

MINUTES OF ROANOKE CITY COUNCIL AUDIT COMMITTEE

June 1, 2009

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 #159) 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
Mayor David A. Bowers
Dr. M. Rupert Cutler
Gwendolyn W. Mason
Anita J. Price
Court G. Rosen
Dr. David B. Trinkle

Audit Committee

Members Absent: None

Others Present:

Drew Harmon, Municipal Auditor
William 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 Manager/Community Development
Peter Ragone, II, KPMG LLP
Stephanie Moon, City Clerk
Melinda Mayo, Public Information Officer
Faye Gilchrist, Assistant to the City Manager
Dawn Hope, Assistant Municipal Auditor
Debbie Noble, Senior Auditor
Ann Clark, Senior Auditor
Doris England, Administrative Assistant
(5) Citizens
(3) Members of the Media

2. APPROVAL OF MINUTES FROM MARCH 2, 2009, MEETING

Chairman Lea asked if there were any corrections or amendments to the minutes of the March 2, 2009, Audit Committee meeting. There were none. Dr. Cutler moved and Ms. Mason 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. KPMG REPORTS – YEAR ENDED JUNE 30, 2008

- A. Communication with the Audit Committee of City Council
 - Update
- B. Management Letter
- C. Report on Applying Agreed-upon Procedures for Comparative Report Transmittal Forms

Chairman Lea recognized Mr. Pete Ragone, Senior Manager with KPMG, for comments.

- Mr. Ragone briefly explained the purpose and content of the 2008 reports listed above. The drafts of these reports were discussed at length during the December 15, 2008 meeting of the Audit Committee.

Chairman Lea ordered that items A through C be received and filed. There were no objections to the order.

4. KPMG – CITY OF ROANOKE FISCAL YEAR 2009 – AUDIT COMMITTEE PLANNING MEETING

Chairman Lea recognized Mr. Ragone for comments on the 2009 KPMG Audit Plan. Mr. Ragone reviewed the qualifications and background of the 2009 KPMG engagement team and explained KPMG’s audit responsibilities.

Mayor Bowers asked Mr. Harmon if the School Board Audit Committee reported to City Council. Mr. Harmon responded that the committee does not report to City Council. Mayor Bowers also inquired whether Mr. Harmon reviewed the School Division’s audit findings and Mr. Harmon confirmed that he does.. Mr. Harmon noted that School Board Audit Committee meetings are open to the public and that reports received by the Committee are available to the public and City Council.

Chairman Lea inquired if the School Board Audit Committee reporting process had always been this way and Mr. Harmon replied that there has been a separate committee since 1998. Ms. Shawver added that schools were part of the City’s

General Fund until around 1994. Ms. Shawver went on to say that as a result of GASB Statement No. 14 requirements, schools were subsequently regarded as a separate entity and no longer reported as part of the City's General Fund.

Mr. Ragone reviewed the entities subject to audit and reporting for FY2009 which include the City of Roanoke, the School Board of the City of Roanoke, the Greater Roanoke Transit Company [GRTC], and the City of Roanoke Pension Plan.

Mr. Ragone recapped the engagement timetable, which begins in May with planning and culminates in late November with final reports and letters. He reviewed KPMG's four step audit process: planning, control evaluation, substantive testing, and completion.

Significant audit areas, listed on page 8 of the plan, which will be covered with each entity, were discussed by Mr. Ragone. Mr. Cutler asked if the privatization of school buses would be a part of the audit program. Mr. Ragone replied that KPMG would verify school compliance with procurement requirements and that the buses were accounted for properly. He also indicated that KPMG would check the contract.

Mr. Ragone discussed the audit requirements under A-133 Single Audit. KPMG uses a five step approach to this audit, which includes testing compliance with program requirements. The following programs are expected to meet the criteria for being included in this year's audit:

- Title I and Special Education
- Food Stamps
- Medicaid
- Federal Transit Capital and Operating Grants [GRTC]
- Community Development Block Grant [CDBG]

The City is designated as a high-risk auditee and 50 percent of its grant expenditures must be subjected to single audit procedures. Ms. Mason asked Mr. Ragone to explain the cause for the high-risk designation. He explained that findings related to GRTC procurement in 2008 and related to payroll certifications at the Schools in 2007 required the current designation. Additionally, he stated that three years ago the City was a low-risk auditee.

Mr. Ragone discussed the fact that federal stimulus money is expected to be flowing through the City in fiscal year 2010, increasing the number of programs that will require single audits. Ms. Mason commented that she was glad to hear the stimulus package funding would be audited because federal funds coming in should be spent wisely and correctly; documentation should indicate a clear audit trail. Ms. Burcham reported the City's Web site includes a stimulus page which lists the funds awarded to the City and the grants for which the City has applied.

Ms. Burcham explained that this web page is one way in which the City is addressing the issue of transparency related to stimulus fund spending. She also stated that no funding has yet been received. Mr. Ragone discussed stimulus money reporting requirements and shared KPMG's recommendation that localities not spend stimulus funds until after July 1, 2009, to avoid additional audit requirements in the current fiscal year.

Mr. Ragone completed his review of the audit plan and invited the Audit Committee to contact both himself and KPMG Engagement Partner Tim Conner if they should have any questions or concerns about the annual audit.

Chairman Lea asked if there were any questions or comments. There were none.

Chairman Lea ordered that the KPMG report on the City of Roanoke Fiscal Year 2009 – Audit Committee Planning Meeting be received and filed. There were no objections.

5. INTERNAL AUDITS

- A. Clerk of the Circuit Court
 - Report from Auditor of Public Accounts
- B. Code Enforcement
 - Addendum to Management Response
- C. Police Cash Funds

Chairman Lea ordered that items A through C be received and filed. There were no objections to the order. Chairman Lea recognized Mr. Harmon for comments.

Clerk of the Circuit Court: Mr. Harmon noted that the audit was conducted in accordance with the audit program designed by the Virginia Auditor of Public Accounts [APA]. He referred Committee members to an enclosed letter from the APA indicating that the audit was successfully completed and no findings were noted.

There were no questions from the Committee.

Code Enforcement: Mr. Harmon discussed that while Code Enforcement is responsible for upholding various codes and ordinances that promote clean, safe, and attractive neighborhoods, this audit focused only on the property maintenance code. He applauded Code Enforcement's efforts to improve

compliance and acknowledged the significant challenges associated with enforcing property maintenance codes.

Ms. Mason asked Ms. Burcham to discuss any improvements planned in response to the audit recommendations. There was a general discussion about how stringently property maintenance code should be enforced when considering the general condition of older properties, community norms, and funding of inspection staff. Ms. Burcham noted Inspectors enforce weed and inoperable vehicle laws in addition to the property maintenance code, and that it is a challenge to respond to the volume of complaints reported by citizens. A high percentage of complaints are addressed by owners once cited. An inordinate amount of time and resources are used in working with the owners who do not comply with requirements. Ms. Burcham commented that Council's decision to fund a full-time attorney in the Commonwealth Attorney's Office to prosecute code violations has had a very positive effect..

Dr. Cutler noted that the Code Enforcement report indicated a problem with record keeping and asked how this could be improved. Ms. Burcham discussed plans to further develop the code enforcement system, Accela, so that Inspectors can access and update records from the field. Procedures will also be developed to improve the consistency of information recorded by Inspectors.

Mr. Rosen observed that various neighborhood associations have different priorities based on the unique conditions in each neighborhood. He felt that the consistency of enforcement could be affected as a result of Inspectors trying to be responsive to neighborhood associations.

Mr. Harmon acknowledged the challenges faced by Code Enforcement. He discussed consistent enforcement in terms of management developing a minimum standard for property condition. He indicated that such a floor is necessary to protect the investment of responsible homeowners and to prevent further property deterioration in neighborhoods.

Mr. Harmon reemphasized the need to more fully develop the Accela system, to develop and manage a strategy for improving overall compliance with the City's property maintenance code, as well as the need for written policies and procedures.

Chairman Lea asked if there were any questions or comments. There were none.

Police Cash Funds: Chairman Lea asked Mr. Harmon to comment on the Police Cash Funds audit. Mr. Harmon responded that there were no findings in the report. Furthermore, he noted that there is an ongoing issue with the

application of the DUI recovery fee due to the wording in the State Law and that the Police department and City Attorney's Office are evaluating the proper application of the fee. He reported that Municipal Auditing would review the fee again as part of the 2009 Police Cash Funds audit.

Other Discussion: Chairman Lea asked Mr. Harmon if department heads of areas being audited could be notified to attend the Audit Committee meetings, or have a representative attend in their place, in case the committee members have questions. Mr. Harmon responded that a memo is issued to each department head notifying them of the date, time and location of the Audit Committee meeting.

Dr. Cutler asked for comments from Mr. Harmon and Ms. Shawver regarding the Capital Spending Analysis included in the audit package. This analysis was not considered a formal audit report and, therefore, was not placed on the agenda for discussion. Mr. Harmon explained that, in the course of audit planning, his department made note of the large dollar revenues and expenditures in the Capital Projects Fund. He asked his staff to develop an analysis to provide a clearer understanding of the City's investment in capital projects and use of debt funding. Mr. Harmon felt the analysis was interesting and afforded a perspective on spending that the Audit Committee might find informative. The analysis was not intended to render any specific conclusions. In general, it showed the City's investment in Public Works trailing behind inflation, as well as significant increases in capital spending and debt funding over the last 15 years.

Ms. Shawver commented that the analysis has prompted her to review the City's accounting for non-capitalizable items that are currently recorded in the Capital Projects Fund. She discussed the City's contribution to the Art Museum as one example of a significant investment of City funds that does not result in a tangible asset. Ms. Shawver noted that replacing the City's two high schools and the investment in the South Jefferson project contributed to the growth in capital spending. Ms. Shawver felt the analysis was beneficial.

Dr. Cutler asked Mr. Harmon to discuss the investment in Public Works in more detail and asked if the City is falling behind in maintaining its infrastructure. Mr. Harmon commented that the City's spending on Public Works is lower per capita than that of many other cities based on comparative reports published by the Auditor of Public Accounts [APA]. Public Works spending has also not kept pace with inflation over the past 15 years. This indicates a potential under-investment in maintenance of the City's infrastructure.

Ms. Burcham commented that Schools, Public Safety, and Human Services have been given priority over Public Works in recent years. Dr. Cutler noted that the City appears to be building new things and not taking care of the old things.

Ms. Burcham replied that it is a recognized issue and one which they continue to work to address.

Chairman Lea asked if there were any questions or comments. Dr. Trinkle inquired if the committee would be receiving an audit plan from Mr. Harmon. Mr. Harmon responded that he would like to meet with the Chair and Vice-Chair of the Audit Committee to discuss audit planning. He anticipates presenting an audit plan at the next Audit Committee meeting.

6. ADJOURNMENT

There being no further business, the meeting was adjourned at 12:10 p.m.

Sherman P. Lea, Chair