

# **MINUTES**

## **Audit Committee of Roanoke City Council**

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

**Date:** December 15, 2014

**Time:** 1:03 p.m. to 1:46 p.m.

**Attendees:** Court Rosen, Audit Committee Member  
Ray Ferris, Audit Committee Chair  
Anita Price, Audit Committee Member  
Mayor David Bowers, Ex-Officio Member of the Audit Committee  
Drew Harmon, Municipal Auditor  
Dawn Hope Mullins, Assistant Municipal Auditor  
Tasha Burkett, Information Systems Auditor  
Barbara Dameron, Director of Finance  
Daniel Callaghan, City Attorney  
Chris Morrill, City Manager  
Sherman Stovall, Assistant City Manager for Operations  
Brian Townsend, Assistant City Manager for Community Development  
Brian Grega, KPMG Partner  
Bryan Pattison, KPMG Senior Manager  
Rene Satterwhite, Accounting Supervisor  
Harold Harless, Financial Analyst

### **1. Call to Order:**

Mr. Ferris called the meeting to order at 1:03 p.m. He began the meeting by welcoming KPMG and wishing attendees a happy holiday.

### **2. Presentation of Audit Results for the June 30, 2014, Comprehensive Annual Financial Report [CAFR]:**

Mr. Harmon welcomed attendees and introduced Tasha Burkett, Information Systems Auditor. Ms. Burkett came to Auditing from the Department of Finance and has been with the City for 10 years. She is well-versed in both finance systems and general technology and is a welcomed addition to the staff.

Mr. Harmon introduced Mr. Grega and Mr. Pattison. Mr. Grega presented KPMG's communications with the Audit Committee for the Fiscal Year ended June 30, 2014. The audit was very successful this year. KPMG was able to consistently execute their audit plan as presented to the Audit Committee in June 2014. Unqualified opinions were issued for the City of Roanoke's financial statements.

KPMG follows AICPA professional standards and Generally Accepted Government Auditing Standards. Mr. Grega discussed KPMG's responsibilities under professional standards, his firm's consideration of internal control over financial reporting, and the concept of materiality. Mr. Grega 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. Grega spoke briefly about the importance of the City's accounting policies. He also noted that there were four (4) new accounting standards applicable this year; however, only two (2) affected the City's CAFR. GASB Statement 65 required a change in terminology related to financial statement presentations. It resulted in a Summary of Uncorrected Audit Differences item, as management decided not to restate assets. KPMG concurred with this approach. Requirements of GASB Statement 67 affected pension plan reporting and were successfully implemented. In the upcoming year, GASB Statement 68 will affect the City's financial statements by requiring additional pension liability disclosures.

Related to management judgments and accounting estimates, Mr. Grega discussed KPMG's responsibility to conduct sufficient audit procedures to conclude estimates are reasonable and free of management bias. Judgments and estimates appeared to be reasonable and no indications of bias were noted. There were no disagreements with management or significant difficulties in performing the audit. Mr. Grega referred Committee members to the formal Communication with the Audit Committee of City Council which includes all required written communications.

KPMG provided a report related to the City's compliance with laws, regulations, contracts, and grant agreements. Additionally, procedures were performed on selected federal grant programs, as required under single audit requirements issued by the Federal Office of Management & Budget. Programs reviewed for Fiscal Year 2014 included:

- Federal Transit Cluster
- Temporary Assistance for Needy Families (TANF)
- Home Investment Partnership Program (HOME)
- Social Services Block Grant (SSBG)
- Community Development Block Grant (CDBG)
- Workforce Investment Act (WIA) Cluster

KPMG issued an unmodified opinion related to grant activity, with the exception of the CDBG program which received a modified opinion. There were four (4) findings related to federal awards. Two (2) related to WIA Cluster programs and two (2) associated with CDBG. Mr. Pattison directed the Audit Committee to the Schedule of Findings and Questions Costs in the CAFR for more details.

Mr. Pattison reviewed the identified WIA issues related to sub-recipient monitoring and cash management. There were no questioned costs associated with either of the findings. Mr. Harmon commented that a locality is required to be designated as the grant recipient. A number of things contributed to the monitoring issue including changes in operating procedures between the City and Workforce Development Board (WDB) and changes in WDB

management. Mr. Morrill discussed the organizational structure of the WDB and City. After the WDB Director left, they contracted with the Regional Planning Commission to manage the program. Subsequently, the Regional Planning Commission took over as the fiscal agent for WIA funding. The Workforce Development Board remains in place and the City remains the grant recipient. This change should help rejuvenate the program. Mr. Harmon noted that Ms. Dameron's office has worked on a memorandum of understanding between the City and WDB. Ms. Dameron reported that the memorandum is complete and monitoring policies and procedures are in place. There was additional discussion regarding the City's available recourse if administration was not happy with an outside fiscal agent. As the grant recipient, the City ultimately controls the funds. Mayor Bowers asked if a regional approach would reduce initiatives available to citizens of the City. Mr. Harmon and Mr. Morrill responded that the WDB is currently a regional initiative and the recent change should only improve performance.

Mr. Pattison reviewed the identified CDBG issues related to program income and sub-recipient monitoring. There were no questioned costs associated with either of the findings; however, the delay in posting program income to the federal reporting system was considered a material non-compliance issue. The City drew down grant entitlement funds prior to spending program income. Additionally, it skewed the results of HUD's required test of timely expenditures. Mr. Harmon commented that program income was also not entered timely in 2013. He further noted that entry of program income was purposely delayed so that the City would pass the timeliness test. Mr. Ferris asked if program expenditures were authorized and Mr. Pattison confirmed that those expenditures tested by KPMG were authorized. Mr. Townsend discussed the program income derived from the Section 108 loan and the challenges the City and its community development partners experienced with the housing market in recent years. He noted that the City has already contacted HUD about the audit findings and the City's plans to expedite community development projects. In support of these plans, management will be asking Council to amend the City's current HUD policies to enable staff to reprogram HUD funds toward infrastructure projects and in areas outside the West End target area. Indications to date are that HUD will allow the City to proceed with the proposed workout plan with the expectation that unspent income and entitlement funds in excess of the 1.5 ratio on May 2, 2015, will be returned to HUD.

Mr. Pattison reviewed three [3] additional findings related to compliance with Commonwealth of Virginia requirements. One finding related to timely termination of access to Virginia Department of Social Services information systems when employees terminate. A second one involved one Social Services employee for whom a signed Acceptable Use Policy could not be located. The final finding related to issues with confirming Virginia Retirement System [VRS] contributions on VRS's reporting system by the 10<sup>th</sup> of the month. The Auditor of Public Accounts is reviewing its compliance criteria in light of process issues that may be contributing to delays.

Mr. Harmon noted that the Single Auditing findings will cause the City to be designated as "high-risk," requiring the auditors to test a higher percentage of grant expenditures in 2015. He congratulated the Department of Finance on another successful audit, and thanked KPMG and the City Attorney's Office for their efforts in working through the compliance issues that were noted.

Mr. Ferris thanked employees from both the City and KPMG for their work and dedication.

Mr. Grega noted that KPMG also issued unmodified opinions on the financial statements of two related entities:

- Greater Roanoke Transit Company
- City of Roanoke Pension Plan

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

**3. Other Business:**

Mr. Grega presented copies of KPMG's Future State 2030 document.

Mr. Harmon provided copies of the Auditor of Public Accounts review of Commonwealth Collections. No issues were identified during the 2014 review.

**4. Adjournment:**

Mr. Ferris adjourned the meeting at 1:46 p.m.

Drew Harmon, CPA, CIA  
Municipal Auditor  
Audit Committee Secretary