governing body. The City will not see much difference; there may be a few more topics included in the required communications letter.

Mr. Conner stated the Impacts of Recent Illiquid Credit Conditions is not as relevant here at the City of Roanoke as in other localities outside Virginia where obscure or hard-to-value investments were made. However, he stated KPMG is observant for any concerns regarding the City's investments and cash.

Mr. Conner stated that the Annual Determination of Component Units determines if there are any component units to be included with the City's audit.

City of Roanoke and Related Entities Audit Assistance refers to the management personnel assistance that is needed for KPMG to perform the audit. Mr. Conner stated that Municipal Auditing staff members assist with the Sheriff's office with both APA procedures as well as internal control. There is also quite an extensive Schedules Prepared by Client listing, which is attached to the plan. Mr. Conner stated this was indicative of the

coordination that is required to pull together the supporting schedules and facilitate the audit process.

Mr. Conner stated that KPMG would welcome the Audit Committee's suggestions for any areas of audit emphasis. He then asked for any questions the Audit Committee members might have.

Chairman Lea thanked Mr. Conner and Mr. Ragone for their presentation and asked for any questions or comments from the committee. There were none.

Mr. Harmon stated that it is required by state law that the auditors meet with the governing body which is being audited. This occurs at the City of Roanoke twice a year, when the audit plan is presented and again when the audit report is issued; and there may be a third meeting within the year. Mr. Harmon stated this gives the Audit Committee members an opportunity to ask questions. He encouraged the members to contact Mr. Conner or Mr. Ragone with concerns or questions they might have at any time.

Chairman Lea ordered that item B, the letter from the Auditor of Public Accounts, be received and filed. There were no objections to the order. Chairman Lea recognized Mr. Harmon for comments. Mr. Harmon stated the Auditor of Public Accounts performs certain procedures of the audit function in regards to constitutional officers. This is a letter stating that Commonwealth collections and remittances have been reviewed. The results of their tests found the constitutional officers complied, in all material respects, with state laws, regulations and other procedures relating to the receipt, disbursement and custody of state funds, with only one exception. This finding was due to the delayed remitting of fees by the Sheriff to the City Treasurer. Mr. Harmon stated this was a fee that is rarely collected, and the delay in remitting the fee has been addressed. Mr. Nash asked if the City receives a copy of the constitutional officers' audit reports. Mr. Harmon stated that Municipal Auditing does not receive a copy as part of the APA's process, but the department could request it. Mr. Nash stated he would like to view the report, and Mr. Harmon replied he would obtain a copy.

## **6. OTHER BUSINESS**

### **A. Clerk of Circuit Court Audit – City's Portion**

Chairman Lea recognized Mr. Harmon for comments on the Clerk of the Circuit Court audit. Mr. Harmon stated this report was done annually; Municipal Auditing has an agreement with the APA to perform half the audit and the APA performs the other half. Mr. Harmon stated that, in past years, the department

has presented a written report to the Audit Committee; but it is really only certain parts of the audit program, which examine deeds, wills, and trusts, that are completed. Therefore, it is not enough on which to form an opinion. Instead of presenting a written report, Mr. Harmon stated he wished to inform the Audit Committee that Municipal Auditing has completed its portion of the audit and has given its report to the APA. Mr. Harmon will bring the letter from the APA before the committee when it is issued upon completion of the audit.

Mr. Harmon informed the committee members that the City Treasurer's office has achieved accreditation this year, an accomplishment of which to be proud.

## **7. ADJOURNMENT**

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

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Sherman P. Lea, Chair