



Charlotte City Council

Governance & Accountability Committee

Meeting Summary for February 24, 2014

COMMITTEE AGENDA TOPICS

- I. **Subject:** Governance & Accountability Committee Charge

- II. **Subject:** Manager and Attorney Evaluation Process

- III. **Subject:** Internal Audit 2014 Workplan

- IV. **Subject:** External Audit Review Process/Calendar

- V. **Subject:** Governance Review – Emergency Communications

- III. **Subject:** Approve Calendar / Next Meeting Date
Action: Committee will meet 4th Monday of each month. Next meeting is Monday, March 24 at 12:00 noon in Room 280.

COMMITTEE INFORMATION

Present: Council members Howard, Mayfield, Autry, Kinsey, Phipps
Time: 12:00 p.m. to 1:20 p.m.

ATTACHMENTS

1. Agenda Package

Governance & Accountability Committee

Meeting Summary for February 24, 2014

Page 2

DISCUSSION HIGHLIGHTS

Committee Discussion:

Committee Chair David Howard called the meeting to order and asked those in attendance to introduce themselves. He then asked Hyong Yi to briefly review the agenda.

I. Governance & Accountability Committee Charge

Mr. Yi advised the Committee they had a copy of a charge that has been drafted [copy attached] with input from the Manager based on comments from the Mayor and Committee Chair.

Council member Howard added that he thought it was important for the Committee to understand how the internal and external audit process really works for the City.

Council member Phipps asked regarding item two on the draft are there types of special situations this Committee will need to review as part of their purview regarding serving as internal controls? Council member Mayfield asked for an example. Council member Phipps suggested something like misappropriation of funds. Council member Howard said that would be something the City Manager would handle, but could be referred to this Committee or the Committee could ask for it to be referred as those are the two ways items are sent to Committee.

Ron Carlee clarified that misappropriation of funds would be a personnel issue that would be handled administratively, but this Committee could consider systematic controls. For example, if there was situation where someone misused their procurement card, that's an administrative issue; however, this Committee might look at what the policies are around procurement cards – what are those internal controls?

II. Manager and Attorney Evaluation Process

Council member Howard advised the Committee that they needed to discuss the process for the City Manager's review – it is actually coming up on one year! Traditionally, reviews have been held in August and September. Council member Cooksey always brought up that Council needed to spend a little more time preparing for the reviews. We could use part of the quarterly meetings to give feedback and then have the review annually since we have a contract situation. This is coming up quickly, so we need to discuss timing and process.

Governance & Accountability Committee

Meeting Summary for February 24, 2014

Page 3

Council member Kinsey noted that the April timeframe really does not work well given the budget process. July/August would be much better.

Council member Phipps asked what this Committee did specifically regarding the process and how is the entire Council involved. Council member Howard answered that this Committee usually hears from HR regarding the process and the entire Council holds the review.

Council member Howard also noted that it was already on the Council calendar for April, so the calendar will need to be amended.

Ron Carlee suggested keeping the April date on the calendar for general discussion. He noted that he's tried setting up quarterly meetings, but they've been bumped for several valid reasons. Council member Howard asked when the next meeting was scheduled; Ms. Jennings said it's June 23. Council member Howard continued that he would like to hear staff recommendations; and keep the process the same as the Attorney's evaluation. He asked if they could hear recommendations at the next meeting.

Mr. Carlee said he would schedule time with the City Attorney. Council member Howard said he was fine with having Human Resources bring past information so as not to re-invent the wheel.

III. Internal Audit 2014 Workplan

Greg McDowell advised the Committee he came to work for the City in 1997 and was hired by Pam Syfert. The City has had an Internal Audit Department for over 40 years; he's been here the last 16. He referred the Committee to the Internal Audit Charter [copy attached] and noted that Internal Audit provides assurances that things are run well; they also give opinions and suggestions; and operate fairly independently.

The Internal Audit Plan [copy attached] is distributed annually in July and covers two years. One example of something Internal Audit took a strong role in was making sure the stimulus funding was reported accurately. In addition to the Audit Plan, they have also provided a mid-year audit summary [copy attached].

Council member Howard asked how the reports are structured. Mr. McDowell responded that there are three reports issued – a recap with updates, follow-ups and the year-end which shows audits in progress.

Council member Howard asked what they are being told in the memorandum. Mr. McDowell answered they are given a summary and update of the status of audit reports. Full reports are issued and they are usually 3-6 pages long. Every

Governance & Accountability Committee

Meeting Summary for February 24, 2014

Page 4

quarter, Internal Audit checks to be sure Departments are reporting accurately (like the federal stimulus funding).

Council member Howard then asked what the Manager's role is in these reports. Mr. Carlee said that the operating agency reviews the findings and implements the recommendations. Internal Audit brings problems and associated risk to us for review and action. Mr. Yi will be responsible for checking behind Internal Audit's recommendations to ensure the problems are corrected early on. Mr. McDowell continued that monthly status reports are also issued.

Mr. McDowell noted that Internal Audit must submit to a peer review as well and is audited every three years.

Mr. Carlee added this is a trust but verify system. You want to ensure bad things don't start; did we account for the money the right way; Internal Audit checks those procedures.

Mr. McDowell continued that many times the reports say you are doing great – keep up the good work. Mr. McDowell said that he enjoys working for the City of Charlotte, which is like working for a good organization that wants to get better.

Council member Phipps noted that it would ease the readability of the document if there was a succinct conclusion up front. If there was something that catches your eye immediately before you start reading the narrative. Mr. McDowell noted on the CATS audit report, the status is in blue.

Council member Mayfield agreed it would be easier if the update was closer to the beginning of the narrative, so you have an idea of what you need to read. Mr. Carlee asked if a high-level executive summary would be more in line with what they were looking for in the update. Council member Mayfield said no because that is someone else determining what she needs to know – she likes having the information, just laid out differently.

Council member Howard advised the Committee that they will be hearing from Internal Audit going forward, so that might make things easier when reviewing the documents. He then asked how we compare to other cities with our Internal Audit Department. Mr. Carlee said that we haven't benchmarked ourselves, and Mr. Yi added that we have the same number of staff as Mecklenburg County. Mr. McDowell added that we are at the lower end of the range in audit size for like organizations; however, the City has not had any serious issues which sometimes are the cause of audit department expansions.

Governance & Accountability Committee

Meeting Summary for February 24, 2014

Page 5

Council member Phipps asked if there was a seasoned staff. Mr. McDowell noted that the staff averages over 10 years at the City and most are CPAs, certified internal auditors or both.

Council member Howard then asked about the CATS issue that was in the news. Mr. McDowell said that an employee of our contractor was terminated after stealing fares evasion fines. (The employee who confessed to theft has since revised the amount she agrees was stolen.) The contractor wanted to pay the amount back, and the City accepted \$50,750 repayment. Police are still determining if they will press charges against the employee. Greg Gaskins added that when the process was set up it didn't go through internal controls. There has now been a renewed emphasis of putting those internal controls in place. Mr. McDowell added this situation only happened with fair evasion; other Park It functions are separate.

Council member Howard asked if ParkIt has controls in place already. Mr. Gaskins said they have the procedures in place and Mr. Carlee noted this should not have happened.

Council member Kinsey asked if we audit ParkIt. Mr. McDowell said that is a function of Cherry Bekaert, but we do review it.

Council member Howard concluded that the Committee was looking forward to working more closely with Mr. McDowell and his staff.

IV. External Audit Review Process/Calendar

Mr. Gaskins advised that he and Robert Campbell are certified public accountants, but a good financial practice is to have someone external also look at what we do.

The Governmental Accounting Standards Board (GASB) establishes the standards of accounting and financial reporting for all US State and Local governments. He referred the Committee to their handout [copy attached]. Financial disclosure is very important and has become more important in recent years. The City of Charlotte has always been ahead.

Mr. Carlee added that at ICMA, financial disclosure is part of the DNA and they have been more aggressive than the public side, because having eyes on things serves as a great preventative measure.

Council member Autry asked if this would be the correct venue to discuss the BLE project and how that money is and has been accounted for. Mr. Carlee said he thought that would be fair for the audit committee. Council member Howard agreed. He said he's seen the costs double before, so this Committee needs to

Governance & Accountability Committee

Meeting Summary for February 24, 2014

Page 6

bring to the public once a quarter a briefing on the blue line. Mr. Gaskins noted that all federal grants are audited. There are multiple ways we get audited. Council member Howard said that it was important for him to understand what he is responsible for reviewing, and would like to sit down individually with them.

Council member Phipps asked who the external auditor is and Mr. Gaskins confirmed it is Cherry Bekaert. He also said that Cherry Bekaert and McGladry picked up most of the regional business in North Carolina. Council member Phipps continued by asking if there was a requirement in the policy to allow for periodic rotation? The answer is yes. Mr. Carlee said we were in the second year of a three year term.

V. Governance Review – Emergency Communications

Council member Howard noted that he received more communication on the water issue than he had ever seen; some of it was confusing, so he wanted to understand the process going forward.

Mr. Carlee said that his philosophy is to push out as much information as possible. To be transparent, he tries to stay up with social media. He wants to get official government information out as soon as possible, but there is balance with making sure you have a level of confidence with the information you provide.

For example with Sugar Creek Wastewater Treatment Plant, initially it seemed similar to Mallard Creek Wastewater Treatment Plant. But, the scientists wanted to wait to have the test results back before confirming, which was 4-6 hours later. We made a judgment to share our suspicions and put the information out early. We can always correct it.

Mr. Carlee said he wanted Council to have the information ahead of the public because Council members are most valuable to their community by using their own networks to share. There should be one message, but many voices. The greatest risk is the fear of the unknown.

Council member Howard said he wanted to understand their role. Are we changing how we communicate with the public? If so, we need to educate the media. It might be beneficial to have a system like with ozone days – there are red, orange, green information levels. The media used to depend on meteorologists to get information out about the weather, but he noted during the snow storm they were using information from the City. He wants everyone to understand the protocol going forward.

Mr. Yi asked if he was suggesting a policy document. Council member Howard said he was and Council member Autry asked if this was related to continuity of

Governance & Accountability Committee

Meeting Summary for February 24, 2014

Page 7

operations. Mr. Carlee said that was different. This is a public communications plan. Continuity of operations relates to keeping government functioning. Mr. Carlee continued that he was testing some new apps for relaying information via text and email. Council member Kinsey noted that the reverse 911 system also worked well.

VI. Approve 2014 Meeting Calendar / Next Meeting Date

The Committee agreed to continue meeting the fourth Monday of every month at 12:00 noon. The next meeting will be Monday, March 24 at noon in Room 280.

Meeting Adjourned

Governance & Accountability Committee
Monday, February 24, 2014 – 12:00 noon
Room 280

Committee Members: David Howard, Chair
 LaWana Mayfield, Vice Chair
 John Autry
 Patsy Kinsey
 Greg Phipps

AGENDA

- I. **Governance & Accountability Committee Charge**
Staff Resources: Hyong Yi, Carol Jennings

- II. **Manager and Attorney Evaluation Process**
Staff Resource: Carol Jennings

- III. **Internal Audit 2014 Workplan**
Staff Resource: Greg McDowell

- IV. **External Audit Review Process/Calendar**
Staff Resource: Greg Gaskins

- V. **Governance Review – Emergency Communications**
Staff Resource: Hyong Yi

- VI. **Approve 2014 Meeting Calendar**

Governance and Accountability Committee (2/11/14 DRAFT; 2/14/14 Revisions; 2/17/2014 Revisions)

The Governance and Accountability Committee (the “Committee”) serves as the Council’s primary point of contact on matters of internal governance, control, and financial reporting. The Committee has four main responsibilities:

1. Serve as the “Audit Committee” for the City Council – this responsibility entails:
 - a. Approve and recommend to City Council the selection of the independent auditor
 - i. Request for Proposal (RFP) process
 - ii. Scope of work and the audit plan
 - iii. An annual contract
 - b. Receive the audit report from the independent auditor and review it with City staff
 - c. Make a report to the City Council on the annual financial statements and independent auditor’s reports
2. Serve as the “Internal Controls” Committee for the City Council – this responsibility entails:
 - a. Review the annual audit plan with the Internal Auditor
 - b. Receive the final reports on completed internal audits from the Internal Auditor
3. Serve as the “Internal Governance” Committee for the City Council – this responsibility entails:
 - a. Review organizational processes and projects to produce a government that is both accountable to the public and promotes efficiency, as referred by the Council
4. Serve as the “Evaluation” Committee for the City Council – this responsibility entails:
 - a. Make a recommendation to the City Council for the City Manager’s and City Attorney’s annual performance evaluation process

City of Charlotte

Internal Audit Charter

This Charter identifies the purpose, authority and responsibilities of the Internal Audit Division.

Purpose

Internal Auditing is an independent appraisal activity established to conduct reviews of the City's system of internal controls. Findings, recommendations and corrective actions are reported to Department Heads, the City Manager, and the City Council, as appropriate. Each audit report is submitted to the City Manager's Office.

The primary objective of Internal Audit is to provide reasonable assurance that the City has an operating and effective system of internal controls. Such a system encompasses the City's accounting and financial, administrative, operational and computer controls throughout the various departments.

A secondary objective of Internal Audit is to assist members of management in evaluating the efficiency and effectiveness of operations. To this end, Internal Audit furnishes analyses, counsel and recommendations concerning those functions reviewed, promoting effective controls and efficient operations at a reasonable cost.

Authority

The Internal Audit function was established by the City Manager and the City Council, and operates administratively as a part of the City Manager's Office.

Audit recommendations that are not resolved at the department level will be raised to the City Manager's Office. Audit reports may require a timely response from the Department Head directly to the City Manager.

The Internal Auditors shall perform their work in compliance with the City's objectives and policies, as well as the Code of Ethics as promulgated by the Institute of Internal Auditors. The Audit Division also adheres to Generally Accepted Government Auditing Standards (GAGAS) as established by the U.S. Government Accountability Office.

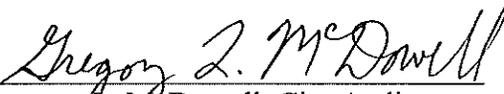
Audit personnel are granted full access to all of the City's activities, records, property and employees, as necessary to the performance of their audit activities. Any lack of access impacts the ability of the audit function to comply with GAGAS and must be reflected in the related audit report. Auditors are strictly accountable for the safekeeping of records and property examined, and for maintaining the confidentiality of information obtained and reviewed during audits.

Internal Audit has no direct authority over activities that its personnel review. Internal Audit has no line responsibilities and its activities do not relieve managers or staff of any assignments.

Responsibilities

Internal Audit is responsible for conducting independent and objective appraisals of the City's system of internal controls, the efficiency of operations and the effectiveness with which these functions are managed. Auditing priorities are determined by the City Auditor in consultation with the City Manager's Office and with consideration of input from Department Heads, the City Council and the independent outside auditors. Specific responsibilities include:

- Develop and adopt a multi-year Strategic Audit Plan aligned with City-wide priorities and department needs. Develop and adopt an Annual Audit Plan to implement the Strategic Audit Plan.
- Effectively communicate audit processes and results, including formal reports, to Departments, the City Manager and City Council.
- Advise key business staff of opportunities where current operations, accounting processes or procedures can be improved upon prior to entering into competition for a particular service.
- Work as a member of the City team (Procurement Services, Contract Administration and Key Business staff) to develop specific internal guidelines/models for Requests for Proposals (RFPs), bid specifications and contract documents. Provide comments on draft RFPs and proposed contract monitoring procedures. Assist in pre-qualification of vendors.
- Review bids prepared by the City for verification of costs and proper cost allocation. On a sample basis, monitor major private sector and City contracts for compliance, including cost and gainsharing audits.
- Help departments ensure that appropriate controls are in place to guard against fraud, misappropriation of funds or other misuse of City assets. Audit specific controls and systems in departments periodically to ensure that procedures to guard against fraud or misappropriation are being followed. Investigate and report suspected or alleged improprieties. Provide evidence of any crimes to the proper law enforcement authorities.
- Assist in the acquisition and review of new information systems (hardware and software).
- Provide auditing assistance in areas determined by the City Manager to be a high priority.



Gregory L. McDowell, City Auditor

Date: 6/11/13



Ron Carlee, City Manager

Date: 6/11/13

**CITY OF CHARLOTTE
INTERNAL AUDIT PLAN**

Fiscal Years 2014-2015

INTERNAL AUDIT PLAN

Fiscal Years 2014-2015

Overview

The majority of the Audit Division activities are classified as Performance Audits, as defined by the Government Accountability Office (GAO). Other occasional efforts include Agreed-Upon Procedures (a type of attestation engagement subject to specific standards established by the GAO) and investigations. The Audit Plan includes audits in progress, regularly scheduled audits, and additional efforts being planned, or under consideration for later years.

We expect that the City Manager's Office and Department Heads may make special requests for audits or other support. Internal Audit reserves a limited amount of staff time for unplanned projects. On some occasions it may be necessary to delay a scheduled audit to address a newly identified need.

Brief Review of FY 2013

The Internal Audit Division completed ten performance audits during fiscal year 2013, as follows:

- ARRA: Stimulus Reporting in FY12 (October 2012)
- Solid Waste Services City-Wide at 6/30/12 (October 2012)
- CATS: Bus Imprest (October 2012); Blue Line Extension – STV/RWA Direct Labor, Overhead and Fees; January 2008 through December 2011 (October 2012)
- Accounting and Procurement Controls – Purchased Assets (January 2013); Investments (April 2013); Vendor Authenticity (April 2013); Accounts Payable Payment Policy (June 2013)
- Payroll (March 2013)
- Police Vice Imprest (May 2013)

Audits in Progress at Fiscal Year-End 2013

- Blue Line Extension-STV/RWA Direct Labor, Overhead and Fees (January 1, 2012 through September 30, 2012) – We have reviewed preliminary audit results with CATS and forwarded a draft report to STV for review. A final report will be issued in July.
- City-wide Overtime (July 1, 2009 through June 30, 2013) – We have met with most departments to discuss overtime policies and procedures for each division. We have begun testing and will work with divisions as we perform the audit work. Test work will be ongoing for the next few months.

- Quarterly Stimulus (ARRA) – Our review for the period ended June 30, 2013, will begin in July. The 2013 annual report will be completed following this review. As many grants have been completed or are very close to being final, we are requesting the Project Managers for these grants verify that the final reporting numbers agree with GEAC.
- Energy Efficiency and Conservation Block Grants (EECBG) Stimulus Audit – We began an audit of the Energy grant received by the City as part of the ARRA program. We have coordinated our efforts with the outside auditors who also review this grant in their annual review.
- Business Tax Audit Follow-Up – We are planning to follow up on the findings and recommendations included in our February 2012 report “Business Taxes Received Via County.” We will review the status of recommendations as well as examine new samples. An announcement and request for review of our samples has been sent to the County. This effort will be coordinated with City Finance and is expected to extend over several months.
- Authorized Contracts and Payments – In early June, we notified all departments that we planned to audit the City’s disbursements to the entities paid the most in FY13, whether related to a new or existing contract, a Council-approved disbursement or any other process. For this audit, we will examine supporting documentation related to contracts and/or Council approvals, and determine that payments to these vendors are valid and that a proper procurement process was followed, when appropriate. Auditors will begin with the entities (vendors/contractors/municipalities) that have been paid the most, regardless of purpose; therefore, some Departments and Divisions will not be included in the first phase of reviews. Fieldwork commenced in mid-June and is expected to continue for a few months.

Performance Audits Planned for Fiscal Year 2014

In Fiscal Year 2014 we will complete several audits which were in progress at fiscal year-end and follow-up recommendations which had not yet been addressed. In addition, a number of specific audits are planned and several are under consideration, as detailed below.

In Progress – We will complete the following: Business Tax Audit Follow-Up; Citywide Overtime; Authorized Contracts and Payments; CATS Blue Line Extension STV/RWA; and an Energy Stimulus Grant (EECBG).

Planned – The following audits will be initiated and substantially completed in FY14. Any of these which are not completed by June 2014 will be given priority for completion in early FY15:

- American Recovery and Reinvestment Act (ARRA, or Stimulus Funds) – We continue to review the City's quarterly reports and will issue another annual summary in the fall.

- Grant Accounting – This audit will review accounting controls within the Finance Department, along with administrative controls within selected Departments. The planning for this audit was begun in late FY13, and has been prioritized for this year.
- CATS Construction – As noted above, one Blue Line Extension audit of STV's labor, overhead and fees is in progress. In FY14, we will continue to focus on the prime contractor (STV) for the BLE. These efforts will determine whether Labor, Overhead and Fees are charged correctly by STV and its subcontractors. In addition, we will review CATS administrative efforts related to subcontractor payments and determine an appropriate audit approach. CATS management has requested that we be responsive to its requests for audits of specific contractors. We will reserve flexibility in our staffing plan to accommodate requests as much as possible.
- Vice Imprest Reimbursements – Upon request from Police about every two months, auditors conduct detailed reviews of imprest documentation before the fund is replenished. An annual report summarizes these efforts.
- Bus Operations Division Imprest – We will audit the CATS Imprest Fund and include steps required to meet the needs of the external auditors for the annual financial report, as has been done for several years.
- Managed Competition – The remaining active competition-related audit addresses Solid Waste Services' benchmarked activities, following a transition in 2010. The annual review addresses City-Wide services for residential garbage, yard waste and bulky item pick-up. The audit of FY13 operating results is targeted for completion in November.
- Travel Expenses and Employee Reimbursements – We will conduct a citywide audit of travel and other reimbursements, including managers and staff. A sample of employees throughout the City will also be reviewed, regardless of dollar levels.
- Accounts Payable Payment Process (FIN6) Follow-up – In May 2013, we issued a report regarding citywide compliance with the payment policy. Although we concluded that the reporting process which provided for supervisory review was working well, several departments committed to improved compliance. This audit will focus on the period immediately following the audit period to determine whether the planned improvements have occurred.
- Continuous Auditing: Human Resources Pilot – Once implemented fully, the “Continuous Auditing” approach will allow us to conduct frequent reviews of City data, identify areas of risk, and conduct thorough audits in specific areas. The tests may identify errors or anomalies which occur infrequently, but would become more difficult to correct over time. Thus far, we have used a contractor to assist us with designing initial tests and developing a long term model – beginning with PeopleSoft and GEAC. Using variables in our “scripts” (code developed to manipulate data), we

will transition our work to the new ERP in the future. In 2014, a pilot program will focus on PeopleSoft data and will identify employees with key missing or invalid data, inappropriate duplicate bank accounts and paychecks for unauthorized periods.

Follow-up Recommendations – At year-end, the following recommendations were being tracked:

- CATS should recover \$123,482 from a contractor, related to South Corridor construction. The original audit reports were issued in April 2010 and December 2011. In a memo of August 2012, Internal Audit adjusted the recommended disallowances and CATS agreed to pursue the overpayments.
- In a February 2012 report of Business Taxes Received via the County, Internal Audit recommended that City Finance discuss possible County actions to reduce non-reporting, along with the cost-effectiveness of business tax audits, with increased emphasis on discoveries. Finance discussions with the County are pending.
- In a January 2013 report of Purchased Capital Assets, Internal Audit recommended that a policy should be established to track working animals that meet the City's capitalization threshold. Finance has drafted a capital asset policy and plans to work through the Finance Liaison Committee to complete this effort.
- In a March 2013 report of Payroll, Internal Audit recommended that Human Resources take steps to ensure that pay rate authorizations have been scanned electronically. HR has begun a process to ensure documents are available, as recommended.
- In an April 2013 report of Vendor Authenticity, Internal Audit recommended several steps be taken to implement controls over vendor authorization in the planned MUNIS ERP system. Finance, Shared Services and the Office of the Chief Information Officer all agreed to collaborate to address the necessary policies and procedures during the ERP implementation.

Under Consideration – Audit priorities are regularly updated throughout the year. Depending upon staff availability and the level of requests received, the following audits may be initiated during fiscal year 2014:

- Airport – At year-end, the N.C. General Assembly was considering legislation to create a separate Authority to operate Charlotte-Douglas International Airport. Depending upon how this legislation progresses, Internal Audit may become involved in special reviews related to transitional processes. For example, the transfer of equipment and inventory could require independent verification. It should be noted that audits in progress or planned involve reviews related to the Airport, including Citywide Overtime, and the audit of Authorized Payments and Contracts.
- ERP-related – Audit staff has been supporting ERP development by responding to control-related questions and staying current with the development process. We will continue to consult with the OCIO, Finance, and Shared Services/IT to identify other

- issues, which could include business process, quality control, and data integrity controls.
- Construction – Various City departments manage multiple construction projects annually. While we have limited our audits of construction projects to those managed by CATS, we are considering other departments, possibly as follow-ups to previous procurement audits.
 - P-card Follow-up – A citywide review of the P-card was concluded in March 2011. The policy and monitoring procedures were subsequently strengthened. A follow-up audit will assess current compliance levels, along with the effectiveness of new processes.
 - Police Property – Although it has been several years since we conducted a complete review of Police property controls, our Vice Imprest audit regularly tests a random sample of evidence. In addition, we have observed inventory counts conducted in compliance with CALEA (Commission on Accreditation for Law Enforcement) standards. Working with CMPD, we plan to conduct a performance audit that will build on these standards as well as review other property controls.
 - ARRA-related – Auditors will continue to conduct ARRA-related audits through the life of grant receipts. In addition to the annual summary, other projects will be considered.

Audits Planned/Considered for Fiscal Year 2015

Information Technology – A high priority will be given to ERP implementation and post-implementation control assessments. In addition, we will work with the OCIO and Shared Services to identify other IT risks separate from the ERP.

Procurement – After completing a number of procurement-related efforts over the past several years, our audit approach for 2015 and beyond will be based upon any identified risks, or the need to revisit previously identified weaknesses. Procurement is of such primary importance that audit efforts in this area are expected to continue annually or bi-annually for the foreseeable future. A number of process changes are expected to be put in place with the implementation of a new ERP in 2014 and audits will be designed to review their impact.

CATS Construction – We will continue to conduct audits of CATS and its contractors, who are designing and constructing the Blue Line Extension.

Finance Operations – Numerous important activities occur within the Finance Department. For example, Finance receives revenues, pays bills, makes investments and keeps an accounting of the City's financial transactions. While the City can rely upon its outside auditor to assess overall controls and determine that financial statements are fairly presented, internal audits can more closely examine operations and performance. Such an audit can

choose to focus on efficiency, effectiveness and/or compliance. We plan to work with the Finance Department and the outside auditors to determine areas in which Internal Audit can best provide additional assurance of effective internal controls.

Managed Competition – We will review SWS operational results on an annual basis.

Stimulus Funds (ARRA) – Quarterly reporting will extend another year or two, and Internal Audit will continue to review the processes and accuracy related to the various Departments' reports. We have issued two project-specific ARRA reports in the past and a third was in progress at FYE 2013. We will consider an additional review in the future.

Audit Division Internal Efforts

- Further development of a Continuous Auditing program
- Increase IT auditing capabilities of all staff
- Expand risk analysis documentation
- Maintain CPE for all staff
- Promote CIA attainment for non-certified staff
- Utilize contract auditors to supplement existing staff capabilities
- Undergo a GAO-required tri-annual Peer Review

**CITY OF CHARLOTTE
CITY MANAGER'S OFFICE – INTERNAL AUDIT DIVISION**

MEMORANDUM

To: Ron Carlee, City Manager
Governance and Accountability Committee

From: Greg McDowell, City Auditor

Re: Fiscal Year 2014 Mid-Year Audit Summary

February 10, 2014

The Internal Audit Division has completed a number of performance audits during the first half of fiscal year 2014. The following audits were completed during the first half of the fiscal year, while additional audits in progress are detailed further below:

- CATS Blue Line Extension: STV/RWA–Direct Labor, Overhead and Fees through September 2012 (July 2013)
- CATS: Bus Imprest Fund (September 2013)
- ARRA: Stimulus Reporting in FY13 (October 2013)

At calendar year-end, significant audits in progress included:

- Energy Efficiency and Conservation Block Grants (Stimulus)
- Business Tax Follow-up (to 2012 audit of Business Taxes Received Via County)
- Authorized Contracts and Payments
- City-wide Overtime
- Employee Travel and Expense Reimbursements.

AMERICAN RECOVERY AND REINVESTMENT ACT

Stimulus (ARRA) Reporting FY13 – During fiscal year 2013, the City finalized four grant projects totaling \$12.2 million with Federal (Direct) award amounts and five grant projects totaling \$5.3 million in subrecipient (Indirect) grants. Nine grants still in process total \$94.2 million-Direct, and \$3.4 million-Indirect as of June 30, 2013.

Although minor adjustments in total expenses and amounts paid to specific vendors or subrecipients were required, effective controls continue to help ensure accurate reporting of total expenses. The audit found errors in grants that Project Managers (PMs) subsequently corrected. One correction is still in process.

Following audit reviews, quarterly adjustments are still required to report Full Time Equivalent employees (FTEs) accurately in the section 1512 federal report. (§1512 refers to the section of the ARRA that requires certain reporting. Each grant must file a §1512 quarterly report that summarizes cumulative total costs, calculates quarterly FTEs, and details payments to vendors and subrecipients.) Prior to submitting the final §1512, PMs need to ensure that quarterly FTEs are calculated accurately and prior corrections have been included. Payroll monitoring continues

to be a concern. In particular, CATS has not reported FTEs related to \$766,788 in expenses for its Facility Grant. Internal Audit has also been unable to determine whether these costs include payroll expenses, which would indicate non-compliance with Davis-Bacon regulations. CATS has indicated that they need additional time to research the issue. Their findings will be reported to the EST Coordinator.

Recommendations made in 2012 have not been fully addressed. Some non-compliance with Davis-Bacon is not yet resolved. In addition, PMs sent incomplete documentation to the EST coordinator.

Update: The City's Economic Stimulus Team (EST) coordinator accepted the Audit recommendations. The EST coordinator has notified PMs of the documentation requirement for the current reporting period. CATS staff has made significant progress in addressing the FTE calculations, but has not completed their research. Internal Audit will follow-up the resolution of these issues and report progress to the City Manager's Office periodically.

In January 2014, we became aware that Congress has repealed further reporting requirements for ARRA. With this change, corrections to FTEs are no longer allowed. However, dollar corrections can be made through March 19th. Auditors are working with PMs to review reported amounts prior to this deadline. Although some issues will go away, Davis-Bacon compliance remains and also will be applicable for future (non-ARRA) federal grants. Therefore, our remaining concern is that the PMs take appropriate measures to comply with Davis-Bacon regulations. Internal Audit will follow-up with Neighborhood & Business Services regarding actions they plan to improve this area of project management. (Note also that an audit of the ARRA Energy grants is nearing completion. As detailed below, a final report is targeted for February.)

CATS-RELATED

CATS Bus Operations Division (BOD) Imprest FY13 – The purpose of this audit was to determine whether the City has reimbursed the bus operations management company accurately and the funds have been disbursed properly. The City's outside auditor, Cherry Bekaert, L.L.P. (CB), performs agreed-upon procedures related to the Bus Operations Division (BOD) that cover the inventory of buses, bus parts and payroll. The work performed by Internal Audit is provided to CB auditors for their review.

While the system of controls used by Transit Management of Charlotte, Inc. (TMC) is satisfactory, compliance with control processes requires improvement. The wire transfers are accurately recorded and most of the reimbursement requests are adequately supported. Some minor errors were brought to management's attention during the current audit. While individually, the errors are not material, the repetitive nature of the findings suggests that TMC should give closer attention to requirements to monitor wire transfers to avoid occasional negative balances. Finally, a distribution of cash incentives to employees (\$20 each, totaling \$5,000) was not adequately controlled. CATS has agreed to monitor TMC more closely in the

future. In addition, CATS agreed with the remaining recommendations and has developed plans to address each issue.

Status: Internal Audit is satisfied with the actions taken and planned. We will review CATS' implementation of its plans by April, and again during the annual review, which is conducted in the August/September timeframe.

Blue Line Extension-STV/RWA Direct Labor, Overhead and Fees (January 1, 2012 through September 30, 2012) – We have completed an audit of STV/RWA's Direct Labor, Overhead and Fees for the Northeast Corridor Light Rail Transit Project (BLE), for the fiscal year ended September 30, 2012. For the period audited, STV/RWA submitted 15 project-related invoices to CATS totaling \$9,741,045. Auditors reviewed direct labor charges of \$2,703,321 and overhead and fees of \$4,648,178. The audit did not include a review of other direct costs which totaled \$2,389,546.

Conclusion: Other than the need to reconcile overhead rates, there were no additional audit findings. These results indicate a high level of compliance with Federal contracting guidelines by the contractor, along with effective administrative efforts by CATS staff.

Summary Results: A number of issues related to the company's direct labor charges were raised and resolved during the audit, as STV/RWA supplied timely responses and documentation. As a result, there are no findings related to direct labor for the audit period. As is typical in contracts involving federal funding, the contractor used a provisional overhead billing rate, which is adjusted to the actual rate following completion of a financial audit. Our review of overhead rates found that a reconciliation payment totaling \$83,668 was due to STV/RWA, to reflect audited results from the fiscal year ended September 30, 2012.

Update: CATS disbursed the reconciling payment in October 2013.

CATS CONSTRUCTION FOLLOW-UP

From 2006 through 2011, we conducted several audits of PTG and its subcontractors. Some audits noted that CATS had disallowed certain expenses during the initial review of invoices. Internal Audit reviewed and supported those disallowances, but also encouraged CATS staff to conduct more rigorous reviews. Most of the audits questioned a small percentage of charges, and recommended various recoveries. Occasionally, recommended recoveries were substantial. In some instances, contractors resolved the questioned costs by submitting appropriate documentation which had not been provided during the audits.

CATS has collected on the following recommended disallowances: \$83,011 from PTG and STV (Other Direct Costs through 2004); and \$174,145 from PBS&J (Labor, Overhead and Fees, 2003-2006). In 2012, Internal Audit provided schedules and documentation to support our previous findings related to PTG and certain subcontractors. At year-end 2013, CATS Legal was continuing discussions with PTG to resolve a number of contractual claims, including issues raised in past audits.

In April 2010 and December 2011, Internal Audit recommended disallowing \$93,067 and \$72,000, respectively, related to STV Other Direct Costs from FY07 through FY09. Following discussions between CATS and STV, CATS requested that Internal Audit re-evaluate STV's documentation and responses. Audit conducted that review in September 2012 and reduced the total recommended disallowance from \$165,067 to \$123,482. CATS noted that internal controls have been strengthened, and corrective actions have been taken, which will likely reduce future audit findings. Internal Audit supports the actions taken.

Update: As part of CATS' attempt to reach a settlement with STV, the City (Internal Audit, CATS administrative staff and CATS-Legal) met with STV in December 2013. At that time, STV and a subcontractor produced additional documentation that had not been previously reviewed. Internal Audit determined that the majority of previously questioned costs were now supported by the documentation reviewed in December. CATS and STV have tentatively agreed to settle the outstanding issues, following a repayment by STV of \$27,783. Internal Audit supports this resolution.

In June 2012, Internal Audit reported that the reconciliation of STV's overhead rates through September 2011 resulted in \$240,538 reconciling payment due from STV. This amount was received in a timely manner. As noted immediately above, the similar reconciliation of overhead rates for the year ended September 2012 resulted in a reconciling payment of \$83,668 to STV, which the City disbursed in October 2013.

FOLLOW-UP – OTHER

Business Taxes – In February 2012, we completed a review of the City's business tax revenues. These revenues are collected by and received from Mecklenburg County's Business Tax Collections (BTC) Office of the Mecklenburg County Office of the Tax Collector (OTC). Business taxes include Business Privilege License Tax; Heavy Equipment Rental Tax; Occupancy Tax; Prepared Food & Beverage Tax; and Vehicle Rental Tax. This audit focused primarily upon the Business Privilege License and Prepared Food & Beverage taxes.

Conclusion: While the County collects significant business tax revenues for the City (approximately \$76.2 million in FY11), additional revenues may go uncollected due to non-compliance by companies that are required to self-report their taxable income.

Summary Results: Voluntary compliance with Business Tax requirements, along with the County's efforts to discover and collect unpaid taxes, result in the majority of business taxes being collected in a timely manner. However, audit tests indicated that additional revenues in the range of 5-15% may go uncollected in some categories of Business Taxes. Despite the high level of voluntary compliance, it will always be necessary for the taxing authority to continue its discovery efforts. Our review suggested additional efforts which could further improve collection efforts, as follows.

We compared Prepared Food & Beverage Tax records to Health Department records and referred a number of potential non-paying businesses to the County Tax Collector. Similarly, we

compared the Business Privilege License Tax (BPLT) records to the City's database of vendors and referred potential non-compliant businesses to the County Tax Collector. (Research must be conducted to determine that such businesses are currently operating, and whether payment may have been made under another business name.)

A specific review of 175 ARRA recipients identified 34 vendors who were not current on the BPLT requirement during the audit. At the conclusion of the audit, 24 (14%) remained uncollected.

Auditors identified a monthly vehicle rental tax payment that was several months late in being remitted by the County. The payment was promptly resolved when brought to the County's attention. City Finance has implemented additional monitoring steps to identify any lateness in the future. Finally, we recommended that City Finance discuss with the County a more effective approach to auditing the business taxes on the City's behalf.

Update: While City Finance was responsive to the recommendations (drafting purchase order language, which has been incorporated into City documents since August 2012) the City needs to further engage the County to address the concerns raised. A follow-up was initiated in July and a draft report was distributed to City Finance and the County in December 2013. A final report on the follow-up audit is targeted for February 2014. (See below, for In Progress status.)

Accounts Payable Payment Policy – Earlier in 2013, an audit was designed to determine the reasons for non-compliance with certain sections of the Accounts Payable Payment Policy (FIN6) and to recommend solutions for consideration, if appropriate. For the period July 2011, through March 2013, Internal Audit obtained the quarterly reports prepared by the Finance Department which list direct payments of \$10,000 or more. Auditors inquired with Departments about their responses to Finance to determine the reason each payment was made via direct pay, what prevented the department from complying with FIN6 and the impact on compliance with other City procurement policies.

In our June 2013 report, we noted that every City Department achieved a high level of compliance during the audit period reviewed. On average, the City processes more than 500 invoices over \$10,000 each month. During the 21 month period reviewed, the Finance Department included 125 exceptions (ranging from three to eight per month) on its FIN6 reports. Many of these were subsequently explained by the departments. Upon review and discussion with the departments, Audit concluded that 28 items (1.4% of direct pays over \$10,000) did not comply with the policy. Department staff agreed that about half of the items which were not in compliance could be avoided in the future through improved training. The remainder of the non-compliant items can be attributed to: (1) errors by staff; (2) repetitive issues which can be resolved with better documentation; and (3) current system limitations, which may be resolved with the implementation of the new ERP.

We concluded that the current reporting mechanism provides adequate information to allow Finance, Department Managers and the City Manager's Office to monitor compliance with the Accounts Payable Payment Policy. While department managers are aware of exceptions and are

taking action to decrease non-compliance, departments agree that the number of payments which are not compliant with the Policy can be further reduced.

Update: Internal Audit is completing reviews of FIN6 reports issued to departments for the quarters ended June 30, and September 30, 2013. (See below for In Progress status.)

AUDITS IN PROGRESS @ December 31, 2013

- SWS Benchmarking FY13 – SWS has submitted all the data necessary for our annual review. The report will be issued in January.
- Accounts Payable Follow-up – Departments were informed in July 2013 of Internal Audit plans to follow up the implementation of recommendations noted in our June Citywide Accounts Payable (FIN6) audit report. The Finance Department has provided the reports for the quarters ended June and September 2013. We reviewed those reports and provided draft findings to several departments in December. The full draft was circulated in January and the final report is targeted for issuance by month-end.
- Energy Efficiency and Conservation Block Grants (EECBG) Stimulus Audit – During December, audit staff worked with EECBG project managers (PMs) to review findings. PMs have made additional data available which we are currently evaluating. We anticipate that PMs will continue to provide information in January. Although a draft report has been completed, Internal Audit will update it after all the information has been analyzed. A final report will be issued in February.
- Business Tax Audit Follow-Up – We are completing a follow-up review of the findings and recommendations included in our February 2012 report “Business Taxes Received Via County.” We have reviewed the status of recommendations as well as examined new samples. After meeting in August with the County Tax Collector and Deputy Collector, we forwarded a sample of City vendors for a determination of compliance with business license requirements. The County has reviewed and provided feedback on our samples and other update requests. We issued a draft report in late December for review with Finance and the County. In January, we expect to receive updated information from the County, and feedback from City Finance. A final report is targeted for February.
- Authorized Contracts and Payments – We are reviewing the City’s disbursements to the entities paid the most in FY13, whether related to a new or existing contract, a Council-approved disbursement or any other process. Audit fieldwork was initiated in June, and will continue through January.
- City-wide Overtime (July 1, 2009 through June 30, 2013) – We have met with most departments to discuss overtime policies and procedures for each division. Our first round of testing is complete and we are meeting with several divisions to discuss overtime with direct supervisors. We have a few more divisions to meet with in early January, before we begin drafting a report.

- Employee Travel and Expense Reimbursements – We are reviewing all FY13 reimbursements to Executive Management and Department Heads as well as a sample of reimbursements to other employees, for compliance with City policies and procedures, including P-card travel. Fieldwork is expected to continue through early 2014.
- Quarterly Stimulus (ARRA) FY14 – We have completed our review for the (first fiscal) quarter ended September 30, 2013. The review for the current quarter will begin in mid-January. (An annual report summarizes the full fiscal year and is completed in the fall.)

Other

- Internal Audit is overseeing a contract with the accounting firm McGladrey to review Parking Revenues and Contracting Compliance at Charlotte-Douglas Airport. This work was begun in December. McGladrey is completing additional reviews related to the Airport, under a contract overseen jointly by Airport and Finance staff. Internal Audit is being kept apprised of these efforts.
- In September, at CATS' request, audit staff began reviewing records supplied by a CATS contractor which documented losses due to the actions of a former employee of the contractor. CATS has since begun collecting fare evasion citation fines (directly, rather than using a contractor) and has developed detailed procedures to address this activity. Internal Audit performed an initial review of new CATS procedures and agreed that the written plans provide appropriate controls going forward. We plan to review CATS' compliance with those procedures and consider their reconciliation process. Our review will begin by February. (In addition to the control deficiencies that allowed the theft to go undetected for an extended period, the outside auditor Cherry Bekaert also reported to Council in January that citywide cash collection controls need improvement. Internal Audit has begun working with Finance to develop an audit plan which will address this finding.)

Note: Internal Audit reviewed the documentation which the contractor prepared for the period 2011 through 2013, and tested it sufficiently to agree that the contractor's reconciliation records have a high degree of accuracy. We attempted to reconstruct data for the period prior to 2011, but have concluded that there are insufficient supporting documents on which to base an estimation of further losses, if any. Therefore, we supported the City's settlement with the contractor, to accept a reimbursement of \$50,750. The settlement agreement has been completed and the reimbursement was accepted in January.

**CITY OF CHARLOTTE
CITY MANAGER’S OFFICE – INTERNAL AUDIT DIVISION**

MEMORANDUM

To: Budget & Evaluation
From: Greg McDowell, City Auditor
Re: Internal Audit – Strategic Operating Plan FY14

July 26, 2013

Internal Audit Purpose/Goals

Internal Auditing is an independent appraisal activity established to conduct reviews of the City’s system of internal controls. The primary objective of Internal Audit is to provide reasonable assurance that the City has an operating and effective system of internal controls. A secondary objective of Internal Audit is to assist members of management in evaluating the efficiency and effectiveness of operations.

This document provides an explanation of our strategy for FY13.

	FY2012	FY2013	FY2014
Budget	\$1,045,364	\$1,097,299	\$1,134,980
Positions	9	9	9

Introduction

Internal Audit continues to issue significant audit reports while managing to its budget, reprioritizing efforts as needs arise. The ability to achieve these results is due to effective management by senior audit staff members, benefits gained through a stable Audit Division workforce, and increased efficiencies resulting from the implementation of electronic workpapers over the past few years.

Our efforts are guided and impacted by the following:

- Annual Audit Plan – Each year, the City Auditor develops an Annual Plan to address key aspects of the City’s overall system of internal controls. Specific audits selected are based upon a continual assessment of internal control risks, and consultation with the City Manager and select Department Directors. The results of individual audits also drive follow-up issues. Finally, key operational initiatives such as the City’s ERP preparations impact audit priorities.
- Demands – Our Annual Audit Plan anticipates that audit requests will arise throughout the year. The Internal Audit Division readily evaluates the urgency of requests and re-prioritizes ongoing efforts, as needed.

- Complexity – certain audits have required extensive meetings, follow-up and briefings of senior staff; e.g., ARRA (which expanded as new grants were awarded); CATS construction; and a Continuous Auditing effort that was initiated in early FY2012.
- Follow-up – Several audits have resulted in recommendations for improvement. We track the agreed upon actions planned and follow-up with the Departments to ensure that necessary steps have been completed.

Performance Audits Planned for Fiscal Year 2014

In Fiscal Year 2014 we will complete several audits which are in progress. In addition, a number of specific audits are planned and several are under consideration, as detailed below.

In Progress – We will complete the following: Business Tax Audit Follow-Up; Citywide Overtime; Authorized Contracts and Payments; CATS Blue Line Extension STV/RWA; and an Energy Stimulus Grant (EECBG).

Planned – The following audits will be initiated and substantially completed in FY14. Any of these which are not completed by June 2014 will be given priority for completion in early FY15:

- American Recovery and Reinvestment Act (ARRA, or Stimulus Funds) – We continue to review the City's quarterly reports and will issue another annual summary in the fall.
- Grant Accounting – This audit will review accounting controls within the Finance Department, along with administrative controls within selected Departments. The planning for this audit was begun in late FY13, and has been prioritized for this year.
- CATS Construction – As noted above, one Blue Line Extension audit of STV's labor, overhead and fees is in progress. In FY14, we will continue to focus on the prime contractor (STV) for the BLE. These efforts will determine that Labor, Overhead and Fees are charged correctly by STV and its subcontractors. In addition, we will review CATS administrative efforts related to subcontractor payments and determine an appropriate audit approach. CATS management has requested that we be responsive to its requests for audits of specific contractors. We will reserve flexibility in our staffing plan to accommodate requests as much as possible.
- Vice Imprest Reimbursements – Upon request from Police about every two months, auditors conduct detailed reviews of imprest documentation before the fund is replenished. An annual report summarizes these efforts.
- Bus Operations Division Imprest – We will audit the CATS Imprest Fund and include steps required to meet the needs of the external auditors for the annual financial report, as has been done for several years.

- Competition Contracts – After completing all CMU-related competition audits in 2011, we will be auditing only SWS. This is a consolidated audit approach, addressing City-Wide services for residential garbage, yard waste and bulky item pick-up services. The audit of FY13 operating results is targeted for completion in November.
- Travel Expenses and Employee Reimbursements – We will conduct a citywide audit of travel and other reimbursements, including managers and staff. A sample of employees throughout the City will also be reviewed, regardless of dollar levels.
- Accounts Payable Payment Process (FIN6) Follow-up – In May 2013, we issued a report regarding citywide compliance with the payment policy. Although we concluded that the reporting process which provided for supervisory review was working well, several departments committed to improved compliance. This audit will focus on the period immediately following the audit period to determine whether the planned improvements have occurred.
- Continuous Auditing: Human Resources Pilot – Once implemented fully, the “Continuous Auditing” approach will allow us to conduct frequent reviews of City data, identify areas of risk, and conduct thorough audits in specific areas. The tests may identify errors or anomalies which occur infrequently, but would become more difficult to correct over time. Thus far, we have used a contractor to assist us with designing initial tests and developing a long term model – beginning with PeopleSoft and GEAC. Using variables in our “scripts” (code developed to manipulate data), we will transition our work to the new ERP in the future. In 2014, a pilot program will focus on PeopleSoft data and will identify employees with key missing or invalid data, inappropriate duplicate bank accounts and paychecks for unauthorized periods.

Under Consideration – Audit priorities are regularly updated throughout the year. Depending upon staff availability and the level of requests received, the following audits may be initiated during fiscal year 2014:

- Airport – At year-end, the N.C. General Assembly was considering legislation to create a separate Authority to operate Charlotte-Douglas International Airport. Depending upon whether this legislation progresses, Internal Audit may become involved in special reviews related to transitional processes. For example, the transfer of equipment and inventory could require independent verification. It should be noted that audits in progress or planned include reviews related to the Airport, including Citywide Overtime, and the audit of Authorized Payments and Contracts.
- ERP-related – Audit staff has been supporting ERP development by responding to control-related questions and staying current with the development process. We will continue to consult with the OCIO, Finance, Shared Services/IT and others to identify other issues, which could include business process, quality control, and data integrity controls.

- Construction – Various City departments manage multiple construction projects annually. While we have limited our audits of construction projects to those managed by CATS, we are considering other departments, possibly as follow-ups to previous procurement audits.
- P-card Follow-up – A citywide review of the P-card was concluded in March 2011. The policy and monitoring procedures were subsequently strengthened. A follow-up audit will assess current compliance levels, along with the effectiveness of new processes.
- Police Property – Although it has been several years since we conducted a complete review of Police property controls, our Vice Imprest audit regularly tests a random sample of evidence. In addition, we have observed inventory counts conducted in compliance with CALEA (Commission on Accreditation for Law Enforcement) standards. Working with CMPD, we plan to conduct a performance audit that will build on these standards as well as review other property controls.
- ARRA-related – Auditors will continue to conduct ARRA-related audits through the life of grant receipts. In addition to the annual summary, other projects will be considered.

Resource Allocation Summary

We are staffed at 7-3/4 FTE, with one part-time temporary adding ½ FTE, and one position is open. We have used some funds from the unfilled position to supplement our contractor resources. In the past few years, we have used contractors at a rate of 2 to 2-1/2 FTE. Currently, we are using a contractor at a rate of less than one FTE.

Each staff member is required to obtain Continuing Professional Education (CPE), averaging 40 hours CPE per person to remain in compliance with Government Auditing Standards. Since 2008, the Manager has obtained over 180 leader credit hours from the Institute of Internal Auditing (IIA) by teaching/facilitating classes for the organization. The use of credit hours by the Manager and audit staff has replaced fees totaling nearly \$9,000. About 130 hours have been used for attendance at several conferences and two seminars. One-quarter (about 45 credit hours) remains available for use by the Manager or staff.

glm

**CITY OF CHARLOTTE
CITY MANAGER'S OFFICE – INTERNAL AUDIT DIVISION**

MEMORANDUM

To: City Manager's Office and Department Directors
From: Greg McDowell, City Auditor
Re: Audit Update – January 2014

January 31, 2014

Performance Audit Reports Issued

SWS City-Wide Services 6/30/13 – Internal Audit found that SWS has accurately compiled its costs of operations for City-wide services. For the year-ended June 30, 2013, operations were under budget by \$647,867. These savings represent more than 3% of the approximately \$21.3 million in revenue.

During the year, approximately 210,781 households were served, and a total of 226,306 tons of solid waste was removed. The adjusted cost of service per household year-to-date was \$8.17 as compared to the budget projected service cost of \$8.46. The cost per ton removed was \$91.28 for the year.

The SWS residential model has transitioned from a managed competition and optimization in FY10 to city-wide service in FY11. Prior to FY11, the North, South and East Districts of the City were serviced by SWS staff and the West District was contracted out. Since July 2010, refuse, yard waste and bulky collection services have been performed by SWS City-wide; while recycling is being performed by an outside contractor.

Note: Due to the timing of the DNC, our review was done on an annual basis. We are planning to return to a semi-annual schedule.

Accounts Payable Payment Policy (FIN6) Follow-up – The audit was designed to follow up the results and recommendations of our FIN6 report issued in June 2013. For the period April 1, 2013 through September 30, 2013, Internal Audit obtained the two quarterly reports prepared by the Finance Department which list direct payments of \$10,000 or more. Internal Audit inquired with Departments about their responses to Finance to determine the reason each payment was made via direct pay, what prevented the department from complying with FIN6 and the impact on compliance with other City procurement policies.

- Conclusion: The current reporting mechanism provides adequate information to allow Finance, Department Managers and the City Manager's Office to monitor compliance with the Accounts Payable Payment Policy. During the review period, some departments continued to process payments via direct pay when a purchase order should have been processed. However, most departments have reduced or eliminated the number of direct payments processed. Overall, the found that 12 items (about 1.1% of direct pays over \$10,000) did not comply with the policy. With the

implementation of the new ERP system, the expectation continues to be that the number of direct payments processed will be further reduced.

- Note: Internal Audit will review subsequent FIN6 reports to determine whether CC&M has taken the agreed upon steps to comply with City policy. The department head and the City Manager's Office will be informed of our results; however, no formal audit report is anticipated.

Audits in Progress

- Energy Efficiency and Conservation Block Grants (EECBG) Stimulus Audit – During December and January, audit staff worked with EECBG project managers (PMs) to review findings. A final report will be issued in February.
- Business Tax Audit Follow-Up – We are completing a follow-up review of the findings and recommendations included in our February 2012 report “Business Taxes Received Via County.” We have reviewed the status of recommendations as well as examined new samples. A draft report was provided to City and County staff in late December. City Finance provided comments in January. We met with County Finance staff in late January to review the draft and receive updates regarding additional research conducted by the County Office of Tax Collections. Those updates will be reflected in the final report, which is targeted for February.
- Authorized Contracts and Payments – We are reviewing the City's disbursements to the entities paid the most in FY13 (about 60 contractor/vendors each received over \$2 million in payments), whether related to a new or existing contract, a Council-approved disbursement or any other process. Audit fieldwork is nearly complete. We plan to issue a draft report by late February and the final in March.
- City-wide Overtime (July 1, 2009 through June 30, 2013) – We have met with most departments to discuss overtime policies and procedures for each division. After completing our initial testing, auditors met with direct supervisors within several divisions to discuss overtime processes. Additional analyses and reviews will be conducted through February and March.
- Employee Travel and Expense Reimbursements – We are reviewing FY13 reimbursements for compliance with City policies and procedures, including travel expenses charged to P-cards. Fieldwork is expected to continue through February. A target issuance date has not been determined.
- Quarterly Stimulus (ARRA) FY14 – As explained in our annual report issued in October 2013, most of the ARRA projects have been completed. Since 2009, we have reviewed all ARRA projects quarterly (and reported annually). Beginning July 1 2014, we will change from quarterly reviews to semi-annual reviews, while continuing with an annual report for another year.

Other

- Internal Audit is overseeing a contract with the accounting firm McGladrey to review Parking Revenues and Contracting Compliance at Charlotte-Douglas Airport. This work has been ongoing throughout January. We expect to review draft findings with McGladrey during February or March.
- At CATS' request, audit staff reviewed records supplied by a CATS contractor which documented losses due to the actions of a former employee of the contractor. In January 2014, a settlement agreement was signed by Central Parking and the City. Internal Audit supported this agreement. The City accepted a reimbursement payment of \$50,750. In August 2013, CATS staff (in place of the contractor) had begun collecting the fare evasion citation fines. Internal Audit staff will begin to test CATS' new procedures in February.

glm

Internal Audit Recommendation Status
Report as of January 31, 2014
(Updates Since Prior Report)

Dept.	Report and Date	Audit Recommendation or Actions Planned/Taken	Resolution Status
CATS	STV FY07 ODCs April 2010 STV FY08 and FY09 ODCs December 2011	<ul style="list-style-type: none"> • Proposed disallowing \$93,067 • Proposed disallowing \$72,000 	<p>As part of CATS' attempt to reach a settlement with STV, the City agreed to review additional documentation. Audit and STV (along with CATS administrative staff and CATS-Legal) met in December 2013. STV and a subcontractor produced additional documentation that had not been previously reviewed. Internal Audit supports CATS' efforts to settle the remaining issues.</p> <p><i>A final settlement payment from STV to the City, totaling \$27,783, has been tentatively agreed upon. If that payment is received in February, this item will be removed from next month's report</i></p>
Finance	Business Taxes Received Via County February 2012	<p>1A. Finance to discuss with County actions to reduce non-reporting (e.g., matching databases, City and County purchase order changes)</p> <p>1B. Finance to discuss with County additional management information reports to City Finance</p> <p>2. EST Coordinator to contact and instruct ARRA project managers re. 24 non-compliant contractors</p> <p>3. Finance has added new controls to address a late receipt of vehicle rental tax.</p> <p>4. Finance to review and discuss with County the cost-effectiveness of business tax audits, with increased emphasis on discoveries</p>	<p>1A. Finance completed re-drafted City purchase order language, with input from Legal. Finance discussions with the County are pending.</p> <p>1B. Pending.</p> <p>2. Completed.</p> <p>3. Completed. Finance has added new controls to its cash forecasting process to detect late receipts.</p> <p>4. Pending – see 1A above.</p> <p><i>A follow-up audit is being completed. A December draft report was discussed with the County in late January to receive the County's feedback. A final report is planned for February.</i></p>

Finance	Purchased Capital Assets (FY12) January 2013	The Finance Department should establish a policy that requires consistent tracking of all working animals that meet the City's capitalization threshold.	Finance has established an asset code on the general ledger to track working animals and has contacted the Police Department about procedures to capitalize working animals. Finance planned to develop a capital asset policy in conjunction with the ERP project, and it will include capitalization of working animals. In August, the Finance Liaison Committee (FLC) approved the policy. The formal policy review was initiated in September. A near-final policy has been circulated and should be adopted soon. If the process is completed in February, this item will be removed from this report, as resolved.
HR	Payroll Audit March 2013	<ol style="list-style-type: none"> 1. HR should take steps to ensure that pay rate authorizations have been scanned electronically. 2. The submission and subsequent testing of hard copy time reports does not significantly impact the level of internal control over time reporting. HR should consider eliminating this effort. 	<ol style="list-style-type: none"> 1. HR feels the paperwork was properly filled out and available in storage in hard copy form. HR is starting to audit files to ensure the documents are available electronically. Scanning documents in HR lags a few months at any given time. IA's first round of testing indicates that the scanning of electronic files is not up-to-date and further organization is needed. Audit staff will revisit this issue within the next few months. 2. HR agrees. HR will ask departments to continue to review and hold the reports in their individual departments for six months. This will allow HR to perform appropriate follow-up if there are indications that payroll accuracy is suffering.
Finance, Shared Services (SS), and OCIO	Vendor Authenticity April 2013	<ol style="list-style-type: none"> 1. MUNIS implementation. The City should prevent the roles and permissions set-up that would allow the same person to both approve a requisition to become a purchase order and receive the goods or services on an invoice. 2. City policy should require approvals be limited to employees. 	<ol style="list-style-type: none"> 1. Finance, SS and OCIO agree, although the implementation may present challenges. (Follow-up date presently undetermined due to the changing status of ERP implementation.) 2. This recommendation is completed.

		<p>3. A formal vendor authentication policy should be adopted, following review and documentation of agreed upon criteria.</p> <p>4. A formal vendor authentication process and related policies should be considered. City policies should address these areas: Activity, Naming, Tax IDs, and Completeness.</p>	<p>3. Finance, SS and OCIO agree, although the policy process will require significant collaboration. (Follow-up date presently undetermined due to the changing status of ERP implementation. However, a draft Policy is under development.)</p> <p>4. Finance, SS and OCIO agree, although the policy process will require significant collaboration. (Follow-up date presently undetermined due to the changing status of ERP implementation.)</p>
City Manager (EST Coordinator)	2013 Stimulus (ARRA) Report October 2013	<p>The EST coordinator should work with the PMs to certify the three payroll documents on the CDBG grant and follow-up on the research to be completed by CATS.</p> <p>Quarterly, the EST Coordinator should require PMs to provide written verification that:</p> <p>a. GEAC has been reconciled to §1512, federal and state reports; b. All payroll documents have been received from vendors; c. Davis-Bacon applicable payrolls have been certified; d. Buy American compliance was regularly checked by project inspectors; and e. Prior quarter corrections have been made by the PM.</p>	<p>CATS is researching payroll documents. A status summary was provided to Internal Audit, detailing significant progress. When completed, the EST coordinator will be notified.</p> <p><i>CATS staff has made significant progress in addressing the FTE calculations, but has not completed their research.</i></p>

**Report of Internal Audit
CATS Northeast Corridor Light Rail Transit Project
STV/RWA, Incorporated – Direct Labor, Overhead, and Fees
Fiscal Year Ended September 30, 2012
July 12, 2013**

**City of Charlotte
City Auditor's Office
Gregory L. McDowell, CPA**

Report of Internal Audit
CATS Northeast Corridor Light Rail Transit Project
STV/RWA, Incorporated – Direct Labor, Overhead, and Fees
Fiscal Year Ended September 30, 2012
July 12, 2013

Audit Approach and Scope

This audit focused on invoices submitted by STV/Ralph Whitehead Associates, Inc. (STV/RWA), contractor for the Northeast Corridor Light Rail Transit Project. For the fiscal year ended September 30, 2012, STV/RWA submitted invoices totaling about \$9.7 million. The audit addressed the direct labor, overhead, and fees billed for that period of about \$7.4 million.

Internal Audit conducted this review to ensure that contractor invoices comply with federal guidelines and to identify unallowable charges. Auditors examined the invoices for accuracy, authorization, and compliance with the guidelines specified in the Federal Acquisition Regulations (FAR). Our evaluation included interviews with appropriate City personnel and the review of state and federal funding guidelines.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Conclusion

Other than the need to reconcile overhead rates, there were no audit findings. These results indicate a high level of compliance with Federal contracting guidelines by the contractor, along with effective administrative efforts by CATS staff.

Summary Results

For the period audited, STV/RWA submitted 15 project-related invoices to CATS totaling \$9,741,045. Auditors reviewed direct labor charges of \$2,703,321 and overhead and fees of \$4,648,178. (The audit did not include a review of other direct costs which totaled \$2,389,546.)

During the audit, we addressed and resolved a number of issues related to STV/RWA's direct labor charges. STV/RWA supplied timely responses and documentation, as requested. As a result, there are no findings related to direct labor for the audit period.

As is typical in contracts involving federal funding, the contractor used a provisional overhead billing rate, which is adjusted to the actual rate following completion of a financial audit. Our review of overhead rates found that a reconciliation payment totaling \$83,668 is due to STV/RWA, to reflect audited results from the fiscal year ended September 30, 2012.

Prior to this audit, CATS agreed to begin conducting annual overhead reviews for prime contractors in FY13, and further, will hold the prime responsible for conducting similar overhead reviews of its subcontractors. Internal Audit concurs with this approach.

Background

In 2008, the Charlotte Area Transit System (CATS), in conjunction with NCDOT and the Federal Transit Administration, initiated the preliminary engineering and design portion of the Northeast Corridor Light Rail Transit Project (NECLRP)/Lynx Blue Line Extension project (BLE). BLE was the second of the corridor systems planned for implementation following the first project (South Corridor Light Rail Transit System) which became operational in November 2007. The Federal Government and State of North Carolina's partial funding of the project imposes several requirements on CATS, including the need to ensure that payments comply with the provisions of FAR. These requirements apply to contracts in excess of \$100,000.

As stipulated in the contract which was revised effective May 1, 2008, the City has withheld 5% (\$94,890) of the fixed fees until STV/RWA provides all documentation and completes deliverables, including all claim releases, required by the contract.

Finding and Recommendation

CATS should remit \$83,668 to reconcile actual to provisional overhead rates.

Overhead and fees totaled \$4,648,178, or 48% of the \$9.7 million billed. Contractual overhead is paid based upon actual expenses, which are calculated following each year. Prior to the completion of annual audits, contractors submit invoices based upon "provisional" overhead rates, that is, their estimated overhead rates which have been accepted as reasonable.

STV/RWA has provided audited overhead rate schedules for FY2012. Using those audited rates, we determined that CATS was under-billed \$83,668. This consisted of \$76,062 in overhead charges and \$7,606 in fees. The billed rates and audited rates submitted by STV/RWA are detailed below.

STV/RWA Overhead Rates								
	Audited Financials				Invoiced			
	STV Overhead	STV Field Overhead	RWA Overhead	RWA Field Overhead	STV Overhead	STV Field Overhead	RWA Overhead	RWA Field Overhead
2012	142.31%	117.96%	158.50%	134.19%	142.00%	0.00%	155.00%	132.00%

Recommendation

CATS should remit to STV \$83,668 to reconcile the provisional payments made properly using provisional rates to the actual audited results.

CATS Response

CATS agrees with Internal Audits recommendation and will notify and remit payment to STV as soon as possible.

**Report of Internal Audit
Investments
April 29, 2013**

**City of Charlotte
City Auditor's Office
Gregory L. McDowell, CPA, CIA**

Report of Internal Audit
Investments
April 29, 2013

Scope and Approach

The purpose of this audit was to determine whether the City's investments are managed under effective internal controls and according to appropriate regulatory and internal standards. The audit did not address the selection of investments or the rate of return achieved. Auditors reviewed investment transactions that were processed between July 1, 2012, and December 31, 2012, other than those managed as part of the Firefighters' Retirement System. (The investments for the Firefighters' Retirement System are subject to unique state statutes and are audited separately.) Finally, auditors assessed internal controls, evaluated the segregation of duties, and verified compliance with state statutes and city policies.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary Results

The City's Finance Department has managed investments satisfactorily, based upon the following:

- Investments and trading activities comply with North Carolina state statutes.
- City Finance personnel followed established policies and procedures.
- Internal controls are adequate to maintain appropriate segregation of duties, and to ensure continued compliance with state statutes and City policies.

Background

The audit focused on two distinct investment funds managed by the City Finance Department as discussed below. The Charlotte City Council is the governing body over both the Consolidated Investment Fund (CIF) and the Long Term Investment Program (LTIP).

Consolidated Investment Fund (CIF)

The CIF "pools" idle cash from various areas within the City for investment according to state statute GS 159.¹ The law allows investment categories such as bonds, discount notes, commercial paper, and the North Carolina Capital Management Trust (NCCMT). As of

¹ CIF is governed by North Carolina G.S. 159-30.

December 31, 2012, the CIF had a book balance (i.e., cost basis versus market) of approximately \$1.8 billion.²

The CIF is designed for investments to be purchased and mature generally within a five year period. The primary goal of the CIF is to produce the highest level of income in a manner consistent with the preservation of principal and liquidity for the City.³

Long Term Investment Program (LTIP)

The LTIP is a relatively new investment governed by state statute GS 147.⁴ The City Council authorized an investment of \$150 million for the program in December 2008 and also approved the creation of an LTIP Advisory Committee (LAC) to manage and monitor the performance of the program in November 2009. The LAC, with the assistance of an investment consultant, appointed a custodian to handle the recordkeeping duties and five investment firms to manage the day-to-day operations.

LTIP was created to further diversify the investment assets of the City and to become a source of funding for future Other Post-Employment Benefits (OPEB) obligations of the City. The main goal of the LTIP is to earn a rate of return that exceeds the rate of inflation and that is above average compared to relevant market benchmarks.⁵

An initial investment of \$35 million was authorized in May 2011, and has grown due to dividend reinvestments and two additional investments authorized by the LAC. As of December 31, 2012, the book balance was approximately \$39.1 million.⁶ The LTIP is managed by the five investment firms, in six funds, with balances ranging from \$5.1 million to \$7.4 million. At December 31, 2012, the LTIP made up less than 4% of the City's overall investment funds (not including the Firefighters').

² Market value of the CIF as of 12/31/12 was \$1,811,375,000.

³ Source: City of Charlotte, *Investment Objective and Principal Strategies*.

⁴ LTIP is governed by North Carolina G.S. 147-69.2(b)(1)-(6) and (8).

⁵ Source: City of Charlotte *Long-Term Investment Program Policy Statement of Investment Goals, Objectives and Guidelines*, revised 11/23/2009

⁶ Market value of the LTIP as of 12/31/12 was \$41,422,000

Findings

1. The Finance Department manages investments in compliance with State statutes.

As of December 31, 2012, all investments in both the CIF and LTIP complied with state statute classifications and reporting requirements.

Consolidated Investment Fund (CIF) – State statutes require that investments and deposits can be converted quickly into cash when needed and that deposits are to be covered by federal deposit insurance. In addition, for pooled funds, the allocation of interest earned must be based on the average periodic balance. The classes of securities where the money may be invested follow:

- Obligations of the United States, federal banks and agencies, United States Postal Service, or the State of North Carolina,
- Bonds and notes of any North Carolina local government or public authority,
- Savings certificates issued by the State of North Carolina or federal associations, and
- Commercial paper, bills of exchange, mutual funds certified by the Local Government Commission, or repurchase agreements.

Long Term Investment Program (LTIP) – Listed below is a summary of the authorized investment classes outlined in GS 147:

- Obligations of the United States, federal banks and agencies, United States Postal Service, some international banks, repurchase agreements, obligations of the State of North Carolina, certificates of deposit, and commercial paper,
- General obligations of other states of the United States, and other cities, counties, and special districts in North Carolina,
- Obligations of any company, including obligations convertible into equity securities,
- Asset backed securities,
- Equity securities traded on a public securities exchange, and
- Investment managers with assets of \$100,000,000 or more, through registered investment companies, limited partnerships, LLC's, or other limited liability investment vehicles, and contractual arrangements.

State required reporting – The North Carolina Local Government Commission (NCLGC) requires a Report of Deposits and Investments to be filed semi-annually. The report is Form LGC 203 and includes the City's cash balances plus any investments. The LGC was established by state statute⁷ as was the requirement to file LGC 203.⁸ Auditors reviewed the two most recent LGC 203 submissions⁹ and determined that the City is completing and submitting the forms in a timely manner.

⁷ The LGC was created pursuant to North Carolina G.S. 159-3.

⁸ The requirement to file LGC 203 is required pursuant to North Carolina G.S. 159-33 and 33.1 or G.S. 115C-446.

⁹ At the time of review, the most recent submissions were for the six month periods ending on December 31, 2011 and June 30, 2012, respectively.

2. Finance follows City investing policies and procedures.

For both the CIF and LTIP, auditors examined supporting documentation and authorization for transactions in our scope. (For the CIF, testing was limited to the audit period noted in the Scope above, i.e., July through December 2012. For the newer LTIP, transactions were tested from initiation of the program in May 2011 through December 2012.) In addition, applicable minutes from the City Council or Advisory Committee were reviewed. Auditors reviewed transactions for compliance with City policies and procedures under five categories:

- authorization,
- recordkeeping,
- reconciliations,
- segregation of duties, and
- asset allocations.

Authorization: Investment transactions must be properly authorized. Testing found that the Investment Manager signed off on each CIF transaction, while each LTIP transaction was approved by the LTIP Advisory Committee. A letter of authorization was signed by the Investment Manager and used by the Custodian to transfer funds in the LTIP. Auditors located and verified each signed letter of authorization sent to the Custodian.

Recordkeeping: Investments must be recorded accurately. For the CIF, the Investment Manager enters all transactions into SunGard, a third party portfolio accounting and valuation service where the City's investments are tracked. A paper copy of CIF transaction documents is also filed in the Finance department. The Custodian sends a combined statement monthly to Finance in order to review LTIP. For the investments tested, each transaction was recorded properly.

Reconciliations: The existence of the securities and the completeness of records are verified through periodic reconciliations. Financial Reporting performs reconciliations of both the CIF and the LTIP, while the Investment Manager completes a separate reconciliation of the CIF. All reconciliations tested were maintained in compliance with internal policies.

Segregation of duties: Selected critical tasks should be performed by different employees or divisions. Financial Reporting plays an important role in the final approval of journal vouchers of Treasury transactions. Auditors verified the required segregation of duties between the two divisions.

Asset allocations: Internal guidelines mandate allowable asset allocations based on security type and the risk associated with each class. Auditor's review of asset classes found that allocations within the CIF and LTIP were maintained in compliance with internal policies throughout the audit scope period, without exception.

Governance and Accountability Committee

February 24, 2014

Accounting, Financial Reporting, and Independent Audit Overview

Governmental Accounting and Financial Reporting

- The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for U.S. state and local government. Accounting and financial reporting standards are established through the issuance of Statements.
- The GASB is the primary source of generally accepted accounting principles for local governments. The GASB was established in 1984 and has issued 71 Statements.
- In addition to the GASB, governmental accounting and reporting is heavily influenced by Federal regulations and NC general statutes, Internal Revenue Service regulations, Local Government Commission (LGC) requirements, grantor agencies, bond covenants, and American Institute of Certified Public Accountant (AICPA) accounting rules and auditing standards.
- The Government Finance Officers' Association (GFOA) is a professional organization that assists state and local governments to enhance financial management and reporting.
- The GFOA established the Certificate of Achievement for Excellence in Financial Reporting Program to encourage and assist state and local governments exceed the minimum requirements of generally accepted accounting principles to prepare a comprehensive annual financial report (CAFR) that evidence the spirit of transparency and full disclosure and then to recognize individual governments that succeed in achieving that goal.
- The City has received the Certificate of Achievement for Excellence in Financial Reporting for the 28th consecutive year for the fiscal year 2012 CAFR. The 2013 CAFR has been submitted for review and we believe we will receive the award for it as well.

Comprehensive Annual Financial Report (CAFR)

- The CAFR includes not only the required financial statements prepared in accordance with generally accepted accounting principles, management's discussion and analysis (MD&A), related footnote disclosures, and the auditor's opinion, but additional information such as:
 - Letter of Transmittal
 - Budgetary Statements and Schedules
 - Statistical Information
 - Federal and State Grant Award Information ("Single Audit")

NCGS Chapter 159-34

- Each unit of local government shall have its accounts audited as soon as possible after the close of each fiscal year

- As a minimum, the required report shall include the financial statements prepared in accordance with generally accepted accounting principles, all disclosures in the public interest required by law, and the auditor's opinion and comments relating to financial statements.
- The finance officer shall file a copy of the audit report with the secretary of the Local Government Commission (a division of the Office of State Treasurer)

Independent (or External) Audit

- An independent audit consists of an investigation of the accounting records and other evidence supporting the financial statements.
- The objective of an audit by an independent auditor is to express an opinion on the fairness with which the financial statements present, in all material respects, financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.
- The auditor is responsible for planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.
- Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements.
- The independent auditors' report, commonly known as the auditors' opinion, is the report issued at the end product of the audit engagement. This report gives credibility to the set of financial statements and makes them acceptable to investors, bankers, governmental agencies, and other users.

Independent Audit Process

- Selection of the independent auditors based on the Request for Proposal (RFP) process used by the City on a rotating basis (timeframe to be determined by the Governance and Accountability Committee).
- Approval of an annual contract for the independent auditors, based on Local Government Commission (LGC) requirements.
- Annual meeting with the independent auditors during the planning of the audit to determine the scope of the audit and to identify particular areas, if any, where the Council would like the independent auditor to focus.
- The independent auditors normally begin preliminary audit work in March through May.
- Finance/Financial Reporting staff prepares the CAFR during July through December timeframe.
- The independent auditors normally return to resume audit work in August and they complete their work by the end of October.
- At the conclusion of the audit, the independent auditor and City staff presents the annual results of the audit to the Governance and Accountability Committee.
- Governance and Accountability Committee reports to the full governing body on the annual financial statements and independent auditor's reports.

Governance & Accountability

2014 Meeting Schedule

4th Monday from 12:00 p.m. to 1:30 p.m. in Room 280
Unless otherwise noted

February 24

March 24

April 28

Tues., May 27*

June 23 @ 2:00 p.m.**

July 28

August 25

September 22

October 27

November 24

December 22

Notes:

* May 26 is Memorial Day, moving meeting to Tuesday

** June 23 at noon is City Manager's Quarterly Briefing – adjusting time