



Charlotte City Council

Governance & Accountability Committee

Meeting Summary for April 28, 2014

COMMITTEE AGENDA TOPICS

- I. **Subject:** City Manager and City Attorney Performance Review Process
- II. **Subject:** External Audit Update
- III. **Subject:** Internal Audit Update
- IV. **Subject:** Discuss Processes for Addressing Ethical Issues
- V. **Subject:** Next Meeting
Action: Monday, June 23, 2014 at 12:00 noon in Conference Room 280

COMMITTEE INFORMATION

Present: Council members Howard, Mayfield, Autry, Kinsey, Phipps
Other: -
Time: 12:00 p.m. to 2:18 p.m.

ATTACHMENTS

1. Agenda Package

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DISCUSSION HIGHLIGHTS

Committee Chair Councilman David Howard called the meeting to order and asked those in attendance to introduce themselves. He then handed the meeting over to City Manager Ron Carlee to discuss the City Manager and City Attorney Performance Review Process.

I. City Manager & City Attorney Performance Reviews Process

City Manager Ron Carlee discussed with the group a proposal that was sent and now being impacted based on the series of discussions that have already taken place as well as a natural timeline that we tried to incorporate ideas that have come up over the years with experiences some people may have had. Councilman David Howard (Chair) would like to ask the committee to take this item step by step based on the amount of time that has already been spent on this topic. Bob Hagemann said he wanted to add that based on the information shared on the Draft Process for City Manager / City Attorney Performance Reviews sheet the processes before them are identical as we discuss the City Manager and City Attorney. However the processes are different for the Chair and Vice Chair. He wants to recognize that the jobs are different and the Manager is in the position to develop a work plan performance to be measured against it because he carries out the Council's policy and initiates things where as the Attorney's role is largely reactive and more difficult to see in advance what can be accomplished because events usually drive that. City Attorney Bob Hagemann wanted to note that difference between the two positions. Councilman David Howard (Chair) informed the committee that he & Councilwoman LaWanna Mayfield met with the City Attorney, City Manager, Chief of Staff Carol Jennings and Cheryl to discuss the process and the idea of changing it. Based on that discussion Councilman David Howard (Chair) plans to tweak this year's process somewhat and will reconvene later to evaluate what additional things can be done as well as recognize roles are different and approach may be different. Councilman David Howard (Chair)'s whole idea to meet was to get more information in front of Council regarding immediate sub ordinance as well as outside evaluations as part of the process. So this may evolve again next year just to be advised. Ron Carlee and Bob Hagemann then continued the conversation and guided the Committee through the (attached) Draft sheet. Councilman David Howard (Chair) noted that the goal was to take all feedback and individual comments of the review / surveys from Council to capture what the majority wanted to discuss and figure out a consensus. Councilman David Howard (Chair) noted that in years past some Council members felt "some sort of way" and was later allowed (unofficial) one-offs but Councilman David Howard (Chair) wanted to make individual after evaluations official so that those feelings can be discussed and time allotted with the City Manager. Councilman David Howard (Chair) also asked the committee to agree to allow a new sharing process (during the evaluation meeting) for the City Manager and Attorney to share and clarify their entire verbal report with the only questions allowed for clarifications and then later to discuss within themselves what they would like to evaluate on. Attorney Hagemann mentioned that most significantly he would like to get ahead of the curve next year around assessing the process and agreeing as to what key dimensions are that they reevaluate priorities

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and expectations of the Council. Councilman David Howard (Chair) asked the City Manager to share his plans to help frame a work plan. Councilman David Howard (Chair) is trying to go into next year with set expectations, goals and objectives. The City Manager responded with two important elements of guidance from the Council that will direct his work: Strategic and Operational. At the strategic level are the Focus Areas and the work surrounding around the retreat to align those with Council's overall vision and priorities across the entire organization. The second piece is operational which is essentially embodied in the annual budget which provides operational oversight around day to day services. Councilman David Howard (Chair) said hopefully this process will be handled differently after going through the planning process and with very few tweaks if done right the process should closely mirror what has been discussed over the past three years for the next evaluation. Bob Hagemann noted that unlike the City Manager he does not have a strategic role so he does not anticipate his work plan in advance of a year will be as fleshed out as the Manager's work plan but he is open to ideas. Bob does have thoughts about the survey that has been used over the past several years and he made a suggestion to restructure and reorganize factors that evaluates his work and his office's work for the organization. Hagemann plans to make a proposal by the first deadline on May 27th. Councilman David Howard (Chair) believes that there will be a more comprehensive plan as well as one that's more geared toward exactly the work that is done because the others have been really broad. Councilman David Howard (Chair) asked for input then a recommendation to propose the timeline (that was in front of them) be recommended to Council to move forward starting next month. Councilwoman LaWana Mayfield noted the motion to move forward with proposed timeline. All others in attendance were in favor of the recommendation. Chief of Staff Carol Jennings mentioned in order to accomplish expectations discussed within timeline that there will be new dates placed on calendars to do City Attorney's evaluation in August and City Manager's evaluation in July.

II. External Audit Update

Greg Gaskins shared a PowerPoint Presentation prepared by Finance which explains Finance's role in the Audit Process as well as highlights an overview of the responsibilities of the Governance and Accountability Committee serving as the official Audit Committee of the City working directly with external audit. (See attached) Greg Gaskins informed the committee that in addition to his presentation, External Auditors Cherry Bekaert will be presenting their preliminary plans for review of the fiscal year 2014 audit for the Committee during this meeting. His topics and comments are as follows:

Finance's Role in the Audit Process

Greg Gaskins shared the duties of the Chief Financial Officer as well as Finance's role in the Audit Process under the laws of North Carolina. He informed the committee that the CFO is legally responsible for establishing the accounting system and preparing financial reports. The CFO is required to maintain the accounts of the City in accordance with generally accepted principles of governmental accounting and the rules and regulations of the Local Government

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Commission (LGC). The City is required to have an annual external audit and the CFO must file it with the LGC. The CFO also has to consider special requirements from other organizations and users.

Characteristics of Excellent Comprehensive Annual Fiscal Report (CAFR)

The requirement for the Comprehensive Annual Financial Report is to have an unmodified “clean” audit opinion by External Auditor (which has been for years). This is very important for measuring where the City is from a fiscal status standpoint and from a transparency standpoint. Greg noted that the City has been consistent with this for many years.

The City received the 28th consecutive award for its FY12 Government Finance Officer’s Certificate of Achievement for Excellence in Financial Reporting. The FY13 CAFR has been submitted for review. Hyong Yi asked Greg Gaskins to define the word “clean” when discussing the audit because it is more of an industry term. Greg informed him the External Auditors would define that for him later in the discussion when they present.

Greg noted that along with the Committee and citizens the Primary External Users of the CAFR are:

- NC Local Government Commission
- Rating agencies
- Bond Trustee
- Investors
- SEC / MSRB / EMMA
- Grantor Agencies

NC Local Government Commission (LGC)

The LGC is very important because it has a lot of regulatory authority over local governments in North Carolina. The LGC supervises whether the City is in compliance with NCGS 159. Greg notes that it is very important that LGC must have the Comprehensive Annual Financial Report (CAFR) by October 31st or they will not approve new debt issues. Councilman Howard (Chair) asked Greg Gaskins that he recently heard that not every state has a local government and Greg Gaskins confirmed that to be true and said that it is a very small number and widely disbursed group. Councilman Howard (Chair) was interested to know about Greg in (relation to) his former role and what he thought about having a NC Local Government Commission. Councilman Howard (Chair) was wondering if it was something that should be added to the legislative agenda. Greg responded that he believes it to be the most unique and positive agency and local government in the world, not just in the USA because it sets up fundamental best practices and supports them and has resulted in NC having more statewide Triple A good credits amongst

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localities more than any other comparable state in the Union. When dealing with premiums on bonds, NC has been able to sell their debt at the lowest rates called for despite the nature of debt primarily because of the framework established by the LGC, so it has been very positive and in Greg's opinion there has been no negative. Ron Carlee stated that this was a little surprise when coming to NC but he agrees with Greg Gaskins that the LGC provides a consistent level of insurance that goes beyond the three rating agencies and provides an additional gold star that does ensure that NC gets the lowest possible debt cost imaginable.

Rating Agencies

The three main rating agencies are Standard and Poor (S&P), Moody's and Fitch. A credit rating is an independent opinion on creditworthiness of an obligor, or of particular debt security. Credit ratings reflect the City's ability to continue to participate in the public bond markets while obtaining the lowest interest rate costs available. Rating agencies use the Comprehensive Annual Financial Report (CAFR) to conduct their evaluation of the issuer credit strength / risk. Rating agencies also use the CAFR and continuing disclosures as part of their ongoing rating of the debt while the debt is still outstanding.

Bond Trustees

Bond trustees act in a fiduciary role for the benefit of bondholders in enforcing the terms of bond covenants. They transmit principal and interest received from the City for payment to the bondholders as well as represents the interests of bondholders in the event of a default. Bond Trustees uses the Comprehensive Annual Financial Report (CAFR) and continuing disclosures to determine the compliance with bond covenants. Councilman Howard (Chair) wanted to know who decides who the Bond Trustee is and Greg Gaskins informed him that the current Bond Trustee was selected by an RFP process selected on the basis of services provided and their rate. A Special Bond Trustee will only be utilized and related to that particular bond issue. Councilman Howard (Chair) asked if there was only one Bond Trustee which includes the Airport and Greg Gaskins confirmed that it was only one and it was U.S. Bank. Councilman Howard (Chair) wants to ensure that the City has one voice for all the bonds and how it affects the City so that it does not conflict. Greg Gaskins noted that currently there is only one.

Investors

Greg Gaskins and Mr. Brent Cagel attended a Transportation Forum in NY to meet with various Primary Investors who wanted to talk with them. Primary Investors of Municipal Bonds are individuals (45%), Mutual Funds (28%), Banks / Other (15%) and Insurance Companies (12%). In addition to using the rating agency reports, it is not uncommon for certain investors to conduct their own independent evaluation and the Comprehensive Annual Financial Report (CAFR) is an

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important source of information. Big agencies are doing their own investigations and it is not uncommon especially in the last two years.

Securities and Exchange Commission (SEC) / Municipal Securities Rulemaking Board (MSRB)

SEC and MSRB have taken greater scrutiny of public securities in the aftermath of 2008 crisis particularly the Electronic Municipal Market Access (EMMA) for continuing disclosure. Comprehensive Annual Financial Report (CAFR) pages included in official statement (OS is required for debt issues >\$1 Million). Comprehensive Annual Financial Report (CAFR) must be issued by January 31st for compliance with Federal rules. Failure to file by the deadline is a material event requiring a material event notice in EMMA, and reporting in any OS issued during the next 5 years. Failure to file by the deadline requires a letter to LGC staff explaining why the deadline was missed; the letter will go to the LGC for any debt issuance requested until disclosure is completed. Greg Gaskins informed the Committee that the EMMA notice requirements are on us and we (the Bond Council) must file and are responsible for making sure things are correct so we must pay attention to what is being said negatively so that we don't have a problem in meeting compliance standpoint. The moment the City hears something is said negatively, which is a substantial issue; an Emma Notice must be filed. This is a very new serious information transparency issue that did not exist until about two years ago. Deputy Robert Campbell informed the Committee about the importance of filing the SEC and EMMA notice based on a particular situation that occurred in Harrisburg, PA where they financed an incinerator and did not make payments. Greg Gaskins noted that you do not want to cross the SEC so it is important to pay attention to proper reporting.

Grantor Agencies

Greg Gaskins informed the committee that all of the grants have a significant number of requirements. NCGS 159-34 requires a "single audit" which is an audit of compliance with all applicable federal and State agency regulations and grants awards. The single audit section of the Comprehensive Annual Financial Report (CAFR) is used by Federal and State grantor agencies to determine compliance with grant agreements. Grantor agencies also reconcile amounts in the Comprehensive Annual Financial Report (CAFR) to amounts accruing to their records and will contact the City if the amounts do not agree.

FY14 Comprehensive Annual Financial Report (CAFR) / ERP

Work has begun for preparation of the FY14 Comprehensive Annual Financial Report (CAFR). Theresa Smith is one of the leads for this work load. This year will be a greater challenge because this is the first time that a new ERP System is being implemented in over 35-36 years. The FY14 Comprehensive Annual Financial Report (CAFR) will be a challenge due to the simultaneous implementation of the ERP system. The ERP system includes most of the financial

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system components such as procurement, accounts payable, project accounting, grant accounting, general ledger and fixed assets. Beginning in July 2014, the ERP system will become the systems of record for all future financial transactions. The FY15 Comprehensive Annual Financial Report (CAFR) will be prepared using financial reports from the ERP system. Will run new system parallel with the old system (in the beginning) for a while. Councilman Howard (Chair) posed the question if we will run parallel for a while and Greg Gaskins confirmed that we will especially in the beginning. He is fully aware that only 60% of most new systems work properly at first try. Plans to keep both systems running until most issues are resolved.

2014 Audit Plan Presentation (attached)

Eddie Burke, CPA and Scott McKay from Cherry Bekaert LLP are in attendance to discuss the new schedule and their plan of attack on how they will go about approaching the audit. Currently in planning stages of the audit. Eddie Burke discussed the following topics:

Comprehensive Annual Financial Report (CAFR) Responsibility:

The City and City Council is the one primarily responsible for the financial statements and making sure the financial statements are issued and fairly stated and deadlines are met. Cherry Bekaert is hired to issue an opinion on those statements. Cherry Bekaert works through various departments but reports to the Governance and Accountability Committee.

Cherry Bekaert Client Service Team:

Eddie Burke will serve on the Engagement Team and will be responsible to ensure that the timeline and audit plan is well executed and that they comply with the standards and meet deadlines. *Michelle Thompson* (Concurring Reviewer) will review financial statements like an outside 3rd party user and verify that Cherry Bekaert has followed firm policy. *Troy Shadoin* is the Audit Manager who is familiar with the departments and people within the organization. *Scott McKay* is in charge of the ERP implementation and is in attendance today.

Role of the External Auditor

Cherry Berkaert is required under the standards to plan and perform an audit in accordance with the (4 Opinions) Generally Accepted Auditing Standards, Government Auditing Standards, OMB Circular A-133 and The State Single Audit Implementation Act. Cherry Berkaert must express an opinion on the City's Financial Statements. Cherry Berkaert will review statements from the Governance side to the Transaction Side. If certain matters arise Cherry Berkaert must communicate certain matters to management and the audit committee regarding: Cherry Bekaert's independence, changes to the City's significant accounting policies and Management's judgments and accounting estimates. The external auditor's procedures are designed to measure,

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mitigate and evaluate three basic RISKS such as Inherent (Cash & Cash Equivalent), Control (Review and evaluate internal Control process) and Substantive (Audit Failure). Councilman David Howard (Chair) asked whether Cherry Bekaert used the Internal Audits report and Cherry Berkaert advised that they use Internal Audits Reports, City Council meeting minutes as well as monitoring of 3rd party reports. They pull information from various sources for people coming in and evaluating the process. Councilman David Howard (Chair) asked if the turn of last month's events (with the past Mayor) was significant enough to report or if it caused any concern regarding negative reporting. Greg Gaskins and Eddie Burke confirmed that the activities caused concern as a RISK factor; action was taken and is currently being closely monitored. Procedures will be performed to evaluate the risks but currently the events have not negatively impacted the City in that particular manner to date.

Action: Councilman Howard (Chair) asked the Committee to complete an internal and external audit report for the public (of how it affects the City) to show the community that we followed up on the negative events of the past Mayor and the matter is being handled properly.

Audit Approach and Methodology

In order to issue a set of financial statements it is an evidence gathering process. Cherry Berkaert gathers evidence in two ways: Internal Controls which includes Information Technology and Financial Business Processes. The second is Substantive Testing which includes Analytic Procedures (Relationship Testing) and Test of Details (Review of invoices and contracts).

Internal Control Testing Plan

Internal Control Testing Plan has several processes. Information Technology is the first in which Cherry Bekaert will identify and test key General Computer Controls of the IT systems that support the accounting applications and accounting data. The major areas that Bekaert will be looking at are: IT Level Controls, Back Up and Recovery Controls, Access and Security Controls, Network Security Controls, Program Change Management Controls and Systems Development Life Cycle Controls. The second is the Financial Process in which Cherry Bekaert will identify and test Business Cycle Controls, (both manual and automated), that mitigate the risk of financial statement errors. The major Business Cycles we CB has identified are: Treasury, Revenues and Receivables, Capital Assets, Debt / Derivative Instruments, Payroll, Expenditures and preparation of Schedule of Expenditures of Federal and State Awards (SEFSA) and Financial Closing and Reporting. Eddie Burke notes that primarily none of the Business Cycles mentioned should be a surprise to the City due to the large dollar amount of the items noted. Cherry Bekaert believes the results of internal control will drive the level and timing of substantive testing procedures.

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Overview of ERP Implementation

The City is in the process of implementing the MUNIS Enterprise Resource Planning (ERP) System which represents a material change to internal controls. Eddie Burke noted heavily that that this is implementation that the City must get right. Councilman David Howard (Chair) asked if the Enterprise Funds for this implementation included the Airport (and its antiquated system) and if there were any concerns of varying levels of financial rating across the department. Greg Gaskins responded that because the Airport posed more of a risk there was a pre implementation performed with the Airport. Ron Carlee also noted that the Director of the Airport was aware of what was needed for successful implementation. Ron Carlee noted that he felt good about implementation readiness there. Scott McKay joined and resumed the conversation. He advised the City that they are not alone with implementing a new system. Councilwoman Mayfield stated that she would like to make sure the City identifies routines and commits to keeping the City at the forefront of technology. Ron Carlee added that it is an important goal that the City is making appropriate upgrades. Greg Gaskins said the last two system implementations were in 1991 and 1998.

Scott McKay informed the Committee that the IT General Control Framework used to implement Systems are: Training, Test Plan, Implementation Plan, Test Environment, Systems and Data Conversion, Tests of Changes, Final Acceptance Tests, Promotion to Production and Review for compliance with NCGS Chapter 159 and OMB A – 133 and A-87.

The Post ERP Implementation Procedures are to focus on system cutover, interface testing and controls governing NCGS Chapter 159, OMB A – 133 and OMB A-87. Also, increase focus will be on IT general control maturity and governance over the MUNIS ERP and related controls. Areas of Focus are GASB Compliance, Cash and Investments, Receivables and Revenue, Capital Assets, Payroll, Debt, Derivative instruments and hedging activities, Single Audit, Litigation, other judgments and estimates, SAS 99 Fraud procedures and General Computer Controls.

Audit Timeline

Pre Implementation is January through July 2014. Scott McKay believes a Pre-implementation is a very effective and important way to minimize complications. Post Implementation will occur in July until a later to be determined date. Planning and Internal Control Walkthroughs will be in May 2014. Single Audit Testing is September 2014. Final Fieldwork and CAFR Review is September through October 2014. Scott noted that the City's biggest risk when dealing with the audit timeline is not introducing anymore changes because the City doesn't have any more time to include them at this point in the process.

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GASB Standards

The key areas of focus from a reporting perspective over the best couple of years regarding the GASB are GASB Compliance, Cash and Investments, Receivables and Revenue, Capital Assets, Payroll, Debt, Derivative instruments and hedging activities, Litigation, other judgments and estimates, SAS 99 Fraud Procedures, General Computer Controls and Single Audits.

From a Single audit perspective there is a separate set of rule requirements from State and Federal requirement perspective. As part of that process Cherry Berkaert will evaluate and select programs that are larger, newer, big volume or pose higher risks to the City. They will go through administrative controls review to make sure the City is administering grants in accordance to the requirements. There will also be compliance testing as well as End Reports that will indicate what Berkaert's findings were. Cherry Bekaert is looking to do Data and Analytics to find trends and patterns within the City like double payments, payroll, verifying/matching addresses in invoices and other items similar that will address fraud.

From a reporting perspective, all three of the New GASB standards will affect the City at some point. The New GASB Statements for FY14 – GASB 69 Government Combinations and Disposals of Government Operations (For periods after 12/15/13) will potentially affect the Airport. New GASB Statements for AFTER FY 14 – GASB 67 Financial Reporting for Pension Plans – an amendment of GASB 25 (For periods after 6/15/13) will affect Fire Fighters' financial statements. The GASB 68 Accounting and Financial Reporting for Pensions – an amendment of GASB 27 (For periods after 6/15/14) will affect all City employees inside the state retirement system next fiscal year. Multiple employer plans will take unfunded liability, allocate and spread to all participating governments across the state. Process is well under way and current projection is State of NC will be funded 90-95%. The system is currently highest funded retirement system in the nation. Allocated portion of the City's liability will pop up on financial statement sometime next year.

Greg Gaskins asked Scott McKay to explain Clean Opinion. Scott informed the committee that Clean (unmodified) Opinion used to be called "Unqualified Opinion" but term was changed two years ago due to new standards. The Clean Opinion is the highest level of assurance an auditor can provide on a set of financial statements. It means it believes a 3rd party auditor can rely on your financial statement. Greg Gaskin's recommendation to the Committee is that when the plan (just presented) is ready that the City would come back and present the plan. At the end of the presentation both Councilwoman Patsy Kinsey and Councilwoman LaWanna Mayfield thanked Greg Gaskins and the firm Cherry Berkaert for all their hard work during this process and for allowing Charlotte the opportunity to remain in a great position financially. Everyone wished Greg Gaskins well wishes since he will be retiring soon.

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III. Internal Audit

Greg McDowell began his discussion advising the Committee that he would like to begin issuing reports directly to Council members as completed in the future. In doing so this should allow for monthly packets to be smaller. Councilman David Howard (Chair) made a suggestion that when submitting new and important information to Council that a cover letter or memo be included that explains the purpose of the added item. The suggestion was appreciated and duly noted. Greg McDowell also informed the Committee that Recommendation Status Reports will now continue on a quarterly basis (if approved) since much information does not change. No information will be removed unless he (Greg McDowell) is satisfied that it has been completed and/or the report has been approved. Important findings will be in issued reports and noted on a cover letter. Monthly meetings will then be for review as opposed to first time notifications regarding that item.

Highlights of Business Tax Audit Follow-Up (attached)

An Internal Audit has completed a follow-up to a previous audit of business taxes. The 2012 audit reviewed the completeness of the City's business tax revenues. Those revenues are collected for the City by Mecklenburg County's Office of the Tax Collector (OTC), pursuant to an inter-local agreement.

The conclusion was the County OTC continues to collect significant business tax revenues for the City, with collections of this type growing to \$87.7 million in FY 2013, from \$76.2 million in FY 2011, an aggregate increase of 15%.

Despite the inability of this audit to connect specific actions taken with increased revenues, it is concluded that the County has addresses the concerns raised in 2012. As the specific audit findings address, the County has improved upon an already effective identification and collection process for business taxes.

Upon reading the information provided in the summary results Councilman Greg Phipps was concerned about the verbiage in the document that stated "based upon our samples, Business Privilege License Tax (BPLT) compliance appears to have improved". He feels the language is non-definitive and can be misinterpreted in the direction the City wants to go. He would like for the language to be more descriptive and definitive if possible. Greg McDowell noted that based on samples that were not statistically valid in this instance he had to labor over some of his wording. He understood Councilman Phipps' perspective but he had to be very careful about what's described and what's definitive because the samples chosen improved but they chose a different sampling methodology this time so there was no way to make a direct, definitive comparison.

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Audit report noted that the City was satisfied.

Audits in Progress

Greg McDowell informed the Committee that not much has changed regarding the Audits in progress. He noted that *Fare Evasion Fine Collections* audit is moving forward more quickly. The external auditors Cherry Berkaert pointed out a couple things the City should look at regarding embezzlement by CATS contractor employees. Greg McDowell will be discussing a draft report with CATS personnel very soon. The *Citywide Cash Collections* audit is also moving forward quickly. Greg would like to get the report in the hands of our outside auditors, Cherry Berkaert to review issues addressed by the City and determine whether or not it will impact their audit.

Updates on Upcoming Reports

Councilman David Howard (Chair) asked Greg McDowell that if he wanted to follow from one report to the next will the names stay the same. Greg McDowell confirmed that they would. Councilman Howard (Chair) then asked if every audit has a number. Greg McDowell responded that the audit reports do not have numbers but they could if he wanted them to. Greg McDowell suggested color coding any changes noted from month to month. Councilman Howard (Chair) suggested that a column be added on the chart layout which reflects a change has been made from report to report. Greg McDowell agreed to that suggestion and will make changes for future reports.

Employee Hotline

Issued an RFP. Proposals came in last Thursday (5/22). A group came in this morning to review proposals. Currently on track to have an Employee Hotline that will begin operating effectively on July 1, 2014. Addressing legal issues and coordinating internally.

IV. Discuss Processes for Addressing Ethical Issues

Councilman David Howard (Chair) opened the discussion regarding the rollout of a new Employee Hotline operating effectively by July 1st. Councilman David Howard (Chair) then requested that Carol Jennings lead the conversation regarding potential areas of review and processes.

Review of Processes:

1. Review of Council Ethic's Policy
2. Review of Rezoning Process

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3. Review of Bid Process including processes used by Citi Financial Partners such as CRVA & Center City Partners
4. Review of Permitting Processes (City & County)
5. Employee Hot Line Rollout

ACTION: Councilman David Howard (Chair) would like to make the following recommendations to Council:

1. Employee Hotline

- a. Councilman David Howard (Chair) suggests we cover all legal aspects of the rollout as well as stay out of the way of the Federal investigation that is taking place. Councilman David Howard (Chair) would like to coordinate efforts in line with the Federal Government.
- b. Councilman David Howard (Chair) noted that Ron Carlee Communicated to Council that they we looking into it. Will take info from discussion and circulate ideas that have been agreed upon with Council.

2. Whistleblower Policy Reminder to Staff

- a. Remind staff about Whistle Blowers Policy if they ever feel like they need to relate to Management or City Council.

3. Ethics Training

- a. Have Attorney Bob Hagemann review and get report back as to how often training is needed / required to see if there is some strengthening that can be done.

4. Zoning Permitting Process Review

- a. Would like to develop ways to strengthen loopholes that will not allow undue influence
- b. City and County Staff Task Force will be a good place to expand charge in addition to streamlining but also strengthen to not allow strong outside influences on processes
- c. Ron Carlee agrees and noted that adequate checks and balances need to be set in place. Currently waiting for completion of Federal investigation before doing an internal investigation. Ron Carlee will specifically identify and investigate issues that have been raised in affidavit.

5. Review Bid Process with Financial Partners

- a. Councilman David Howard (Chair) would like for Council to look into this especially concerning CRVA.

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6. Review Ethics Policy

- a. Would make sense to discuss with all Council Members one -on -one over the next month to ensure that the feedback / thoughts he is receiving is consistent and reliable with what he is hearing.
- b. Hagemann will send a copy at Councilman David Howard (Chair)'s request to Council to remind them of the process and when it was set in place. Action: Will send out within the next two days.

***Motions & a Second Regarding Review of Processes:**

1. Review of Rezoning Process / Review of Permitting Processes

To ask that the idea of adding checks and balances to the charge of the staff committee that is looking into streamlining permitting to actually look for recommendations for checks and balances as well. Councilman David Howard (Chair) noted that it should be clear that he is asking for checks in balances in permitting and rezoning process. Action: Hagemann confirmed he would handle that.

2. Employee Hot Line Rollout / Whistleblowers Policy

Share information with employees at City Manager's discretion via email or however he chooses.

3. Ethics Training

Councilman David Howard (Chair) asked Bob Hagemann to look into ethics training requirements to see how we can strengthen it.

*Meeting Adjourned

Governance & Accountability Committee

Monday, April 28, 2014 – 12:00 noon

Room 280

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

Staff Resource: Hyong Yi, Assistant City Manager

AGENDA

I. City Manager and City Attorney Performance Reviews Process

Staff Resource: Sheila Simpson

Discuss draft process for City Manager and City Attorney performance reviews (attachment)

II. External Audit Update

Staff Resources: Greg Gaskins, Robert Campbell and Eddie Burke, Cherry Bekaert

Discuss Finance's role in the audit process (*Gaskins/Campbell*)

Discuss External Audit and Governance & Accountability Committee's role in the audit process (*Burke*)

III. Internal Audit Update

Staff Resource: Greg McDowell

Receive as information a monthly update from Internal Audit (attachment)

IV. Discuss Processes for Addressing Ethical Issues

Staff Resources: Carol Jennings, Hyong Yi

Initial discussion of this subject with Committee.

V. Next Meeting

**Tuesday, May 27, 2014 at 12:00 noon in Room 280

Distribution:

Mayor and City Council
Council Team
Greg McDowell
Sheila Simpson

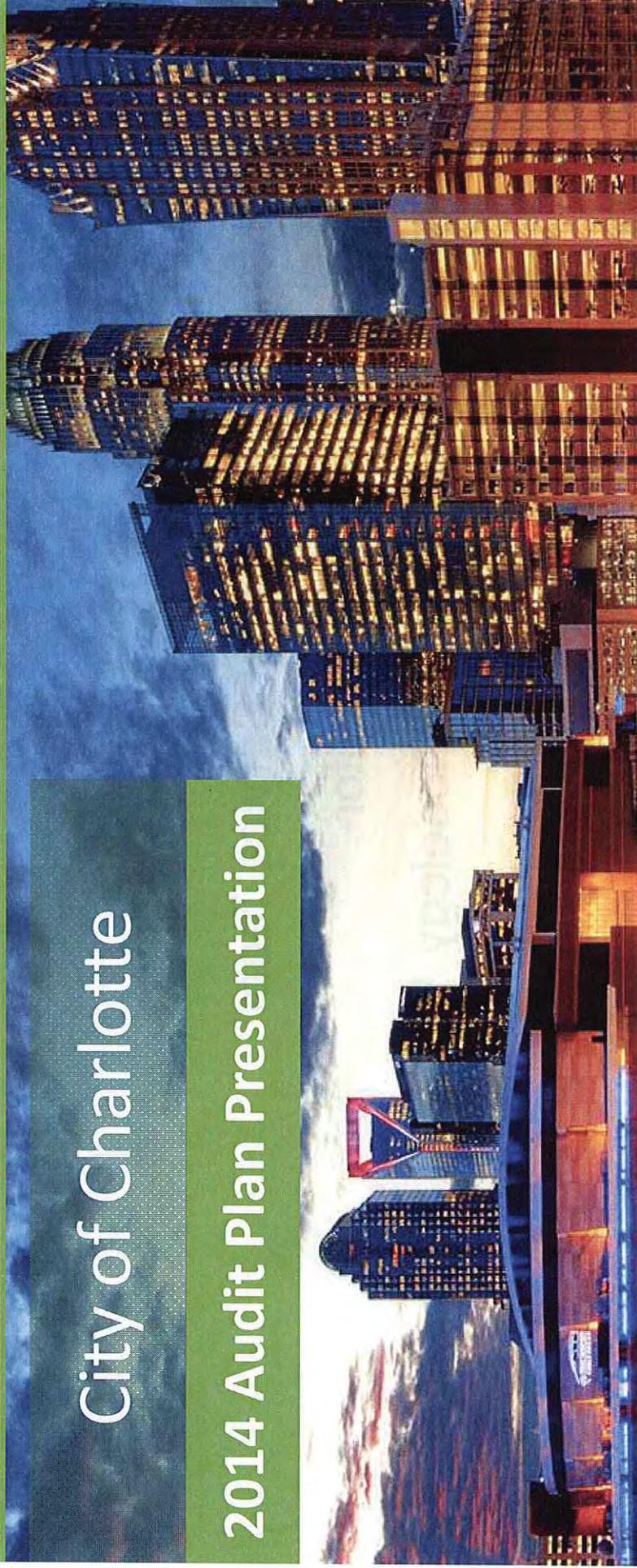
City Manager's Executive Team
Bob Hagemann
Greg Gaskins
Robert Campbell

Corporate Communications
Stephanie Kelly
Cheryl Brown

Your Guide Forward

City of Charlotte

2014 Audit Plan Presentation



Presentation by

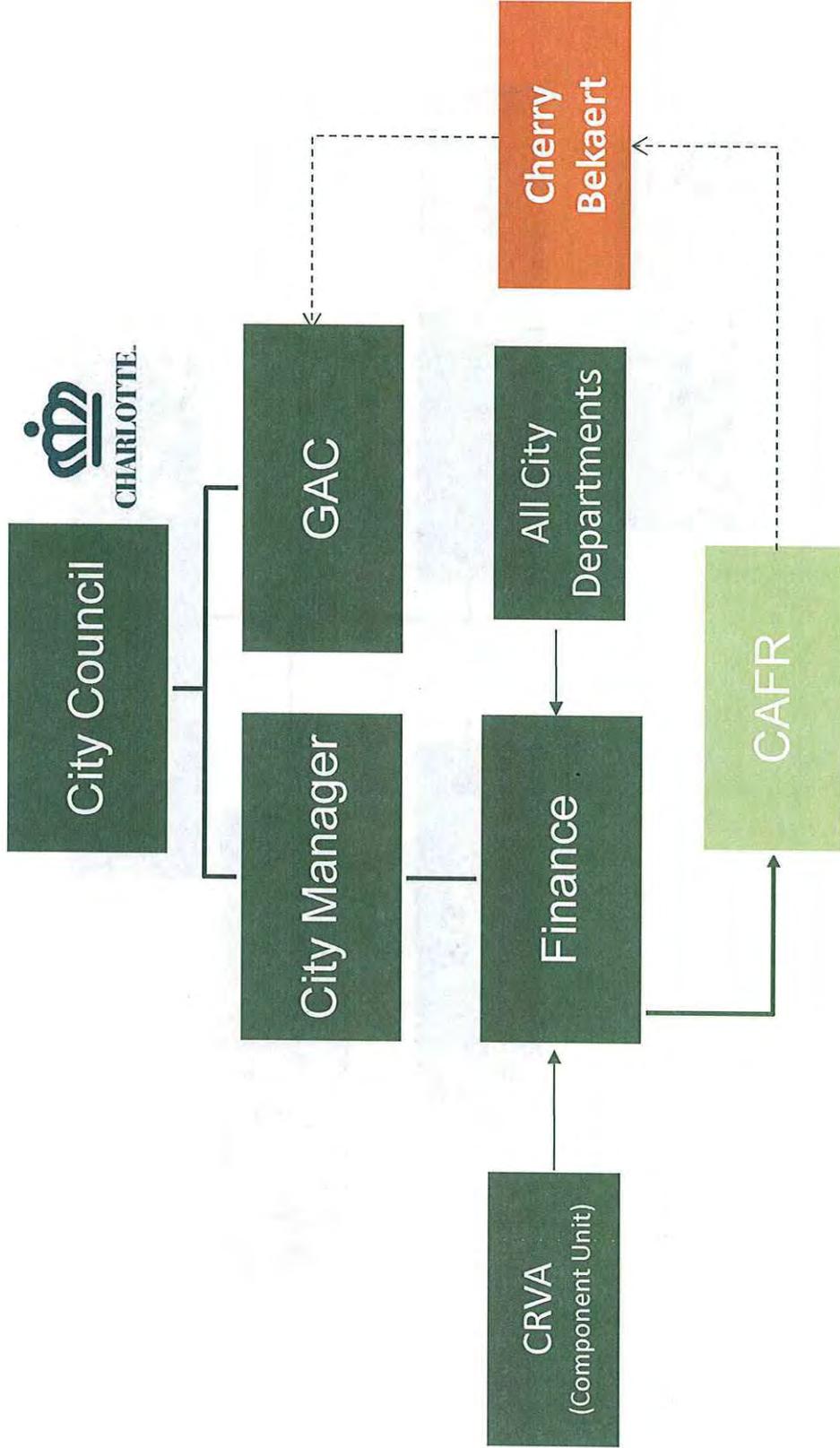
Eddie Burke, CPA | Partner

Cherry Bekaert LLP

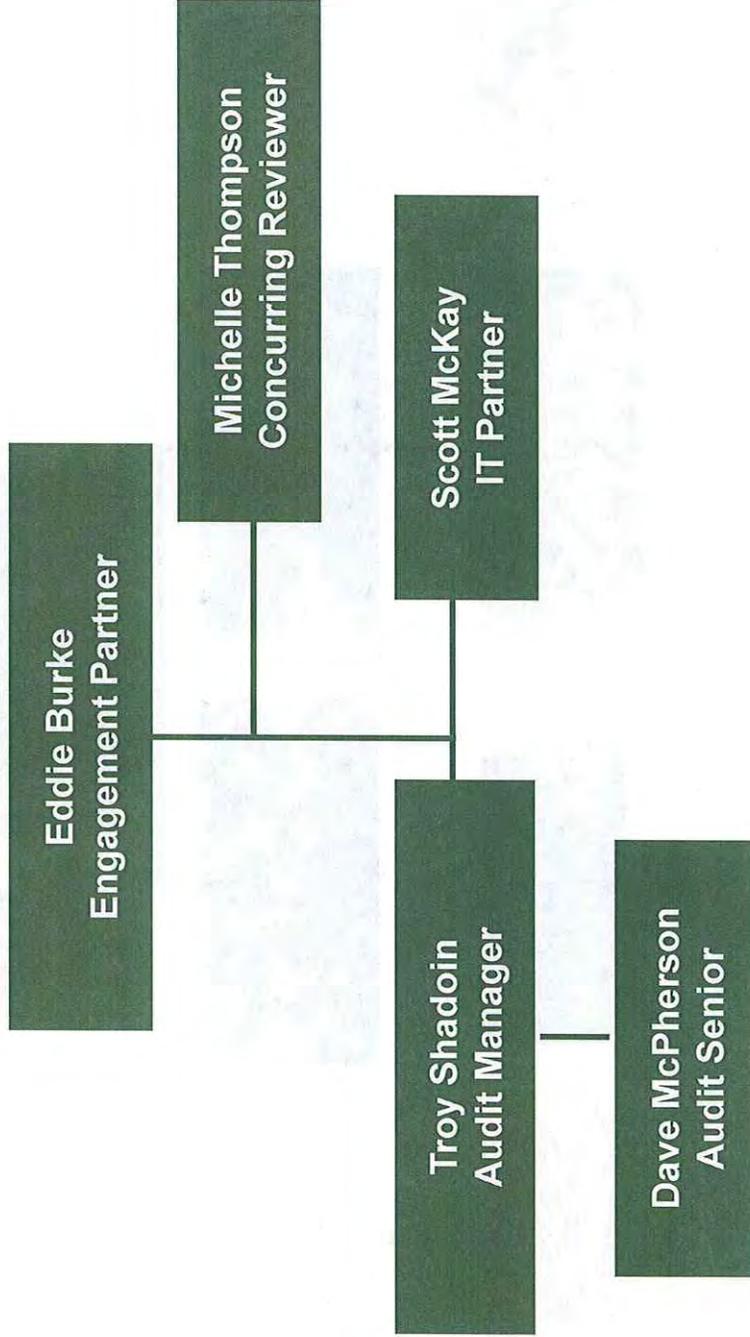
Agenda

- ▶ Comprehensive Annual Financial Report Responsibility
- ▶ Cherry Bekaert Client Service Team
- ▶ Role of the External Auditor
- ▶ Audit Approach and Methodology
- ▶ Audit Risks and Planned Responses
- ▶ Timeline
- ▶ GASB Standards

Comprehensive Annual Financial Report Responsibility



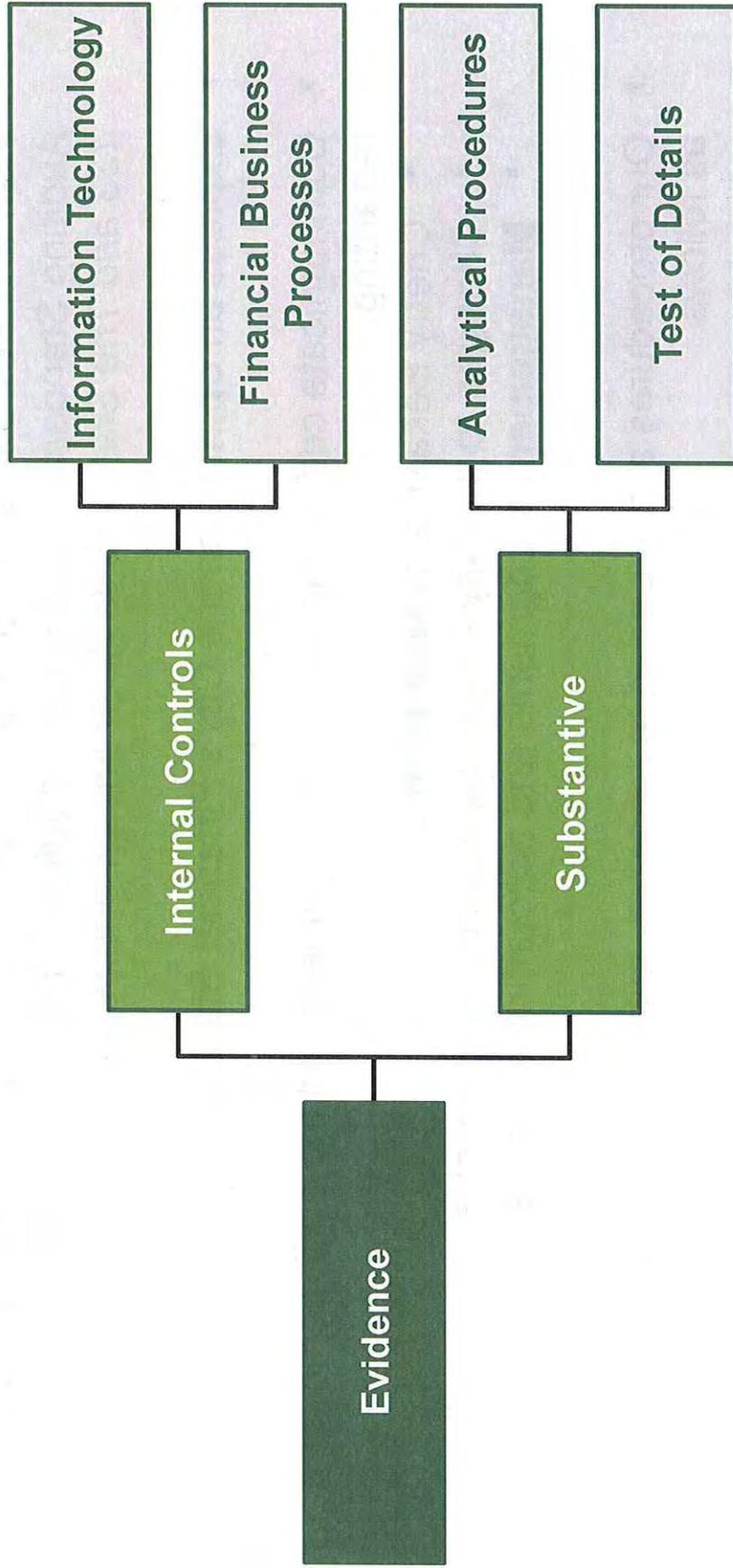
Cherry Bekaert Client Service Team



Role of the External Auditor

- ▶ **Plan and Perform** an audit in accordance with the Generally Accepted Auditing Standards, *Government Auditing Standards*, *OMB Circular A-133* and *The State Single Audit Implementation Act*.
- ▶ Express an **opinion** on the City's Financial Statements.
- ▶ Communicate certain matters to management and the audit committee regarding:
 - **Cherry Bekaert's independence**
 - **Changes** to the City's significant accounting policies
 - **Management's** judgments and accounting estimates.
- ▶ Our procedures are designed to measure, mitigate and evaluate **RISK** as follows:
 - Inherent
 - Control
 - Substantive

Audit Approach & Methodology



Audit Risks & Planned Responses

Internal Control Testing Plan

▶ Information Technology

We identify and test key General Computer Controls of the IT systems that support the accounting applications and accounting data. The major areas that we will be looking at are:

- IT Level Controls
- Back-Up and Recovery Controls
- Access and Security Controls
- Network Security Controls
- Program Change Management Controls
- Systems Development Life-Cycle Controls

▶ Financial Process

We identify and test Business Cycle Controls, (both manual and automated), that mitigate the risk of financial statement errors. The major Business Cycles we have identified are:

- Treasury
- Revenues and Receivables
- Capital Assets
- Debt/Derivative Instruments
- Payroll
- Expenditures and preparation of SEFSA (Schedule of Expenditures of Federal and State Awards)
- Financial Closing and Reporting

▶ Results

The results of internal control testing will drive the level and timing of substantive testing procedures.

Audit Risks & Planned Responses (Continued)

Overview of ERP Implementation

The City is in the process of implementing the Munis Enterprise Resource Planning (ERP) System which represents a material change to Internal Controls.

▶ Pre ERP Implementation Procedures:

IT General Control Framework used to Implement Systems

- Training
 - Test Plan
 - Implementation Plan
 - Test Environment
 - Review for compliance with NCGS Chapter 159 and OMB A-133 and A-87
- Systems and Data Conversion
 - Tests of Changes
 - Final Acceptance Tests
 - Promotion to Production

▶ Post ERP Implementation Procedures

- Focus on system cutover, interface testing and controls governing NCGS Chapter 159, OMB A-133 and OMB A-87.
- Increase focus will be on IT general control maturity and governance over the Munis ERP and related controls.

Audit Risks & Planned Responses (Continued)

Areas of Focus

- ▶ GASB Compliance
 - ▶ Cash and Investments
 - ▶ Receivables and Revenue
 - ▶ Capital Assets
 - ▶ Payroll
 - ▶ Debt
 - ▶ Derivative instruments and hedging activities
- ▶ Single Audit
 - ▶ Litigation
 - ▶ Other Judgments and Estimates
 - ▶ SAS 99 Fraud Procedures
 - ▶ General Computer Controls

Audit Timeline

- ▶ **Pre/Post ERP Implementation**
 - Pre Implementation: January – July 2014
 - Post Implementation: July - TBD
- ▶ **Planning/Internal Control walkthroughs**
 - May 2014
- ▶ **Single Audit Testing**
 - September 2014
- ▶ **Final Fieldwork and CAFR Review**
 - September – October 2014

GASB Standards

NEW GASB STATEMENTS FOR FY 14

GASB 69

Government Combinations and Disposals of Government Operations. (For periods after 12/15/13).

NEW GASB STATEMENTS FOR AFTER FY 14

GASB 67

Financial Reporting for Pension Plans – an amendment of GASB 25. (For periods after 6/15/13)

GASB 68

Accounting and Financial Reporting for Pensions – an amendment of GASB 27. (For periods after 6/15/14).

Contact



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FINANCE

Finance's Role in the Audit Process

Presentation to the Governance and
Accountability Committee (GAC)

April 28, 2014

- Overview of the responsibilities of the Governance and Accountability Committee serving as the official Audit Committee of the City
- The External Auditor will present their preliminary plan for the fiscal year 2014 audit



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Finance's Role in the Audit Process

- The Chief Financial Officer (CFO) is legally responsible for establishing the accounting system and preparing financial reports (NCGS 159-24)
- CFO is required to maintain the accounts of the City in accordance with generally accepted principles of governmental accounting and the rules and regulations of the Local Government Commission (LGC) (NCGS 159-25)
- The City is required to have an annual external audit and the CFO must file it with the LGC (NCGS 159-34)
- The CFO also has to consider special requirements from other organizations and users that are described in the following slides



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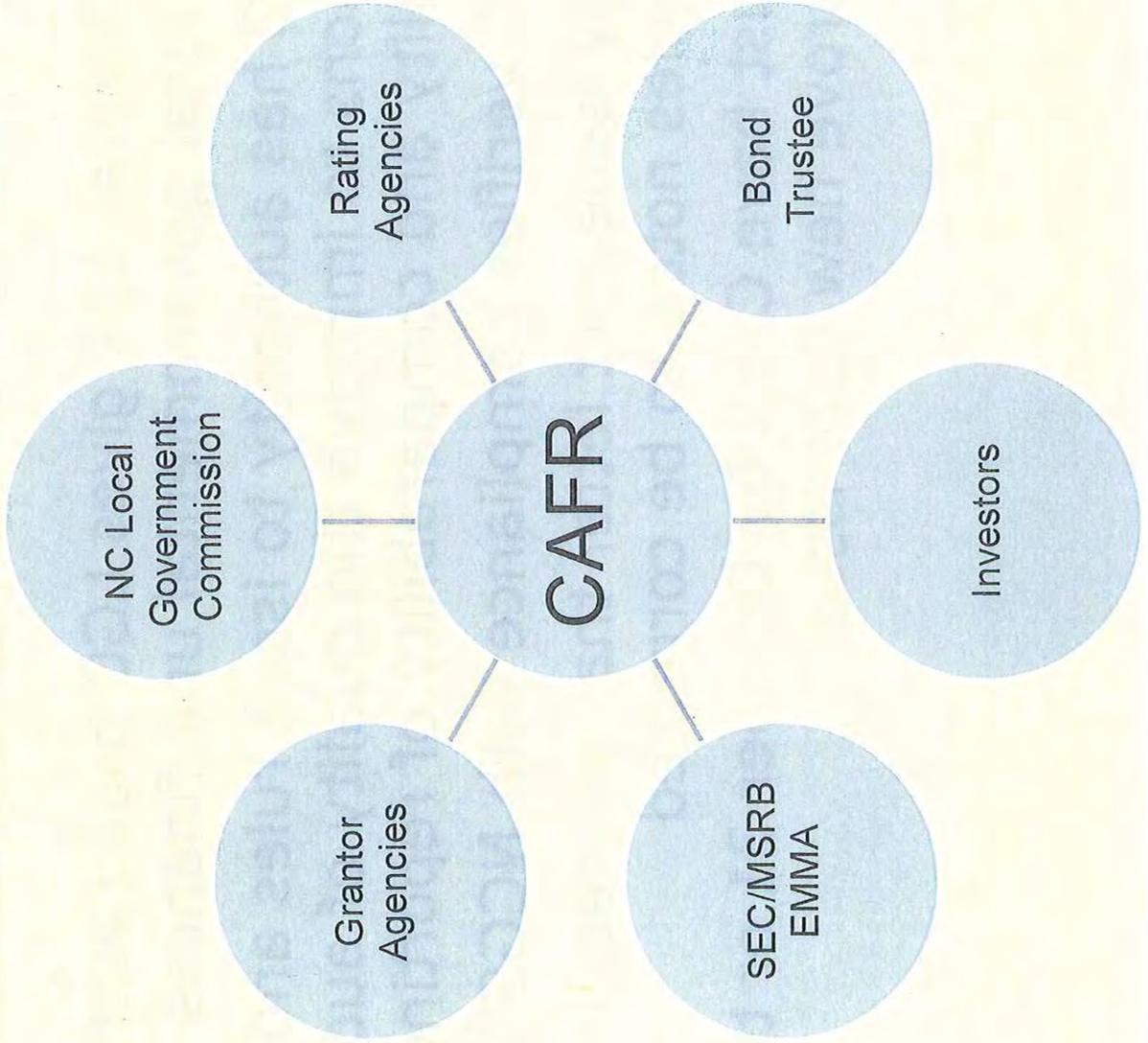
Characteristics of Excellent Comprehensive Annual Financial Report (CAFR)

- Unmodified “clean” audit opinion by External Auditor
- Government Finance Officers’ Certificate of Achievement for Excellence in Financial Reporting
 - CAFR must be easily readable and efficiently organized
 - It must satisfy generally accepted accounting principles (GAAP) and legal requirements
 - The City received the 28th consecutive award for its FY12 CAFR. The FY13 CAFR has been submitted for review.
- Issued in a timely manner



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Primary External Users of the CAFR





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NC Local Government Commission (LGC)

- NCGS Chapter 159 gives LGC broad authority to control local governmental unit finances
- The LGC has authority to issue rules and regulations to improve the quality of auditing and the quality and comparability of reporting
- The LGC verifies compliance with NCGS 159
- LGC may issue unit letter that will require any deficiencies noted to be corrected
- LGC must have CAFR by October 31 or they will not approve new debt issues



Rating Agencies

- The three main rating agencies are Standard and Poor (S&P), Moody's, and Fitch
- A credit rating is an independent opinion on creditworthiness of an obligor, or of particular debt security of an obligor
- Credit ratings reflect the City's ability to continue to participate in the public bond markets while obtaining the lowest interest rate costs available
- Rating agencies use the CAFR to conduct their evaluation of the issuer credit strength/risk
- Rating agencies also use the CAFR and continuing disclosures as part of their ongoing rating of the debt while the debt is still outstanding



Bond Trustee

- Acts in a fiduciary role for the benefit of bondholders in enforcing the terms of bond covenants
- Transmits principal and interest received from the City for payment to the bondholders
- Represents the interests of bondholders in the event of a default
- Uses the CAFR and continuing disclosures to determine compliance with bond covenants



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Investors

- Primary Investors of Municipal Bonds
 - Individuals (45%)
 - Mutual Funds (28%)
 - Banks/Other (15%)
 - Insurance Companies (12%)
- In addition to using rating agency reports, it is not uncommon for certain investors to conduct their own independent evaluation and the CAFR is an important source of information



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Securities and Exchange Commission (SEC)/Municipal
Securities Rulemaking Board (MSRB)

- Electronic Municipal Market Access (EMMA) for continuing disclosure
- CAFR pages included in official statement (OS is required for debt issues >\$1 million)
- CAFR must be issued by January 31 for compliance with Federal rules
- Failure to file by the deadline is a material event requiring a material event notice in EMMA, and reporting in any OS issued during next 5 years
- Failure to file by the deadline requires a letter to LGC staff explaining why the deadline was missed; the letter will go to the LGC for any debt issuance requested until disclosure is completed



Grantor Agencies

- Required by the Single Audit Act of the U.S. Office of Management and Budget Circular A-133
- NCGS 159-34 requires a "single audit" which is an audit of compliance with all applicable federal and State agency regulations and grants awards
- The single audit section of the CAFR is used by federal and State grantor agencies to determine compliance with grant agreements
- Grantor agencies also reconcile amounts in the CAFR to amounts according to their records and will contact the City if the amounts do not agree



- Work has begun for preparation of the FY14 CAFR
- The FY14 CAFR will be a challenge due to the simultaneous implementation of the ERP system
- The ERP system includes most of the financial system components such as procurement, accounts payable, project accounting, grant accounting, general ledger, and fixed assets.
- Beginning in July 2014, the ERP system will become the system of record for all future financial transactions.
- The FY15 CAFR will be prepared using financial reports from the ERP system



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Conclusion

- Questions?
- Presentation by External Auditor