

MINUTES OF THE AUDIT COMMITTEE OF ROANOKE CITY COUNCIL

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

Date: December 19, 2011

Time: 1:04 p.m. to 1:40 p.m.

Attendees: Sherman Lea, Audit Committee Chair
Court Rosen, Audit Committee Member
David Trinkle, Audit Committee Member
Mayor David Bowers, Ex-Officio Member of the Audit Committee
Drew Harmon, Municipal Auditor
Ann Shawver, Director of Finance
Bill Hackworth, City Attorney
Chris Morrill, City Manager
Brian Townsend, Assistant City Manager – Community Development
Dawn Hope Mullins, Assistant Municipal Auditor
Andrea Trent, Assistant Director of Finance
Stephanie Moon, City Clerk
Tim Conner, KPMG Partner
Margaret Lindsey, RCPS Director for Accounting Services
John Bingham, Assistant Director of Finance
Rene Satterwhite, Accounting Supervisor
Angela Hodnett, Human Services Business Administrator

1. Call to Order

Dr. Trinkle called the meeting to order at 1:04 pm.

2. Presentation of Audit Results Related to the June 30, 2011, Comprehensive Annual Financial Report

Dr. Trinkle asked Mr. Conner to present KPMG's communications with the Audit Committee for the fiscal year ended June 30, 2011. Mr. Conner stated that KPMG issued unqualified opinions on the City of Roanoke's financial statements for the fiscal year ended June 30, 2011. The financial statements and KPMG's independent auditors' report thereon are included in the City's fiscal year 2011 Comprehensive Annual Financial Report [CAFR]. Mr. Conner discussed the layout of the auditors' report and noted that KPMG relies on the work of other auditors in forming its opinion on the City's financial statements in terms of the financial statements for the School Board of the City of Roanoke and certain operations of the City's Civic Facilities fund. He further commented on changes in the City's presentation of the Greater Roanoke Transit Company [GRTC] due to the change in composition of the GRTC's board of directors.

He also briefly discussed the effects of GASB 54, which changed the required presentation of fund balances for fiscal year 2011.

The Communication with the Audit Committee was reviewed, and Mr. Conner discussed KPMG's responsibility under professional standards, his firm's consideration of internal control over financial reporting, and the concept of materiality. In addition to the change in presentation of the GRTC component unit, Mr. Conner also discussed changes in the presentation of the City's Market Building Fund during fiscal year 2011 due to the fact that operations for the City Market Building are now the responsibility of the Market Building Foundation, Inc. Mr. Conner then discussed his views about the quality of the City's accounting principles as applied to its financial reporting. Mr. Conner also explained two significant management estimates related to the allowance for uncollectable taxes and accounts receivables and the accruals for workers' compensation and health benefits. Based on KPMG's evaluation of the key factors and assumptions used by management in developing the estimates, they appeared reasonable in relation to City's financial statements.

Mr. Conner next discussed the items included in the Summary of Uncorrected Audit Differences. Two of the items were related to capital assets and one item was related to a timing difference with a payment received from Roanoke City Public Schools. The effect of these items was not material to the respective financial statements. Mr. Conner completed his presentation of the required communications with the Audit Committee by describing KPMG's limited responsibility for other information included in the CAFR, such as Management's Discussion and Analysis, and a confirmation that the firm is independent with respect to the City under all relevant professional standards.

Mr. Conner then presented KPMG's Management Letter, including a discussion of the internal control comment involving capital assets. This comment resulted from the above-noted uncorrected audit differences as well as issues with capital asset rollforward schedules provided to KPMG staff members during the audit. Mr. Conner commented that there could be some improvements in this area as described in the Management Letter. Overall, KPMG was satisfied with management's response to the comment. The remainder of the Management Letter highlights future GASB pronouncements. It does not appear that the pronouncements will have a major impact on City's financial reporting process, but KPMG recommends that City management continue its process of evaluating the potential impacts of these GASB pronouncements.

The Schedule of Findings and Questioned Costs prepared pursuant to KPMG's A-133 audit of federal awards was reviewed. Mr. Conner described one finding related to the audit of federal program expenditures and two findings related to compliance with Commonwealth of Virginia laws and regulations. The issues identified dealt with grant reimbursements for law enforcement overtime costs, filing dates of required elected official conflict of interest statements, and the Social Services Department's continuity of operations planning. Mr. Conner expressed his views that these were not items of

major concern, but KPMG is required to communicate them as findings. KPMG is satisfied with management's responses to the noted findings. Mr. Conner then concluded his prepared remarks.

Mr. Lea commented that the City Clerk works diligently to get the required conflict of interest forms each year and thanked her for her work in this area.

Mr. Conner expressed his appreciation for the support of Ms. Shawver's and Mr. Morrill's teams during the audit. He further commented that the liaison function provided by Municipal Auditing was very helpful in facilitating the audit engagement.

Mr. Lea thanked everybody involved for all their hard work.

3. Discussion – Financial Results for the year ending June 30, 2011

Ms. Shawver explained that fiscal year 2011 CAFRs will be distributed to City Council members today. Ms. Shawver will brief Council on financial results and the new GASB 54 presentation at its January 3, 2012 meeting. The General Fund had a fund balance increase of approximately \$2 million, ending the fiscal year with a balance of approximately \$25 million in the 'unassigned' category. No significant changes in revenues or expenditures were identified through the course of the 2011 fiscal year.

4. Briefing on Coordination of External Audits for June 30, 2011

Roanoke City Public Schools and Greater Roanoke Transit Company financial statements both received unqualified opinions and were presented to their respective boards in November. The City of Roanoke Pension CAFR is complete and also received an unqualified opinion. It will be presented to the Pension Board and City Council.

Mr. Harmon stated that it was a good year and major deadlines were achieved. Many challenges were overcome including changes in reporting component unit activity, implementation of GASB 54, and staff turnover at both the City and KPMG. It was a great effort and very much appreciated. He further reminded Committee members that Mr. Conner is located in downtown Roanoke and they are welcome to call him directly if there are any questions or concerns.

Mr. Morrill commented that he liked the CAFR cover which includes images of the recently renovated City Market Building. Mr. Lea thanked the Director of Finance and Municipal Auditor and their staff for their hard work. He also thanked Mr. Conner and his staff for their work on the audit. Mr. Lea remarked that in attending conferences and other functions he is often reminded of what a good job the staff does at the City when compared to other localities and again expressed his appreciation.

5. Other Business

There was no other business.

6. Adjournment

Mr. Lea adjourned the meeting at 1:40 pm.