

MINUTES OF ROANOKE CITY COUNCIL AUDIT COMMITTEE

December 15, 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 1:32 p.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
Gwendolyn W. Mason
Alvin L. Nash
Anita J. Price
Court G. Rosen
David B. Trinkle

Audit Committee

Members Absent: None

Others Present:

Drew Harmon, Municipal Auditor
Timothy Spencer, Assistant City Attorney III
Ann Shawver, Director of Finance
Darlene Burcham, City Manager
Evelyn Powers, City Treasurer
Sheriff Octavia Johnson
James Grigsby, Asst. City Manager/Operations
Brian Townsend, Asst. City Manager/Community Development
Major Deputy Sheriff James Brubaker
R. Timothy Conner, Partner, KPMG LLP (KPMG)
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
(1) Citizen
(3) Members of the Media

2. APPROVAL OF MINUTES FROM JUNE 2, 2008, MEETING

Chairman Lea asked if there were any corrections or amendments to the minutes of the June 2, 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. KPMG – PRESENTATION TO THE AUDIT COMMITTEE

Chairman Lea recognized Mr. Tim Conner, Partner with KPMG, for comments. Mr. Conner stated that KPMG was in the final stages of performing the City's FY 08 audit, which includes a financial statement audit as well as a single audit required for federal awards. His office plans to issue an independent auditors' report on the City's financial statements in a few days and will complete the single audit reporting shortly thereafter.

Mr. Conner distributed a draft of the written Communication with the Audit Committee of City Council. Mr. Conner noted that the City's Comprehensive Annual Financial Report (CAFR) includes the City of Roanoke School Board (School Board) as a discretely presented component unit, the Greater Roanoke Transit Company as a blended component unit, and the fiduciary funds of the City of Roanoke Pension Plan.

Mr. Conner went on to explain the following items as listed:

- FY 08 was the first year that the City and the School Board were required to account for other post-employment benefits (OPEB) in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions*. Mr. Conner stated that KPMG's auditors' report on the City's FY 08 financial statements will include a paragraph describing the City's adoption of the provisions of GASB Statement No. 45 effective July 1, 2007.
- KPMG's responsibility under professional standards is to conduct the audit to obtain reasonable, not absolute, assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. KPMG is responsible for forming and expressing opinions about whether the financial statements are presented fairly, in all material respects in conformity with U.S. generally accepted accounting principles.
- KPMG also considers internal control over financial reporting (internal control) when planning and performing their audit and would include observations, as appropriate, in their reporting to management and the Audit Committee. KPMG does not express an opinion on the effectiveness of the City's internal control.

- Significant accounting policies used by the City are described in an extensive narrative in note 1 to the financial statements included in the City's CAFR. The primary change in accounting policies for FY 08 related to the adoption of GASB Statement No. 45 effective July 1, 2007.
- There were no transactions entered into by the City during FY 08 that were both significant and unusual or transactions for which there was a lack of authoritative guidance or consensus noted by KPMG during the audit.
- Mr. Conner also discussed his judgments about the quality, not just the acceptability, of the City's accounting principles.
- KPMG received full cooperation from the City's Finance and Auditing Departments.
- KPMG did not note a significant number of audit adjustments or any significant disclosures that were not made by the City.
- A \$94,000 uncorrected misstatement for capital outlays was identified during the audit, which was evaluated by management to be immaterial to the financial statements.
- Management judgments and accounting estimates are an inherent part of all financial statements. The key factors and assumptions used to develop the allowance for uncollectible taxes and accounts receivable, which totaled approximately \$4.5 million, were evaluated by KPMG to be reasonable in relation to the financial statements of the City. The key factors and assumptions used in the City's estimation methodology for the actuarially determined accrual for self-insured workers compensation claims incurred but not recorded were also evaluated by KPMG to be reasonable in relation to the financial statements of the City.
- KPMG does not audit the other information in the CAFR containing the audited financial statements, such as the Management's Discussion and Analysis section, but does read the information and considers the consistency of the information with the audited financial statements.
- There were no disagreements between KPMG and City management on accounting or reporting matters.
- There were no discussions with City management or the Audit Committee related to KPMG's retention as the City's independent auditor.
- KPMG will issue the final version of the written Communications with the Audit Committee at the conclusion of the audit. The final version will include a copy of the engagement letter signed by City management, a copy of management's representation letter obtained at the conclusion of the audit, and KPMG's observations relating to internal control matters and future accounting pronouncements.
- There were no notable difficulties that arose with City management during the course of the audit.
- Mr. Conner confirmed that KPMG is independent of the City and its various component units and pension plan.

- Mr. Conner also reserved the right to review the draft minutes of this meeting to ensure their accuracy in reflecting the intended communications from KPMG.

Mr. Conner asked for any questions from the committee members. There were none.

Mr. Harmon commented that state law requires the City's independent auditors to communicate with the governing body before December 31. He noted that the financial statements were not yet finalized and, therefore, not available for review by the Committee. Mr. Harmon explained that the School Board implemented a new financial system on July 1, 2008, and also reorganized their accounting staff, which contributed to delays in completing year-end financial reports.

Mr. Harmon also noted that there were issues with the audit of federal grants associated with the City's transit system. He stated that the issues could not be discussed at this time due to their being the subject of an ongoing police investigation. He noted that these issues also affected the schedule for completing the annual audit of the City's CAFR.

Chairman Lea thanked Mr. Harmon for his comments. He ordered the presented draft reports to be received and filed unless there were objections. There were none.

4. KPMG – REPORT ON APPLYING AGREED-UPON PROCEDURES FOR SHERIFF'S INTERNAL CONTROL OVER COMPLIANCE

Chairman Lea recognized that Sheriff Johnson was in attendance at the Audit Committee meeting. He then recognized Mr. Tim Conner for comments on the report.

Mr. Conner stated that the report is required by the Auditor of Public Accounts and that FY 07 was the first year in which the report was required. The procedures performed were agreed upon between the City and the Sheriff's office, and are described in the report. Mr. Conner offered to answer any questions the committee might have regarding the report.

Mr. Harmon commented that the procedures were developed by KPMG based on the requirements described in the *Virginia Sheriff's Accounting Manual*, issued by the APA, to assist the City in evaluating the effectiveness of the City Sheriff's internal control over compliance with the APA manual. In order to minimize the related accountant fees charged by KPMG for this required engagement, the City Municipal Auditing staff performed much of the detailed test work under the supervision of KPMG.

Mr. Harmon referred to page five of the report and noted that the tests were pass/fail in nature. DARE donations were required to be deposited within five days of receipt. There were no receipts or other documentation to indicate when donations were received, which made it impossible to determine the timeliness of deposits. Mr. Harmon noted that this did not mean the deposits were late.

Sheriff Johnson stated that the Sheriff's office has implemented procedures to record the date on which future donations are received.

Chairman Lea stated that unless there was some objection, he would order the Report on Applying Agreed-Upon Procedures for Sheriff's Internal Control over Compliance to be received and filed. There were no objections.

5. NEW BUSINESS

A. Roanoke City Council Audit Committee Annual Report – June 30, 2008

Chairman Lea stated that, due to time constraints, if there were any questions regarding the Annual Report to e-mail them to the Office of Municipal Auditing.

Chairman Lea stated that unless there was some objection, he would order the report to be received and filed. There were no objections.

6. ADJOURNMENT

There being no further business, the meeting was adjourned at 1:55 p.m.

Sherman P. Lea, Chair