

MINUTES

Audit Committee of Roanoke City Council

Location: Emergency Operations Center
Noel C. Taylor Municipal Building, Room 159 North

Date: March 3, 2021

Time: 4:03 p.m. to 5:11 p.m.

Attendees:

| Audit Committee Member | Present (Y/N) |
|----------------------------------|----------------------|
| Joseph Cobb (Chair) | Y |
| Patricia White-Boyd (Vice-Chair) | Y |
| Bill Bestpitch (Member) | Y |
| Sherman Lea (Ex-Officio) | N |

Drew Harmon, Municipal Auditor
Bob Cowell, City Manager
Sherman Stovall, Deputy City Manager
Amelia Merchant, Director of Finance
Dawn Hope Mullins, Assistant Municipal Auditor
Tasha Burkett, Information Systems Auditor
Cari Spichek, Senior Auditor
Brian Pendleton, Senior Auditor
Dorothy Hoskins, Senior Auditor
Ann Bostic, Accounting and Systems Manager
Mary Talley, Accounting Supervisor
Andrea Trent, Retirement Systems Manager
John Aldridge, Partner, Brown Edwards

1. Call to Order:

Mr. Cobb welcomed everyone and called the meeting to order at 4:03 p.m.

2. Approval of the Minutes from the December 21, 2020 Meeting:

Mr. Cobb asked if there were any comments on or corrections to the December 21, 2020, meeting minutes. Hearing none, Ms. White-Boyd made a motion to file the minutes as written; Mr. Bestpitch seconded. The minutes were received and filed.

3. Presentation of Audit Results for the June 30, 2020 Comprehensive Annual Financial Reports:

Mr. Cobb recognized Mr. Aldridge for comments. Mr. Aldridge explained that his firm serves as the City's external auditors and is responsible for opining on the City's annual financial report. He noted that the draft documents provided to the Committee were finalized with only minor changes. The City received an unmodified opinion on its Fiscal Year 2020 [FY20] Comprehensive Annual Financial Report [Annual Report].

Mr. Aldridge explained that external auditors are required to evaluate the number and dollar value of adjustments identified through their audit work. If material in nature or amount, individually or in combination, auditors must discuss them with those charged with governance. Mr. Aldridge noted that the City had a material weakness in its processes for preparing year-end financial statements. The City also had two significant deficiencies, less severe than a material weakness, which had to be reported:

- Inadequate reviews and incompatible system access rights in the accounting department at the Berglund Center.
- City cash accounts not reconciled in a timely manner and inadequate supporting documentation.

These two issues were not elevated to material weaknesses as there were compensating controls in place.

As part of the audit, Brown Edwards was required to look at compliance with specified laws and regulations. Related to federal programs, approximately \$25 million in federal funding was expended by the City. Brown Edwards was required to review at least 40% of these expenditures, including Coronavirus Aid, Relief, and Economic Security [CARES] Act funding.

There was one small expenditure charged to CARES that did not qualify. Auditors are required to report unallowable expenditures regardless of amount. This finding was characterized as an "other matter," meaning that it was neither a material weakness nor a significant deficiency.

There was also a finding related to Commonwealth of Virginia regulations. The Commonwealth requires that elected, and certain appointed, officials file annual financial disclosure statements. Approximately 73 statements were identified for review; nine (9) were not filed timely and four (4) were not filed at all. Mr. Bestpitch asked if the auditors feel like the issue with disclosure statements has been corrected. Mr. Aldridge responded that he has not talked to the City Clerk directly, but hopes it has been addressed. Ms. White-Boyd asked with what departments the late and missing statements were associated. Mr. Aldridge replied that, in addition to City Council, some members of City management and representatives appointed to small boards and commissions are also required to disclose their financial information. These areas are usually where issues are found. He will provide Mr. Harmon with additional, more specific information on the finding. Mr. Cowell added that the forms are coordinated by the City Clerk's Office. Her staff distribute reminders and collect the documents. Ms. White-Boyd replied that this was the information she needed. Mr. Cowell reminded Committee

Members that it is incumbent upon management and board representatives to turn in the forms. Mr. Cobb identified a two-step follow up process, including enlisting the Clerk's Office to identify where the obstructions are and, secondly, reminding leaders how critical completion of this form is. Mr. Aldridge agreed and reminded management that the statements are already due for the coming year. Mr. Cobb added that this issue will be followed up on immediately.

Mr. Aldridge directed committee members' attention to Brown Edwards' Draft Required Communication document, which includes several standard sections. He noted one change was made from the draft to final document. Language related to delays in audit completion was moved from the "Disagreements with Management" section to "Difficulties Encountered in Performing the Audit." There were numerous changes in balances during the audit that proved challenging. He reviewed the list of Corrected Misstatements and explained that these were issues identified by Brown Edwards that should have been caught by City staff. Due to the large dollar amounts involved, the resulting finding was classified as a material weakness. Some of the issues were found at the report level and some at the trial balance level. A significant number of audit adjustments had to be made in order for final statements to be in accordance with GAAP. Management agreed with the proposed adjustments and all were booked. Mr. Aldridge then reviewed the Uncorrected Misstatements, noting these were immaterial in amount and were not required to be booked.

Also related to required communications, Mr. Aldridge reviewed the Comments on Internal Control document with the Committee. He noted that this document includes management's plans to address findings. He articulated to the Committee that it would behoove the Department of Finance to research available training to provide staff with a better understanding of governmental accounting. The Government Finance Officers Association [GFOA] offers good classes and Brown Edwards would be willing to provide training as well.

Mr. Aldridge reviewed the remaining internal control comments including additional, more specific information on the Civic Center's segregation of duties issues. There was also a concern noted with unrecorded real property whereby purchases and sales of property were not booked. The auditors often find local governments do a good job adding acquired properties, but not as good a job removing property when it is sold. He recommended that the accounting team spend some time reviewing the capital asset listing, particularly the larger assets on the books. It is important to make sure the list is accurate, even if assets are fully depreciated. Finally, he reviewed the status of prior year internal control comments, noting that the majority had been satisfactorily addressed. The final pages of the document provide information on upcoming accounting and financial reporting requirements.

Mr. Cobb asked for questions or comments and stated that it would be good to hear managements' responses and learn more about the strategies identified to address noted issues. Ms. White-Boyd commented that she has reviewed Brown Edwards' documents and would also like to hear from management. Mr. Bestpitch added that it seems pretty clear where the City has made progress and where there is still work left to do. Mr. Cobb asked Ms. Bostic and Ms. Talley for their input. Ms. Bostic reported that the past year has been turbulent with turnover in four out of nine positions. The department has a lot of work to do, but is willing to make the necessary changes. They are already working on staff GFOA training and are looking forward to any opportunities Brown Edward has to offer.

They are also planning to document specified procedures and she will make sure those are followed going forward. She thanked Municipal Auditing staff for their hard work and guidance throughout the audit and financial statement preparation process. Mr. Cobb expressed his appreciation to Department of Finance staff and expressed that 2020 was a challenging year in every way. Ms. Merchant also thanked the collective Finance staff and reiterated that management will continue to work with the external auditors to address issues. She added that the education support to staff will be evident going into the Fiscal Year 2021 [FY21] year-end processes. Mr. Cowell reminded Committee Members that the separate memo he provided directly to them was a supplement to the audit responses. The intent was to put into writing how management will proceed in addressing the issues and highlight plans for areas that need improvement.

Related to the audit adjustment finding, Mr. Cobb asked what is in place to monitor work differently this year as opposed to last year, knowing what we know now. Ms. Talley responded that staff worked from home the majority of last year. Now that all positions are filled, they are creating a monthly schedule of tasks and have caught up areas that were behind. Additionally, they are focusing more on report review and conducting weekly staff meetings. Deadlines for completing FY21 tasks have been set. Mr. Cobb asked if management is taking into account the additional training and how staff can best support each other in applying this new knowledge. Ms. Talley reiterated that GFOA training has started and Finance is working on scheduling time with Brown Edwards for guidance on documentation. This will improve work quality.

Mr. Cobb asked if reconciliations have a heightened priority now. Ms. Talley responded that there was turnover in positions before the pandemic and new accountants were trying to learn while working from home. Through assistance from the previous cash accountant, cash reconciliations are now in good shape. Ms. Bostic added that staff will be cross-training, which will help keep these timely going forward. Mr. Cobb appreciated the initiative.

Mr. Aldridge communicated to the Committee that his firm has assisted other clients who have been in similar circumstances. His first recommendation for FY21 was that Brown Edwards work with the Department of Finance to establish a working timeline with firm deadlines. The Committee would then receive regular updates on how well milestones are met along the way. That would help everybody and assist in ensuring work is correct when it is passed to the auditors. Additionally, until new staff get acclimated and additional training is provided to the entire team, it may make more sense to have Brown Edwards prepare the Annual Report. The firm could produce the document and still remain independent. It would still be up to Department of Finance staff to make sure the underlying numbers are good. As City staff become better able to manage the work, the responsibility for preparing identified sections of the report could be returned to City staff. For FY20, there were nine versions of the Annual Report before the opinion was issued and this extensive back and forth between staff and auditors took a lot of time and resources and created a lot of angst on both sides. Hiring Brown Edwards to prepare the document would eliminate this issue, as the auditors would create one version which City management would review and approve. Ms. White-Boyd responded that this was an excellent idea and would provide a reasonable option until staff is able to complete the report timely and with the least number of errors. Eight revisions is a lot and even if a fee is involved, it would be easier on staff. Mr. Cowell added that he talked with Mr. Aldridge yesterday and this option is included

in his memo in the last bullet point. For right now, management is holding the option open and he will be talking more with both staff and Brown Edwards and will make a determination on how to move forward. Mr. Bestpitch agreed that it is a good option, but added that it is ultimately management's decision whether staff has the capability to do the work. If that is the best way to proceed, he agreed it would be prudent to have the auditors prepare the report and added that no one wants to get to this point next year and be having the same conversation. Mr. Cobb liked the idea of progress updates and felt they would be helpful as far as keeping the Committee informed and would also provide a way to support staff. Ms. Bostic and Ms. Talley were amenable.

Mr. Harmon stated that it is time to start planning the FY21 external audit and the engagement letter is expected in early April. This is the third year of a five-year contract with Brown Edwards. Mr. Aldridge will present the upcoming year's audit plan at the June committee meeting and Mr. Harmon would like to have some audit milestones set by then. While the Audit Committee only meets quarterly, he will provide monthly updates. The full FY21 results will be presented in December. Mr. Cowell reminded everyone that updates will come from the Brown Edwards team, not from Department of Finance staff.

Mr. Harmon explained that the external audit budget was prepared last year and there will have to be discussions around additional Brown Edwards billings in light of the supplementary work undertaken by their staff. There will be added audit expense this year.

Mr. Cobb asked how often the capital asset list is evaluated. Ms. Talley responded that an inventory is done annually. Finance staff also monitor accounts, transactions and construction-in-progress quarterly. The goal is to do this more frequently.

Mr. Cobb thanked everyone and asked if there were additional questions. Mr. Bestpitch added that he appreciates the efforts and suggestions for moving forward. Hearing no further questions or discussion, the reports were received and filed.

4. Fire/Emergency Medical Services [EMS] Audit Follow-Up:

This is follow-up to a Fire EMS audit completed in June 2019. The original audit looked at training credentials, station staffing and patient care reports related to Fire EMS calls. It resulted in several findings for which management implemented corrective action plans.

During the original audit, the CrewSense resource management system had not yet been implemented. Staff scheduling at each station was maintained on spreadsheets at that time. The introduction of CrewSense in March 2020 was a big step forward. It consolidates information across all stations and provides an hour-by-hour picture of staffing. The City's 11 fire stations are staffed 24 hours a day, 365 days a year. Mr. Harmon referred to the illustration on page 9 of the report and explained the data as it relates to peak-time and non-peak time scheduling. There is a margin of 17 positions above the required minimum for fully staffing all stations. The follow-up looked at how the margin was managed to limit overtime while ensuring minimum staffing was maintained.

Firefighters regularly work nine (9) days in a 27-day work cycle. If they train on an off day, they may be given equivalent time off during a regularly scheduled day so that overtime is not accrued. Any hours worked over 216 for the cycle are paid as overtime. The audit noted issues with documenting and tracking work during off duty hours, which management has already begun addressing.

Fire EMS records patient care data in the ImageTrend data management system. The original audit examined system reports and found that, while Fire reports were in pretty good shape, EMS patient care reports had not all been generated in the system. It was a low percentage of accounts, but it's always prudent to make sure 100 percent of patient care information is documented in the system. Follow-up review found that this was greatly improved with only one report missing over a two-year period. This was considered addressed with no further follow-up needed.

The department's continuous improvement program involves staff reviewing and critiquing patient care reports. The goal has been to inspect 100% of reports. The original audit found approximately 64% had been reviewed. This percentage fell to only 36% in the latest period audited. Auditing worked with management to research the issues in more detail, and to facilitate a meeting to discuss solutions. Management is now considering focusing reviews on more complex patient care reports instead of reviewing all case documents. There will be additional audit follow-up in this area next year.

Mr. Cobb asked for questions or discussion. Ms. White-Boyd expressed her appreciation to staff involved and added that everyone seems to be working hard and the department has good plans in place. Hearing nothing further, the report was received and filed.

5. PCI Project Overview:

Mr. Harmon explained that the PCI project is only one piece of a larger City vision, which took shape in the early 2000's. As such, he felt it would be good to revisit the entire timeline with the Committee and referred members to the project overview, as follows:

- Pages 1 through 3 – This high-level timeline provides an overview of the Financial Applications Integration Team (FAIT) project which began in 2001. These slides only reflect activity and information systems involving departments located on the Municipal Building's second floor, which included the Treasurer's Office, Commissioner of the Revenue's Office, Real Estate Valuation and Office of Billings and Collections (which was part of the Department of Finance). During the past two decades, the City's retirement system has also been replaced as part of FAIT, along with the payroll and budget systems.

The FAIT Team was assembled in 2002 and was comprised of various City stakeholders. At that time, the majority of the City's information systems were housed on a mainframe computer and new technology was moving to servers and relational database software. Management wanted to explore potential options for migrating off the mainframe, including available enterprise-wide solutions. In 2003, Virtual IT was hired to review tax-related processes and information systems. Two Municipal Auditing staff were assigned full-time to assist with these assessments.

In 2004, after completing the request for proposal process for an accounting system, the decision was made to stay with the Advantage financial system. This was viewed as the core system into which other financial systems would feed. After a failed go-live attempt in 2005, the upgraded version went live in 2006.

In 2007, the City signed a contract with Manatron to provide a tax and treasury system. The City already had Manatron's mass appraisal system (ProVal). Virginia Beach was already implementing Manatron and other localities were considering them. The first phase of implementation was cashing and real estate tax. The implementation took almost three years and required accepting functionality that did not meet specifications. In 2011, the contract to install the remaining tax systems was cancelled.

In 2012, Virtual IT reevaluated tax and treasury processes and information systems. They found minimal progress had been made toward integrating processes and systems. For example, new restaurants still had to file separate applications with the Commissioner's Office and the Office of Billings and Collections when applying for a business license.

The City's Department of Technology (DoT) then proposed moving the legacy tax systems from the mainframe to servers using a tool that converted COBOL to a modern programming language. This mainframe modernization project was completed in 2015. DoT had hoped this conversion would allow their programmers to improve system functionality over time, but found improvements would require extensive redesign of the original programming.

In 2013, responsibility for collecting delinquent taxes transferred from the Office of Billings and Collections to the Treasurer's Office. In 2017, the Office of Billings and Collections was dissolved and its responsibilities for miscellaneous accounts receivable and trust taxes were transferred to the Offices of the Treasurer and Commissioner.

In 2018, the City signed a contract with PCI using cooperative procurement provisions other Virginia localities included in their PCI contracts. PCI worked on documenting the City's tax and treasury processes that summer and installed its base system in 2019.

- Page 4 – This page shows the original project timeline for an all-in implementation including real estate, personal property, business license, trust taxes, delinquent collections and miscellaneous accounts receivables. The original target for go-live was October 13, 2020. Legacy data proved challenging to clean up and convert, and the base system came with substantially less standard configuration than expected. The team decided to delay implementing the miscellaneous accounts receivables module in the hopes of making the go-live target. Progress was still not sufficient and the target date has now been moved to July 6, 2021. Mr. Cobb asked if miscellaneous billings occur throughout the year, which Mr. Harmon confirmed that they do. Mr. Harmon explained that departments throughout the city enter charges for services into the miscellaneous receivables system. The Treasurer's Office mails the bills, processes the payments, and takes actions to collect past due accounts. Mr. Cobb asked about the Department of Finance's involvement with miscellaneous accounts receivable. Ms. Talley responded that they perform reconciliations, work

with the Treasurer's Office and assist departments, as needed.

- Page 5 – Budgeted project hours provides a sense of effort required to implement the system, which encompasses thousands of hours of City staff time.
- Page 6 – The original project budget reflects expenditures on direct project cost, not including staff time and effort.
- Page 7 – This slide highlights duties of second floor offices. Real Estate Valuation performs real estate appraisals and their information then feeds into the billing system. The Commissioner of the Revenue's Office handles applying real estate modifiers, including elderly and disabled relief.
- Page 8 – The PCI product includes two systems, the Revenue Billing System [RBS] and the Revenue Collection System [RCS]. These overlap and also integrate with the Real Estate Inventory module of Aumentum. In turn, Aumentum receives information from ProVal, the City's real estate appraisal system, and both the single Aumentum module and ProVal will be retained.
- Page 9 – The new system will employ approximately 30 interfaces. This slide provides a high-level grouping of to where it will be connecting. An example of a State system is the Department of Motor Vehicles system and an internal system which will need to connect is the TRAKiT permitting system. TACS, the City's third-party collection agency, represents an outside party that maintains a system with which PCI will integrate.
- Page 10 – The new system will integrate seven previously separated systems. It will improve business license filing and accuracy and the Treasurer's Office will be able to view everything owed by a customer in one place. Legacy systems are out-of-support and the team is anxious to get moved to a stable, supported platform. The RBS and RCS systems are utilized by multiple Virginia localities. This creates a large network of people to contact if help is needed, as well as additional leverage with the vendor.
- Page 11 – The Sturgis Portal integrates with the RBS and RCS systems, allowing taxpayers to complete filing forms, review billing and payment history, and pay bills online. It allows taxpayers to do everything they need online, reducing calls and in-person visits to the Treasurer's and Commissioner's Offices.

Mr. Cobb expressed his appreciation for the history and thanked Mr. Harmon for the presentation. Mr. Bestpitch noted that one of the new system benefits is that taxpayers will be able to view all their bills in one place. He asked if miscellaneous accounts receivable would be an exception. Ms. Burkett responded that customers will not be able to see miscellaneous bills initially; but, the plan is to subsequently implement the functionality in PCI so those charges will also be visible. Mr. Bestpitch asked approximately how long it will take. Ms. Burkett replied that it is dependent on how many issues arise after go-live. The project is currently projecting a go-live date of July 6, 2021. Ms. White-Boyd asked if project work is ongoing for all six departments involved with the implementation. Ms. Burkett replied that the Treasurer's and Commissioner's offices are working on the implementation every day.

The other departments are primarily working with integration and conversion and much of the Department of Finance work has been completed. Their activity will pick back up as go-live approaches. Ms. White-Boyd also noted that Treasurer and Commissioner elections are this year and inquired if it would slow the project down if one or both were not reelected. Mr. Harmon responded that regardless of the outcome of the elections, the hope would be that the system is live before the end of their terms (December 31). Ms. White-Boyd responded that it seems like it will be a much simpler system related to billing and receivables and thanked staff for keeping the committee up-to-date.

Mr. Cobb asked if there were any further questions or comments. Hearing none, the update was received and filed.

6. Other Business:

Mr. Harmon reminded the Committee of its next meeting, which will be held on the first Wednesday of June at 4:00 p.m. Mr. Cobb thanked all those in attendance and again expressed his gratitude for their hard work.

7. Adjournment:

Mr. Cobb adjourned the meeting at 5:11 p.m.