

MINUTES

Audit Committee of Roanoke City Council

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

Date: June 1, 2022

Time: 4:04 p.m. to 4:54 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

Tim Spencer, City Attorney

Brent Robertson, Assistant City Manager for Community Development

Clarence Grier, Deputy City Manager

Amelia Merchant, Director of Finance

Mary Talley, Accounting Supervisor

Dawn Hope Mullins, Assistant Municipal Auditor

Tasha Burkett, Information Systems Auditor

Cari Spichek, Senior Auditor

Dorothy Hoskins, Senior Auditor

John Aldridge, Partner, Brown Edwards & Company

Jerry Dunivant, President of Covenant Real Estate Services (A Division of Brown Edwards)

1. Call to Order:

Mr. Cobb welcomed everyone and called the meeting to order at 4:04 p.m.

2. Approval of the Minutes from the January 27, 2022 Meeting:

Mr. Bestpitch made a motion to approve the minutes, Ms. White-Boyd seconded the motion. The minutes were approved and filed.

3. External Audit Plan for Year Ended June 30, 2022:

Mr. Aldridge referred the Committee to the plan, noting the following:

- ARPA expenditures are expected to be substantial and will most likely be tested as a major program.

- No changes related to pension or other post-employment benefits are expected this year.
- New accounting standards for leases will be a significant undertaking for Finance. An example of a lease affected by the standard would be a locality renting space on a water tower to a cell phone company. Mr. Aldridge noted that there are 3rd parties that can be engaged to assist with implementing the lease standard. One company used by several Brown Edwards clients is Debt Book.

Mary Talley, Accounting Supervisor, stated that she has been in communication with Debt Book and plans to send the City's lease information to them within the next couple of weeks. She believes Finance has about 80% of the lease information from departments. Debt Book's process will take about 90 days to complete. Ms. Talley noted that Debt Book will also be working with the City's debt schedules, which should take about four (4) weeks once they have the City's information.

- Due to past findings the City is classified as a high-risk auditee for purposes of testing expenditures of federal grant funds. Brown Edwards is required to test programs that together account for at least 40% of all grant expenditures.
- Page 14 outlines the timing and location of each phase of the audit.
- Page 15 lists key dates that should be of interest to the Committee.
- Page 16 outlines three (3) of the most significant issues from the prior year's audit, along with the solutions planned for this year.

As he was concluding his remarks on the plan, Mr. Aldridge mentioned staff turnover in Finance as a concern, noting that it takes time to get new people in the building and trained.

Mr. Aldridge then introduced Jerry Dunivant, President of Covenant Real Estate Services. Mr. Dunivant stated that Brown Edwards obtained a controlling interest in Covenant two and a half years ago. Covenant provides title and settlement services for both residential and commercial real estate. The City Attorney's Office recently contracted with Covenant to provide title and settlement services after the City's current provider pulled out of the business. Brown Edwards has vetted this relationship through the AICPA (American Institute of Certified Public Accountants) and found that it created no issues in relation to the financial audit. Mr. Dunivant asked for any questions from the Committee.

Mr. Spencer discussed past use of title and settlement services, and title insurance when the City acquires property. He noted that these services give the City another tool when dealing with property transactions. Mr. Spencer confirmed that the City had used a prior vendor who has gotten out of the business.

Mr. Cobb asked if there were any questions from the Committee. There were none.

Mr. Cobb recognized Amelia Merchant, Director of Finance, for comments. Ms. Merchant referred the Committee to a handout provided at the beginning of the meeting and asked Mary Talley, Accounting Supervisor, to brief the Committee.

The handout outlined the findings from the prior year's audit, the action plans, and progress made on each:

- Capital Assets and Debt – As mentioned previously, Finance is working with Debt Book to account for leases and debt. Ms. Talley is working on capital assets. Finance staff are attending VGFOA (Virginia Government Finance Officers Association) courses and webinars as much as possible. They are cross training and staying on top of monthly report review, while working with departments to clean things up.
- Economic Development (ARPA Grants) – Staff have modified the review process and requirements for disbursements. The application for funds requires a Memorandum of Understandings (MOU) and a more thorough review.
- City Clerk's Office – All disclosure statements have been filed.
- Public Works and Transportation (Time Cards) – New time reporting software is in place. Ms. Talley referred the Committee to the progress comments on the spreadsheet for additional information.
- Social Services – John Beason is working more closely with the Treasurer's Office to get reconciliations completed timely. They are also working with Finance to make sure everything on the general ledger is reconciled.
- Civic Center – Ms. Talley stated that regarding segregation of duties, there are several things the Civic Center has done to make sure there is more review and signoff. Because they are small and cannot segregate duties as fully as the City might like to see, they have put other mitigating controls in place.

Ms. Talley commented that Finance has also created an oversight team including the City Manager, Director of Finance, Deputy City Manager, Assistant City Manager, and Manager of Accounting to meet monthly to discuss training and action plans. They have setup mentoring arrangements with the Deputy City Manager and Assistant City Manager, which has helped with addressing questions. Ms. Talley stated the Director of Finance is looking at different development opportunities. If the City has to contract something externally, it will be reviewed by the oversight team with City Manager approval.

Ms. Talley stated Accounting will continue to monitor FY 21 action plans monthly to ensure progress continues and will report status to the oversight team. The Deputy City Manager and

Assistant City Manager will assist the Director of Finance in working with internal and external auditors to stay on target. The City Manager, Assistant City Manager, Brown Edwards, and Municipal Auditor will prepare audit communications so everyone gets same information. The information will be shared with the Audit Committee. There will be enhanced reporting to Council and Finance will continue to provide financial statements to Council through the City Manager's weekly updates. Ms. Talley noted that a project to update or replace the current accounting system is ongoing and should be fully funded in 2024. Accounting may work with a third party to assess Accounting's systems, structure and resources, separately from the external and internal auditors. Assessment results would be delivered to the City Manager.

Mr. Cobb thanked Ms. Talley for the briefing and asked the Committee if they had any questions or comments. Mr. Bestpitch commented that the plan sounds good and that the City should be on track for a smooth audit.

Mr. Cobb asked Mr. Harmon to discuss the audit communication plan. Mr. Harmon discussed what had been done to date, noting that Dawn Mullins, Assistant Municipal Auditor, will be coordinating the audit this year. There was a planning meeting on April 19 that included personnel from Finance, Pension, Social Services, the Civic Center, GRTC and RCPS. On April 20, Ms. Mullins met with GRTC and Brown Edwards to talk specifically about GRTC's schedule for audit work. Mr. Harmon noted that the GRTC audit is expected to be completed much earlier this year.

Mr. Harmon stated that he, Mr. Cobb, and the City Manager had a preliminary meeting to talk about communication issues in the prior year and how to improve communication. A second meeting was held with a larger group that included the Director of Finance, Assistant City Manager for Community Development, and Assistant Municipal Auditor and Brown Edwards to agree on the details for the communication plan. Municipal Auditing will organize status meetings around key deadlines, identify any reasons for delays and any impact on other deadlines. The first update will be in mid-July when preliminary work is mostly complete.

Mr. Harmon reminded the Committee that the APA's deadline for filing the audit is December 15. The plan is to complete the first draft of the annual report before Thanksgiving. The Audit Committee meets on December 19 at 1:00 pm.

Mr. Cobb agreed the Committee wants to have a July and September update, then an update every two (2) weeks from Municipal Auditing. He hopes this will consolidate much of the information. Mr. Cobb asked the other Committee members if the schedule looked okay to them. They both responded that it did and it seems doable. Mr. Cobb thanked everyone for the work on this effort, and stated he feels good about where we are.

The plan was received and filed.

4. Sheriff Turnover Review:

Mr. Harmon stated this was a request from the outgoing Sheriff to do a turnover as he was leaving

office. Ms. Mullins led this audit, and both the former and current Sheriff have reviewed the final report and were given an opportunity to comment. Everyone is satisfied and agrees with the report, which outlines in detail what was performed and the results. Mr. Harmon stated he would be happy to answer questions.

Mr. Cobb commented he didn't notice any significant issues, to which Mr. Harmon agreed and stated in general everything was in very good shape. Ms. White-Boyd commented this was a good report and she was very impressed.

The report was received and filed.

5. Risk Management Investigation:

Mr. Harmon noted the concern about a backlog of work in Risk Management came through the hotline. Dorothy Hoskins led this investigation. Due to the delay in the appointment of the new Risk Manager, a staff member temporarily filled in. During this interim period there was some disruption in risk management operations. The new permanent Risk Manager started in November and the backlog was substantially cleared prior to the audit.

During the investigation, Auditing noticed an issue with underinsured property, specifically with Fire Station #7. The new Risk Manager immediately began reviewing all City properties and identified one additional underinsured property – Wells Fargo Tower. Risk Management is continuing to review all property to ensure everything is properly valued and listed. Mr. Harmon commented that as a result of the investigation, internal communication between City Departments and Risk Management about changes in the values of City properties has improved.

Ms. White-Boyd asked how they would handle renovations. Mr. Harmon responded that City Engineering will be communicating more regularly with Risk Management about renovations and additions.

Mr. Cobb asked if the insurance has been updated on the underinsured properties. Mr. Harmon responded that the information on Fire Station # 7 has been updated, but he was unsure about the Wells Fargo Tower. Ms. Hoskins responded that Risk Management has a preliminary valuation of the Wells Fargo Tower, but is waiting on a final value to update the insurance.

Mr. Bestpitch asked if this was the Wells Fargo garage. Mr. Harmon responded that it was the garage and the floor beneath the garage.

Hearing no further comments or questions, the report was received and filed.

6. PCI Project Update:

Mr. Harmon began by briefly reviewing the history of the tax and treasury area going back to the early 2000s. Discussions about modernizing systems began at this time and lead to the Manatron

project in 2008. The City was the second Virginia locality to choose Manatron and is today one of only two Virginia localities using the system. In contrast, when the City contracted with PCI in 2018 its system was being used by more than 17 Virginia localities. However, since 2018 PCI has lost many of its original founders and staff, and has been absorbed by another vendor. In many ways it is as if the City is working with a new company and new implementation process.

Mr. Harmon noted that it was 2021 when PCI began dedicating the necessary resources to implement the system. The team made every effort to go live in December 2021, but could not satisfactorily resolve issues with real estate tax billing. The City had hoped to continue working on real estate in January 2022, but PCI diverted its resources to other clients in early January. PCI began assigning more resources to the City's project in March 2022. Real estate was further delayed as the City team debated how property should be assessed according to code and how PCI should interact with the assessment software (Proval). A tremendous number of staff hours have been used in the effort to resolve these issues.

PCI has continued to dedicate its resources to the City's project with a goal of having the system live by July 20. However, as PCI delivers system fixes that allow the City to test further into the system, new issues are being identified. This makes it difficult to confidently project a true go live date.

Government Brands recently assigned a new project manager to the City. This project manager is new to PCI and manages PCI's project management group. PCI project managers are now required to be certified Project Management Professionals (PMPs). Government Brands has also changed PCI's development process to an agile framework. Developers work in 2-week sprints with a goal of completing a set number of items during the sprint.

Mr. Harmon noted that these changes appear to be helping and that the vendor's performance is improving. However, the City is not yet confident that PCI can deliver all critical functionality by the July 1 lockdown date or that PCI can deliver on its promise to prioritize the City for 60-90 days after go live. The conversation about critical functionality and post go live items has been ongoing. If PCI delivers all the critical fixes by July 1, City staff will attempt to complete user acceptance testing in time for a July 20 go live. However, if any critical functionality is not working in test, PCI and the City will have to agree on another go live date.

Mr. Harmon stated that Tasha Burkett will be meeting with the Commissioner of the Revenue, Treasurer, and PCI to review and prioritize the to-do list. Mr. Harmon then asked Ms. Burkett if there was anything she would like to add. She responded that the major items had been covered, but reiterated the changes in management at PCI have been significant and most helpful. While the new Project Manager is talented, she has needed time to develop an understanding of the open items and City's processes.

Mr. Harmon noted that the City received several bills from PCI late in 2021 that suggested project milestones had been completed when they were not. This indicated to him that the information being communicated to corporate was not consistent with what was actually happening here. Mr.

Harmon thinks this handicapped the new PCI team as they believed the project was nearer completion than it was. He noted that the City has not paid these invoices.

Mr. Bestpitch asked if the withheld payments are a significant financial incentive for PCI. Mr. Harmon responded that hundreds of thousands of dollars are being withheld.

Mr. Cobb asked about the testing process and the “bar” for feeling confident that we can go forward. Mr. Harmon responded that there are certain things that have to pass before go live, such as the ability to produce a bill. Discussions about what can wait until after go live are ongoing. We can expect new issues to surface after go live, as the system is used for day-to-day business. The PCI contract specifies that the City will remain a priority for 60 days after go live.

Mr. Cobb asked how long the contract extends after go live. Mr. Harmon responded that the contract continues after system acceptance, as a maintenance and support agreement that is paid annually. Mr. Harmon discussed the long term viability of PCI, noting that a number of Virginia localities are clients and that alternatives are limited. Government Brands appears to be moving PCI to a more sustainable development model. The company says they have developed a cloud based version that will be in production next year.

Mr. Bestpitch asked if there was any sense of what other Virginia localities are experiencing. Mr. Harmon responded that the Treasurer has said several of her peers in the State are unhappy with PCI at present. He noted how having a large client base in Virginia is helpful. Mr. Bestpitch suggested that other localities may have figured things out that might work here. Mr. Harmon agreed and noted that large user groups can be beneficial. Mr. Bestpitch stated that it is encouraging that PCI / Government Brands has acknowledged their shortfalls.

Mr. Cobb stated he is glad to hear Ms. Burkett has more confidence in the project. Ms. Burkett confirmed that she is more confident now that the vendor is more engaged and understands the true status of the project. Mr. Bestpitch and Mr. Cobb thanked Ms. Burkett for her work.

7. Other Business:

Mr. Harmon stated that the next Audit Committee meeting will be Wednesday, September 7, 2022 at 4:00 p.m. He noted that City Council will meet on Tuesday, September 6, due to the Labor Day holiday. The Committee agreed the next meeting will be held in the Emergency Operations Center. The Committee’s December meeting will be on the 19th at 1:00 p.m.

8. Adjournment:

Mr. Cobb thanked everyone for attending and adjourned the meeting at 4:54 p.m.