# MINUTES
## Audit Committee of Roanoke City Council

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

**Date:** June 8, 2016

**Time:** 4:00 p.m. to 5:38 p.m.

**Attendees:**

| Audit Committee Member | Present (Y/N) |
|---|---|
| Ray Ferris (Chair) | Y |
| Anita Price | Y |
| Court Rosen | Y |
| David Bowers (ex-officio) | N |

Drew Harmon, Municipal Auditor
Dawn Hope Mullins, Assistant Municipal Auditor
Tasha Burkett, Information Systems Auditor
Ann Clark, Senior Auditor
Wayne Parker, Senior Auditor
Mike Shockley, Director of General Services
Barbara Dameron, Director of Finance
Evelyn Powers, City Treasurer
R.B. Lawhorn, Budget Administrator
Chris Morrill, City Manager
Sherman Stovall, Assistant City Manager for Operations
Brian Townsend, Assistant City Manager for Community Development
Dan Callaghan, City Attorney
Rob Churchman, Partner – Cherry Bekaert
Donald Deeds, Senior – Cherry Bekaert

**1. Call to Order:**

Mr. Ferris called the meeting to order at 4:00 p.m. and welcomed everyone.

**2. Approval of the Minutes from the March 2 Meeting**

Mr. Ferris asked if there were any corrections to the minutes. No changes were offered and a motion to approve the minutes as written was made by Mr. Rosen and seconded by Mr. Ferris. There were no objections and the minutes were approved. (Ms. Price had not yet arrived)

**3. Audit Plan for Year Ended June 30, 2016:**

Mr. Churchman provided the committee with two documents, a presentation summarizing the audit plan and a full copy of the plan. Mr. Churchman discussed the audit services to be provided including:

- Audit of City's financial report
- Audit of Pension Plan's financial report
- Audit of City's major federal grants as required by the Single Audit Act
- Audit of City's compliance with Commonwealth of Virginia requirements
- Examination of Virginia Retirement System census reporting
- Agreed-upon procedures on Sheriff's internal controls
- Agreed-upon procedures on City's Comparative Report Transmittal Forms

The firm is also engaged by the Greater Roanoke Transit Company to audit its financial statements. Mr. Churchman noted that Cherry Bekaert does not audit Roanoke City Public Schools.

Mr. Deeds reviewed the planned timing for audit work, beginning in May and ending in December. Mr. Ferris noted the lengthy time line and Mr. Churchman added that City and Cherry Bekaert staffs communicate throughout the year. Mr. Churchman and Mr. Deeds discussed the firm's approach to performing the audit, including considerations of information technology controls and areas of emphasis based on the firm's risk assessment.

Mr. Churchman noted one change in financial reporting requirements. The new standard requires that the City show how it determines the value of its investments. Most Virginia localities' investments are relatively easy to value. Mr. Ferris asked how the City currently reports this information. Mr. Churchman responded that the standards have previously only required a narrative description and now the presentation will most likely be in a table format. Ms. Dameron noted that she does not expect to encounter any problems in implementing the new requirements.

Beginning in Fiscal Year 2017, localities will be required to disclose material tax abatements. The standard mandates changes to footnote disclosure and will not affect the balance sheet presentation. In response to questions about disclosing performance agreements, tax refunds, enterprise zones, and service charges in lieu of taxes, Mr. Churchman stated that the standard is intended to require disclosure of large projects in which the locality will forgo material future tax revenues. Cherry Bekaert is working with all of its clients, including Roanoke, to research and provide answers to these types of questions.

Mr. Morrill noted that the City already discloses its performance agreements by booking the full revenue and then expensing the abatement. He anticipates that the Government Finance Officers Association [GFOA] will develop recommendations and best practices related to this standard. Ms. Dameron does not believe these disclosures will be a significant issue for the City.

Mr. Churchman also discussed the Government Accounting Standard Board's [GASB] statements 74 and 75 that require recognizing future liabilities related to other post-employment benefits, more commonly referred to as OPEB. The OPEB liability is actuarially determined and will be reported in the same manner as the pension liability. Localities can reduce or eliminate benefits to reduce the liability. Roanoke has made changes to OPEB, including creating a health savings account in place of monthly supplements for retirees.

Mr. Ferris asked if anyone else had comments or questions about Cherry Bekaert's audit plan.

Mr. Morril asked that the auditors take care to communicate regularly with Finance and management as the audit progresses. He expressed his hope that the shuffling that occurred at the end of the audit last year could be avoided and that things would go more smoothly this year.

Mr. Harmon noted that several findings were cited last year involving the following areas:

- Retainage
- Revenue Recognition
- Receivables
- Timely Spending of Community Development Block Grant Funds
- Sub-recipient Monitoring
- Highway Maintenance Cost Reporting
- Storage of Backup Tapes
- System Access Controls

There were a number of contributing factors that lead to these issues including changes in accounting standards, creation of the Stormwater Fund, turnover in City staff, and new auditors with fresh perspectives. These issues added to the delays last year and City staff has worked to address each of them. Mr. Harmon further commented that Mrs. Mullins and Mrs. Burkett have been assigned to coordinate the audit and facilitate communication between the auditors and the numerous city departments involved.

Ms. Dameron stated that the City's previous auditors had a different approach and perspective as relates to certain audit steps and accounting treatments, which was to be expected. She concurred with Cherry Bekaert's approach and perspective, but noted that it did require extra time and effort to prepare the data and make the necessary changes. Ms. Dameron also commented that she was unavoidably out of the office during a portion of last year's audit which will not be the case this year.

Mr. Harmon reminded the Committee that the results of this year's audit will be reviewed with them on December 14th, a week earlier than last year. He also mentioned that there were two significant events this year that might affect the audit:

1. Implementation of a new accounts receivable system
2. Implementation of a significant upgrade to the accounting system

Mr. Ferris thanked Mr. Churchman and Mr. Deeds for the briefing.

The presentation was received and filed without objection.

**4. Budget Transfer Ordinance:**

Mr. Stovall addressed the Committee regarding a proposed ordinance which would allow management the authority to transfer funding of any amount within and between funds. Mr. Ferris commented that the existing $75,000 threshold for budget transfers would be approximately $100,000 today if adjusted for inflation. Mr. Stovall stated that management had arrived at similar results.

Mr. Stovall discussed the appropriation process and current rules for budget transfers. The proposed changes would enable management to adjust General Fund departmental budgets as administratively necessary without taking reports to Council. Such transfers would not impact the aggregate amount of dollars budgeted and approved by City Council.

Funding for the Capital Projects Fund and the Grant Fund is not adopted in the aggregate, but on a project-by-project or program basis.

The proposed ordinance would require management to report budgetary transfers between funds and between projects and programs that exceed $100,000. Mr. Stovall noted that Roanoke County and Salem do not report transfers within funds to their governing bodies.

Mr. Harmon thanked Mr. Stovall for working with Municipal Auditing and the City Attorney's Office on revisions to the proposed ordinance, and for suggesting it be discussed with the Audit Committee. He cited the following processes as compensating controls to lifting the current limitation:

- City Council adopts a budget at a detailed department and division level
- The City's Comprehensive Annual Financial Report [CAFR] includes a schedule which compares the General Fund's original adopted budget to the final budget
- Department of Finance provides City Council with a monthly financial report
- Transfers are managed through a workflow system that requires multiple levels of approval

Mr. Harmon believes the proposed ordinance provides additional clarity as to the information Council can expect to receive related to budgetary transfers.

Mrs. Price asked if the proposed ordinance will help expedite the Department of Finance's work. Ms. Dameron responded that it will facilitate administrative clean up and streamline council agendas. Mr. Ferris commented on a prior draft of the proposed ordinance and Mr. Stovall responded that additional due diligence had helped improve the language.

Mr. Ferris asked Mr. Callaghan if he will be providing the final revised ordinance. Mr. Callaghan responded that a draft measure will be presented at the June 20, 2016, City Council meeting.

Mrs. Price moved that the Audit Committee recommend to City Council that the revised ordinance be adopted. Mr. Rosen seconded the motion. The Committee unanimously approved the motion.

**5. Clerk of the Circuit Court**

Mr. Harmon reported that the audit was completed and that there were no findings.

The report was received and filed without objection.

**6. Risk Management General Liability Claims**

Mr. Harmon reported that on July 1, 2015, the City began using a third-party administrator for general and auto liability claims. The City was the first to engage the Virginia Association of Counties Risk Pool, better known as VACORP, as a claims administrator and not just as an insurer. The audit did not identify any control concerns either with the claims administration process or with the claims tested. It was noted that the contract with VACORP did not specifically address ownership of the claims records, the City's access to the records, or Library of Virginia records retention requirements. Management plans to review the contract in July 2016 and will address these issues at that time.

Mr. Ferris recalled that council members had discussed the possibility of involving senior management in the review of contentious claims before they were denied or went to the courts. The audit report indicates that there is not a significant difference in how contentious claims are handled versus regular claims. Mr. Harmon responded that claims are processed in a consistent manner, using VACORP as an independent third party, which provides more confidence that decisions were objective.

Mr. Shockley stated that claimants can still contact the City's Risk Manager directly. The role of VACORP is to gather information on claims and to make recommendations about either paying or denying them to the Risk Manager. Mr. Callaghan added that the Risk Manager contacts the City Attorney's Office for assistance as needed.

Mr. Morrill reported that the City has now been through an entire winter with VACORP and that management has been satisfied with their overall performance. Mr. Callaghan discussed some of the complexities surrounding the six-month rule for providing the City with a notice of a claim. The City Attorney's Office works with VACORP and the Risk Manager to help ensure the finer points of the law are properly considered when processing claims. Mr. Callaghan noted that VACORP had provided helpful advice about the applicability of uninsured motorist coverage to pay for damage to a person's vehicle that is denied by the City under sovereign immunity.

The report was received and filed without objection.

**7. Home Rehabilitation Program Follow-Up**

Mr. Harmon reminded the Committee about the original audit of the City's Energy Efficient Home Rehabilitation Program. The follow-up audit confirmed that the program has been formally closed out with the Department of Housing and Urban Development [HUD]. Revised project guidelines were in place at the time of the follow-up audit and there were no active major home rehabilitation projects or requests being considered. Additionally, Community Resources staff had received the additional procurement training specified in management's action plan.

The final project costs for the Patterson Avenue property included in the original report was $258,145. Mr. Rosen asked what the value of the property was after the rehabilitation project was completed. Mr. Harmon responded that he believed the current assessed value to be $50,000 to $60,000 and that the assessment did not change after the project. He also commented that there is an issue with assessments in the Patterson area. There are an inadequate number of arms-length, valid sales against which to gauge market value.

Mr. Rosen questioned how the City could invest $258,000 in a house assessed at $50,000. Mr. Townsend responded that the project met HUD approved program guidelines. The project addressed aspects of energy efficiency and the removal of lead paint. Mr. Townsend stated that he would not expect the assessed value of the home to change based on the nature of the work done. Mr. Morrill noted that the City had agreed to do the project and then had to do what was necessary to bring the property into compliance with building code.

Mr. Rosen asked if the property was assessed before the City agreed to the project. Mr. Townsend responded that the project was approved based on the qualifications of the owner, being located in the West End target area, the condition of the property and HUD guidelines. Mr. Rosen expressed his support for targeting investment in the designated area to spur private investment. His concern with projects of this nature is that they are unlikely to attract additional private investment. He noted that a new house could have been built for less than the costs of the rehabilitation.

Mr. Morrill and Mr. Townsend communicated that the Patterson Avenue project was an outlier, that other projects in the Energy Efficient Home Rehabilitation Program were completed at much lower costs, and that the program has ended. The major home rehabilitation program in the new target area limits the cost of improvements to $100 per square foot, which applies to owner-occupied properties that would not attract private investment due to the costs and market values. If project applications are declined, the question becomes to whom do the owners turn and what ultimately happens to these deteriorating properties.

Mr. Harmon reminded the Committee that a neighborhood strategic plan for this area specifically acknowledged the challenges related to the size and condition of homes on Patterson Avenue. The plan envisioned the City working with private developers and non-profits to purchase and rehabilitate clusters of houses on this street as opposed to individual projects. The application from the Patterson Avenue home was reviewed two or three times and found to be too costly for the Lead Safe and other grant-funded programs. New management in Community Resources inherited the application, needed to spend funds to meet HUD's timely spending requirements, and had no other applications due to the housing market crash; it was a perfect storm.

Mr. Rosen asked if the owner of the rehabilitated property had paid the personal property taxes that were noted in the original audit report as past due. Mr. Harmon responded that the report was issued in March and his office had not checked on the taxes since then.

Mr. Ferris suggested that someone should be responsible for evaluating the likelihood that investments in proposed projects will encourage other investors to get involved in the neighborhood. It seems that no such evaluation occurred for the Patterson Avenue project. Mr. Ferris noted that the City does not want to ignore or destroy its housing stock, but government does not have the money to do everything that needs to be done. Mr. Morrill responded that the City did see improvement in the West End neighborhood.

Mrs. Price expressed that the lessons learned from this project should be applied across-the-board to improve the impact of our investments in the new target area. Mr. Harmon agreed and stated that HUD provides for flexibility when using CDBG funds. The City can use funding to improve streets and parks in a target area to make the area more attractive. Mr. Morrill noted that the City plans to partner with the Housing Authority and the Library Coalition as it plans for the Loudon-Melrose initiative. Distressed neighborhoods require taking on riskier projects to effect real change. Mr. Ferris stated that applying spending caps and requiring the review of exceptions by Mr. Townsend were necessary because of these risks.

Mr. Rosen commented that there is a sector of the housing market who is not interested in buying older homes. If rehabilitation costs are not feasible, replacing the home with new construction would not be a bad alternative. The City does not have a large inventory of newer housing. Mr. Ferris noted that new construction can replicate older architecture so that the character of a neighborhood can be maintained without spending so much. Mr. Townsend responded that the new construction in the West End area built by Habitat for Humanity received CBDG funding. HUD allows demolition and new construction expenditures. Habitat for Humanity is a good partner agency with a well-designed program.

Mr. Rosen asked about tax sale properties. Mrs. Powers responded that the City cannot take ownership of tax sale properties. However, Ms. Dameron stated that the City can partner with other organizations who are bidding on these properties. Mrs. Powers noted that Habitat for Humanity does bid on the properties. The Treasurer's Office currently tax sales approximately 60 vacant properties each year. Occupied homes have not been sold for taxes in the past, but some properties are as much as $15,000 to $20,000 in arrears on real estate tax. A lot of these properties are occupied by heirs who leave the property deeded in the name of their deceased relative. The Treasurer has worked with the City Attorney's Office to create a contract for such people that provides for a 36-month payment plan. The agreement states that if the terms of the payment plan are not met, the property will be sold at a tax sale. This can be an important facet of an overall strategy to prevent further deterioration in the City's housing stock.

Mr. Ferris thanked everyone for their comments.

The report was received and filed without objection

**8. PLAY Afterschool Program Follow-up**

Mr. Harmon reviewed the action plans completed by management since the original audit:

- Safety drills are being planned and performed.

- Issues cited in safety inspections have been addressed and plans are in place to ensure annual safety inspections are performed.

- Challenges related to training new staff have been acknowledged and are being appropriately addressed.

- Management will test for radon at the recreation centers to ensure levels are safe.

- Plans for providing all PLAY staff appropriate cardiopulmonary resuscitation [CPR] and first aid training are evolving. CPR training has been scheduled with the Red Cross. The Fire/ EMS department may provide additional training or loan equipment so that Risk Management staff can present it.

Parents and guardians are still not consistently signing out the children they pick up. This issue will be carried over to a future follow-up audit.

The report was received and filed without objection.

**9. Other Business:**

1. Mr. Harmon reminded the Committee about meetings scheduled for September 7 and December 14, 2016, both at 4:00 p.m.

2. Mrs. Powers spoke to the Committee about the City's participation in the Virginia Investment Pool managed by the Virginia Municipal League and Virginia Association of Counties [VML/VACO]. The City is a founding member of the Pool and Mrs. Powers serves on the Board. The City currently has approximately $15 million invested in the Pool.

Mrs. Powers shared that the Virginia Investment Pool has been independently audited, with good results. As of March 31, 2016, the market value of the Pool's portfolio was $349 million, up from $300 million in the first quarter. The Pool has outperformed its benchmark fund each quarter and has lowered its administrative fees to localities. The Board hopes that the Pool will have close to $500 million invested by the end of the year.

Mr. Ferris asked how the Pool is doing so well. Mrs. Powers responded that the Pool has a broad range of investments, all of which are allowed under the Code of Virginia. The Pool wants participants to be willing to have their funds invested for one to three years. Many localities are now participating in the Pool.

Mr. Ferris asked if Council had to authorize investment in the Pool. Mrs. Powers responded that Council approval was required and obtained. The cities of Roanoke and Chesapeake were the two founding members of the Pool.

Mr. Harmon noted that managing the City's investments requires understanding the City's and School System's cash flows. Mrs. Powers noted that the City's lowest cash balance occurs in February. She works closely with the Department of Finance during this time to avoid investing money that will have to be quickly withdrawn to meet expenses. The School System is working on a cash flow and the Treasurer plans to meet with the School's Chief Financial Officer to discuss investment options.

**10. Adjournment:**

Mr. Ferris adjourned the meeting at 5:38 p.m.