

MINUTES

Audit Committee of Roanoke City Council

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

Date: January 27, 2022

Time: 10:00 a.m. to 10:48 a.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)	Y

Drew Harmon, Municipal Auditor
Bob Cowell, City Manager
Clarence Grier, Deputy City Manager (via phone)
Brent Robertson, Assistant City Manager
Amelia Merchant, Director of Finance
Ann Bostic, Accounting and Systems Manager
Mary Talley, Accounting Supervisor
Tasha Burkett, Information Systems Auditor
Dorothy Hoskins, Senior Auditor
John Aldridge, Partner, Brown Edwards & Company

1. Call to Order:

Mr. Cobb welcomed everyone and called the meeting to order at 10:00 a.m.

2. Approval of the Minutes from the December 20, 2021 Meeting:

Mr. Cobb asked for a motion to approve the minutes for the December 20, 2021 meeting.
Mr. Bestpitch made a motion to approve and Mr. Lea seconded the approval. The minutes were approved and filed as written.

3. Update on Audit Results for the June 30, 2021 Annual Comprehensive Financial Report:

John Aldridge updated the Committee regarding the status of the audit. Brown Edwards has completed the audit of the City and the audit letter is currently in draft form. The audit of Greater Roanoke Transit Company (GRTC) is still in progress but sufficiently complete to allow the City to include GRTC's numbers in the City Annual Report. Mr. Aldridge expected the final audit report for the City to be issued with an effective date of January 27th or 28th enabling the City to submit its

financial report to the Government Finance Officers Association (GFOA) and the State prior to the GFOA's January 31, 2022 extension deadline. Mr. Aldridge noted that the documents are in draft form and that no changes are expected.

Mr. Aldridge reviewed the Independent Auditor's Report with the Committee. He noted that Brown Edwards issued an "Unmodified" opinion on the financial statements. He then reviewed the Schedule of Findings and Questioned Costs, as follows:

Item 2021-001 – Several year-end audit adjustments were required for the financial statements to comply with required accounting principles. Mr. Aldridge noted that this was being classified as a "significant deficiency" this year, which is one step better than last year's finding of a "material weakness."

Ms. White-Boyd and Mr. Bestpitch asked for more details about the audit adjustments that had to be made.

Mr. Aldridge explained that they involved year end entries for items such as debt premiums. He noted that specific entries are discussed in another document that he will be reviewing with the Committee momentarily.

Ms. Merchant noted that Finance utilized approximately 17 to 20 hours of additional support from Brown Edwards early on to help address prior year issues. She stated some of the adjustments were found through this support. Ms. Merchant reiterated the improvement from having a "material weakness" last year to a "significant deficiency" this year.

Item 2021-002 – This finding involved COVID-19 relief funds managed by the City's Economic Development staff. The staff did not follow-up on a concern related to an application for funds. The Economic Development department acknowledged the issue and worked to resolve it in advance of the next round of COVID relief funding.

Mr. Harmon clarified for the Committee that the relief funds were distributed to businesses through the Economic Development Authority (EDA). The EDA has no staff of its own and relied on the City's Economic Development Department staff to process applications.

Mr. Bestpitch requested that Mr. Harmon follow up with Economic Development staff regarding Item 2021-002.

Mr. Harmon responded that Auditing has already met with Economic Development. He noted that Economic Development asked both Auditing and Brown Edwards to review their new procedures for grant applications prior to advertising the most recent round of grants.

A general discussion of the funding and the structure of the Economic Development Authority followed.

Item 2021-003 – Mr. Aldridge noted that this finding is a repeat of the prior year. Of 83 required disclosure statements, seven were not filed timely and three were not received.

Mr. Cowell and Ms. White-Boyd noted that the City Clerk's office had recently increased the amount of follow-up being done for these documents.

Mr. Cobb asked if it was the same individuals who were not turning in their disclosure statements; Mr. Aldridge said he could find out.

Item 2021-004 – Six of 10 timecards for staff conducting highway maintenance work were not detailed enough to tie back to a specific work order. It is a State requirement that the time cards include enough information to discern the street where the work occurred.

Item 2021-005 – In eight of 12 months, the Treasurer did not receive timely reimbursement from Department of Social Services (DSS) for Special Welfare activities. Mr. Aldridge emphasized that this was a responsibility of DSS, not the Treasurer.

Item 2021-006 – In eight of 12 months, DSS did not return funds to individuals leaving the Special Welfare program. Mr. Aldridge noted that this is a fairly routine task that should be done by DSS on a regular basis.

Mr. Aldridge referred the Committee to the detailed responses provided by Social Services (Item 2021-005 and 2021-006) outlining the controls being put in place. He noted that DSS had experienced a lot of turnover in the last couple of years. However, every social services department in the State has this program and the tasks are fairly routine.

Mr. Harmon confirmed that there was turnover in a key position at DSS and that Municipal Auditing had recently audited the area.

Ms. Hoskins stated that the separate audit of Special Welfare found similar issues and that as a result, Special Welfare was on Municipal Auditing's follow-up list.

Mr. Lea requested additional information from DSS but no DSS staff were present. He expressed concern that funds were not distributed as they should have been and asked who will be addressing the issues.

Mr. Robertson stated that he would be addressing these issues with Steve Martin, Director of Social Services.

Mr. Aldridge began the required communication with those charged with governance. He explained that the "Audit Committee letter" is a walkthrough of what happened during the audit. He discussed corrected misstatements for which journal entries had to be made for the financial statements to be materially correct. Brown Edwards provided these journal entries to City staff and is required to disclose them in the letter to the Committee. He highlighted entries related to the Stormwater fund

and debt. Larger adjustments included \$7.7 million to interest expense, \$7.2 million to bond premiums, and \$4.1 million to deferred inflows. Mr. Aldridge noted that, with one exception, the adjustments were accrual basis year-end entries.

Ms. White-Boyd questioned if the books were in balance and how staff would recognize that journal entries were missing.

Mr. Aldridge noted that the books were in balance and that the issue was with how items were classified. He reviewed a long-term debt reclassification entry to illustrate what journal entries are needed to change from modified accrual to full accrual accounting.

Next, Mr. Aldridge discussed uncorrected misstatements that based on their nature and aggregate amount, can be posted in the current year (FY22). He highlighted uncorrected misstatements involving GRTC grants receivables and unearned revenues that are not material to the City's statements but will need to be resolved before GRTC issues its statements. If GRTC's final numbers change, it may require a small restatement in the City's financial statement's next year.

Mr. Cobb and Ms. White-Boyd questioned why GRTC numbers were not finalized.

Ms. Merchant noted that the City and other participating localities subsidize GRTC for services. The FTA provided COVID relief payments to GRTC that could be used in place of local subsidies. GRTC is reviewing how local and federal funds were booked and working to verify the underlying amounts that make up Unearned Revenue.

Mr. Aldridge noted that GRTC was not periodically reconciling accounts throughout the fiscal year, either in FY20 or FY21. He believes it is likely that changing accounting software in May and not periodically reconciling accounts have both contributed to delays in finalizing FY21's numbers. GRTC has a Federal filing deadline of March 31, 2021 to submit financial statements.

Lastly, Mr. Aldridge discussed the Brown Edward Management Letter. He highlighted a need to improve segregation of duties for one DSS staff member, as well as required reconciliations related to the Fire Program Grants that were not completed. He pointed out the section on audit adjustments and compared the type of adjustments made in FY20 to FY21. He noted that many prior year issues were fixed, however; recording changes in real property owned by the City continues to be an issue.

Mr. Aldridge updated the Committee on the status of the Annual Comprehensive Financial Report. The next step is for the City to provide Brown Edwards a corrected draft that includes GRTC's numbers and corrections from the fourth draft. This new draft is expected today (1/27/22) or tomorrow (1/28/22). Brown Edwards will review the draft and if there are no changes needed, the report will be ready for publication.

Mr. Cobb asked the Committee if there were any questions or comments.

Mr. Bestpitch expressed concerns over the large number of correcting entries and the things that were identified last year and still not corrected. He expressed concern that some of the findings were for things that seemed to be routine, specifically noting that the fire program has been operating for years. He intends to have an in-depth conversation with Mr. Cowell during their monthly meeting in February.

Ms. White-Boyd noted that her concerns mirrored those of Mr. Bestpitch and that some of the findings seemed to involve rudimentary things. She plans to talk with the administration about what is required to address these issues and to find out how long some of these things have gone on. She thanked Mr. Aldridge for the presentation and thanked everyone that contributed to these reports.

Mr. Lea thanked Mr. Aldridge. He stated that there were a number of things that needed to improve.

Mr. Cobb stated that he was glad to see that the reporting was in a better place as it relates to the timeline for completion. He expressed that he has serious concerns about GRTC and that he planned to speak with Mr. Robertson at a later time to better understand and address the items that related to GRTC. He noted that he is chair of the GRTC Board.

Mr. Cobb suggested having a meeting outside of Audit Committee with Mr. Cowell and others to be clear about communication between the auditor, upper management, and Committee members.

Mr. Cowell commented that a discussion about how the Committee would like to receive updates about the audit should occur at next Audit Committee meeting. He wants it to be clear as to what channels communications should go through. He noted that Brown Edwards has one more year on the current contract after which audit services will be going out to bid. He would like to talk about the whole arrangement of how we handle audit reports and related items in an upcoming Audit Committee meeting. He expressed that the communication channels were not followed this year and that created confusion and frustration. He thanked Ms. Merchant, Ms. Bostic, Ms. Talley, and Finance staff for their work.

Mr. Cowell noted that audits highlight issues to help the City improve practices and make the changes necessary to make sure that expenditures and accounting are being done in the way that they should be. Mr. Cowell expressed there was a need to provide context to the audit findings. The City has a \$300 million budget with \$20 million of new federal funding. He asked that given the size of the budget and volume of transactions that the Committee place a \$6,000 adjustment in context and acknowledge that a large number of transactions were done correctly. Mr. Cowell would like to speak individually with Committee members to further discuss the progress made on some of the items listed in the findings of the audit. He emphasized that as a whole he would like to speak with them about how to move forward on future audits.

The topic of audit communication and process will be added to the March Audit Committee agenda.

Mr. Cobb asked Ms. Merchant if she would like to add anything. Ms. Merchant responded that she often noticed her staff working after normal work hours. She expressed appreciation for Brown Edward staff getting them to this point.

Mr. Cobb thanked Ms. Merchant, and asked Ms. Bostic and Ms. Talley for additional comments. Hearing none, he asked Mr. Grier for any comments.

Mr. Grier commented that he planned to meet with Mr. Cowell and staff to better understand the audit corrections. He would like to understand the additional help from Brown Edwards in relation to the audit findings.

Mr. Cowell noted that his office is fortunate to have Mr. Grier and Mr. Robertson, both who are CPAs.

4. Other Business:

Mr. Cobb stated that the next meeting is scheduled for Wednesday, March 2, 2022 at 4:00 in the same location.

Mr. Cobb thanked everyone.

5. Adjournment:

Mr. Cobb adjourned the meeting at 10:48 a.m.