

MINUTES OF ROANOKE CITY COUNCIL AUDIT COMMITTEE

December 21, 2009

1. CALL TO ORDER:

The meeting of the Audit Committee of Roanoke City Council was called to order in the City Council Conference Room of the Noel C. Taylor Municipal Building at 1:15 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
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 M. 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 Mgr./Community Development
Carl Palmer, General Manager, GRTC
Stephanie Giles, Director of Finance, GRTC
R. Timothy Conner, Partner, KPMG LLP
Peter J. Ragone, II, Senior Manager, KPMG LLP
Octavia Johnson, Roanoke City Sheriff
James Brubaker, Major Deputy Sheriff
David Bell, Captain Deputy Sheriff
Sherman Stovall, Management & Budget
Andrea Trent, Assistant Director of Finance
John Bingham, Assistant Director of Finance
Faye Gilchrist, Assistant to the City Manager
Melinda Mayo, Public Information Officer
Margaret Lindsey, Director of Accounting, RCPS
Dawn Hope, Assistant Municipal Auditor
Debbie Noble, Senior Auditor
Ann Clark, Senior Auditor
Doris England, Administrative Assistant

2. APPROVAL OF MINUTES FROM OCTOBER 5, 2009, MEETING

Chairman Lea asked if there were any corrections or amendments to the minutes of the October 5, 2009, Audit Committee meeting. There were none. Dr. Cutler moved and Ms. Price 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.

Chairman Lea recognized Sheriff Octavia Johnson and City Treasurer Evelyn Powers, both of whom were in attendance.

3. CITY OF ROANOKE

- A. KPMG – Presentation / Update to Audit Committee – Fiscal Year 2009
- Required Communications
 - City’s Pension Plan
 - Sheriff’s Internal Control
 - City
 - Schools
 - Single Audit

Chairman Lea recognized Mr. Tim Conner, Partner with KPMG LLP (KPMG), for comments.

Mr. Conner stated that KPMG is in the final stages of completing the City’s annual audit. He then proceeded with a slide show presentation outlining the communications required by auditing standards and the Auditor of Public Accounts of the Commonwealth of Virginia [Attached].

The committee discussed the adoption of GASB Statement No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations,” by the City in fiscal year 2009. Mr. Conner explained that this statement was required to be implemented to recognize existing obligations for the costs to remedy pollution-related conditions, such as identified disturbance of asbestos in buildings and leaking underground storage tanks. Ms. Ann Shawver informed the committee members that the City is reporting approximately \$326,000 in its unaudited financial statements for June 30, 2009, related to the William Fleming High School demolition.

Mr. Conner also noted that the City has contracted with a third party to manage its Civic Center and that this includes outsourcing the accounting for this fund effective January 1, 2009.

Mr. Conner stated that KPMG had not identified any misstatements to date; that there had been no disagreements with management to date; and that he was not aware of any consultations management has had with other accountants regarding the June 30, 2009, financial statements. He noted that KPMG is independent of

the City and qualified to perform the audit. Mr. Conner acknowledged that there have been delays encountered during the audit, which would be explained in greater detail during the presentation on internal controls. Mr. Conner asked Mr. Ragone to brief committee members on **internal control related matters**.

Mr. Ragone discussed the benefits of more formally documenting policies and procedures related to various aspects of the accounting operations, including preparation of the Comprehensive Annual Financial Report. He noted that staff turnover in the Finance Department in October had contributed to delays in completing this year's audit.

Mr. Ragone then discussed internal control related matters identified to date at **Roanoke City Public Schools**. The issues noted by KPMG primarily relate to the implementation of a new accounting system, beginning operation on July 1, 2008.

- Policies and procedures related to financial reporting with the new system did not appear to be adequately developed or documented.
- The new accounting system is a hosted system accessed through the Internet, with all hardware and software maintained at the vendor's facilities, which are outside of the Commonwealth of Virginia. Mr. Ragone noted that the vendor, as an important service organization to the Schools, has not had an audit of its system controls performed, often referred to as a SAS 70 audit.
- An adequate process for review and approval of manual journal entries was not in place.
- Bank reconciliations were not prepared or reviewed on a timely basis.

Chairman Lea asked if the deadline for getting this information and completing the Schools' audit was December 31 and what affect this would have on the City if the deadline is not met. Mr. Harmon noted that November 30 is the deadline for filing audited numbers with the state, but that a number of localities have missed that deadline in past years. Mr. Harmon was not aware of any specific penalty for filing late. Ms. Shawver added that other deadlines associated with December 31 are the filing with the Securities and Exchange Commission [SEC] and the application for the GFOA certificate of achievement. Ms. Shawver stated that the SEC filing could be completed with the City's unaudited statements and that an extension could be obtained from the GFOA. She noted that at some point after December 31, the APA would have to publish its comparative costs report without the City's data. She emphasized the need to complete the audit as soon as possible to avoid this scenario, as well as to allow her staff to focus on the current year's work, including 2010-11 budget development.

Dr. Trinkle asked how the Schools could get beyond the concerns related to the accounting system vendor. Mr. Ragone stated that ideally the vendor would provide a SAS 70 audit report to the Schools, and he asked Ms. Lindsey, Director

of Accounting – RCPS, who was in attendance, if she would like to provide further comments. Ms. Lindsey replied that the vendor has not had a SAS 70 audit and has no plans to undergo one at this time. She stated that the only alternative would be to change vendors / systems. Dr. Trinkle commented that a change in vendors would be an expensive alternative and that one would think the vendor would be required to provide the needed audit report.

Mr. Ragone proceeded with the presentation, stating that KPMG is nearing completion of test work required by **OMB Circular A-133 (Single Audit)** related to federal grants. Due to the City's current status as a high-risk auditee, 50 percent of expenditures of federal awards during the current fiscal year must be audited. Additionally, programs that expended funds received through the American Recovery and Reinvestment Act [Stimulus funds] were also required to be audited. As a result, ten Single Audit programs were tested. [See attached presentation for programs and preliminary findings.]

Mr. Rosen asked why the City was designated as "high-risk" for purposes of the Single Audit. Mr. Conner replied that the designation is based on past findings and that the City would have to experience two successive years with no significant single audit findings in order to be designated as low risk.

Chairman Lea asked if there were any further questions for Mr. Conner or Mr. Ragone. There were none.

Chairman Lea ordered the items presented by KPMG be received and filed. There were no objections to the order.

4. NEW BUSINESS

A. Audit Committee Changes

Chairman Lea recognized Drew Harmon, Municipal Auditor, for comments. Mr. Harmon asked the committee to consider the following changes to the Committee:

- Reducing the number of committee members from seven (7) to three (3).
- Scheduling committee meetings on the second or fourth week of the month to enable committee members to concentrate on audit business and minimize distractions associated with regular Council business on the first and third weeks of the month.
- Lengthening meeting times from 1 hour to 2 hours to allow adequate time for discussion.

Mr. Harmon commented on the favorable results of a similar change enacted with the School Board Audit Committee that now consists of two of the School Board

members. He noted that the City Code provides that the Audit Committee consist of a minimum of three Council members. Prior to 2001, the Audit Committee was a three-person committee.

Dr. Trinkle asked when the School Board changed to a two-person Audit Committee. Mr. Harmon responded that it has been a two-member committee for approximately three years. Dr. Trinkle asked how the work of the committee was communicated to the rest of the Board. Mr. Harmon replied that the Board's monthly agenda includes reports of committees, which includes a report from the Audit Committee Chair. All audit reports are provided to the full School Board. Dr. Trinkle asked about opportunities for all members of Council to meet with the Municipal Auditor to discuss questions they might have over the course of time. Mr. Harmon stated that Audit Committee meetings would remain public meetings and could be attended by any Council member. Additional meetings could also be scheduled as desired.

Dr. Cutler stated that, speaking as a previous Chair of the Audit Committee from 2004 to 2006, he supports creating a separate Audit Committee and spending more time with it. He stated he had the same sense as Mr. Harmon, that Council was being rushed too much with other responsibilities to give the Audit Committee sufficient attention, and would thus support the recommended changes.

Ms. Mason also expressed support for the recommended changes and noted that Mr. Rosen had expressed an interest in serving on the Audit Committee. She also noted that she would support Mr. Lea remaining as Chairman of the Committee and Mr. Trinkle, as the committee's current Vice Chairman, as being the third committee member. Ms. Mason moved that the Audit Committee now be made up of these three members. Dr. Cutler seconded the motion. Chairman Lea stated that was fine with him and asked if all were in agreement; other members stated they did agree. Chairman Lea explained that the Mayor is an ex-officio member of all City Council committees and might choose to participate as well.

Chairman Lea asked if there were any further questions from members of the Audit Committee. There were none.

5. ADJOURNMENT

There being no further business, the meeting was adjourned at 1:53 p.m.