



Charlotte City Council

Governance & Accountability Committee

Meeting Summary for November 24, 2014

COMMITTEE AGENDA TOPICS

- I. **Subject:** City Manager and City Attorney Evaluation Process
- II. **Subject:** Ethics Review
- III. **Subject:** Annual Audit Update
- III. **Subject:** Next Meeting
Monday, January 26, 2015 at noon in Conference Room 280

COMMITTEE INFORMATION

Present: Council Members David Howard, LaWana Mayfield, John Autry, Patsy Kinsey, Greg Phipps
Other (Speakers): Eddie Burke /Cherry Bekaert, Randy Harrington and Robert Campbell
Time: 12:00 p.m. to 1:05 p.m.

ATTACHMENTS

- 1. Agenda Package

Governance & Accountability Committee

Meeting Summary for November 24, 2014

Page 2

DISCUSSION HIGHLIGHTS

Committee Chair Councilman David Howard called the meeting to order and asked those in attendance to introduce themselves.

Howard: We are going to do some reconfiguring on the agenda if you don't mind. We need to postpone the conversation on Ethics Review until the next meeting. We are going to start with the Annual Update.

Annual Audit Update

Staff Resources: Eddie Burke of Cherry Bekaert, Robert Campbell, Teresa Smith

Harrington: The purpose of today is to give you an update on some of the key findings and the process that we used to go through this external audit and then the staff response in terms of some of the initial findings. We don't have the comprehensive annual financial report completed yet. It's in the final stages. We will actually have that ready when we present to the full Council in January. So right now I am going to turn this over to Eddie Burke with Cherry Bekaert, our external auditor, who will be giving an update on their work and their findings.

Burke: First I want to thank you for allowing me to be here today. We are at a point where we wanted to report back to you on the overview of where we are at. Today we are going to try to cover four basic areas. First are the results of our audit. We will cover this on a very high level. Second, was the Audit Areas of focus. These are the areas where we spent a lot of our time. Third, we did a review and evaluation of the Internal Control, not just on the financial side but also on the grant side of it. Finally, from the Required Communications perspective there are certain things in the standards that if they occur we are required to report to the governing body I have a list of things in that particular area and I have a couple of items that I want to bring to your attention. We have completed our audit procedures of the financial statements of the City for the year ended June 30, 2014. Our audit was conducted in accordance with auditing standards generally accepted in the USA and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities. We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The objective of our audit was to obtain reasonable – not absolute – assurance about whether the financial statements are free from material misstatements. The scope of the work performed was substantially the same as that described to you in our engagement letter. We have issued an unmodified opinion of the Financial Statements. In accordance with Government Auditing Standards, we have also issued our report on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. We have issued an unmodified opinion over the Internal Control over Financial

Governance & Accountability Committee

Meeting Summary for November 24, 2014

Page 3

Reporting. In accordance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profits, and the State Single Audit Implementation Act we have also issued our report on our consideration of the City's compliance with requirements of laws, regulations, contracts and federal and state grants that could have a direct and material effect on the determination of the financial statement amounts. All records and information requested by Cherry Bekaert were freely available for our inspection. Management and other personnel provided full cooperation. We have issued an unmodified opinion on the Internal Control over Compliance. As far as areas of focus, Cash and Investments is a very large part of your books. From a revenue and receivables perspective we have reviewed revenue and receivables and confirmed directly with revenue sources the amounts received in the current year.

Howard: How far down in your books do you go for people that owe us?

Harrington: We typically look at the big numbers quite honestly.

Howard: Ok

Harrington: Other areas of focus are Capital Assets, Accounts Payable and Expenses, Accrued Expenses and Payroll and then Debt. Debt is a large number and primarily we confirm the year end balances. We perform a roll forward of debt balances from prior year to current year, confirmed balances with the N.C Local Government Commission (LGC) and test covenants for compliance.

Howard: Do you do the Airport too?

Harrington: Yes the Airport was a part of it.

Howard: So the issue with the IRS was a pretty big issue, how did that fall through the cracks?

Campbell: I just think that was a misunderstanding at the airport about what the rules were. They just didn't realize that those rules were very specific.

Burke: I will tell you that was a hot button raised by the IRS about six or seven years ago and they were looking for very specific things across the country. That was a very targeted area that the IRS was looking at.

Howard. Alright thanks. Keep going.

Burke: We are looking at Internal Controls from a government's perspective all the way down to how you are paying people. There are three basic buckets. First is Material Weakness, second is Significant Deficiency and third is Deficiency in Internal Control. We had one material weakness and one significant deficiency. We identified an expense that should have been reported and accrued in June 30, 2014 in Public Transit fund. I think Management is going to respond as to what happens moving forward.

Phipps: What about prior period issues?

Burke: There was an actual audit performed and they have procedures that they are going to start testing moving forward. There will be a section in a report where we followed up on prior year findings and we will be addressing that it was cleared.

Governance & Accountability Committee

Meeting Summary for November 24, 2014

Page 4

Howard: How do you track it next year so we will know from year to year how things were resolved?

Burke: We will look to see what management does from a controlled environment and we will be expanding their tests in the CIP area especially the departments that were affected. Have I addressed your questions?

Phipps: Yes. Thank you.

Burke: There were certain matters that required to be reported to those charged with Governance. There were no uncorrected misstatements detected as a result of our audit procedures. Also there were no disagreements with management on financial accounting and/or reporting matters and auditing procedures that, if not satisfactorily resolved, would cause a modification of our auditor's report. There were no other issues arising from the audit that we consider significant and relevant to those charged with governance.

Howard: Are there any questions you may want to ask of what we've heard so far? (No response) Alright.

Campbell: Ok so as mentioned earlier the material weakness was some projects in construction in progress that should have been expensed in prior periods. We had some projects in construction in progress that should have been capitalized as storm water systems in prior periods and then in the governmental funds we had some that should have been expensed in prior periods.

Howard: So were they all Storm Water related?

Campbell: The first two were Storm Water and the third was in the General Community Improvement Program. Finding #2, significant deficiency, was accrual adjustments or in other words there were some invoices in 2014 that were charged in 2015. What happened is because of the new system implementation MUNIS Enterprise Resource Planning (ERP) system, certain procedures should have been adjusted during the ERP system implementation period in order to reflect the accrual of payments to the correct fiscal year. As a correction, the FY14 CAFR has been updated to correct for the audit findings so it will be accurately presented. The new MUNIS ERP system includes features that will help with the identification of payments that should be accrued at year end. Finance will also work with departments to ensure that payments related to the reporting fiscal year are accounted for in the correct accounting period.

Howard: OK any other questions about this? (No response) Great job. Thanks.

Harrington: Our next steps are for the first full Council in January, we will come back with a full presentation.

Campbell: I am going to pass out the timeline for kind of where are in the process. (Attached)

Howard: Prior to the full presentation to Council can you brief me and Randy (Harrington) as to what we need to say and know about all these findings so that we are clear as to where we are going with this.

Harrington: Sure

Phipps: In respect to the material weaknesses, can we get a history of material weaknesses. I'm curious if we had multiple material weaknesses in a period.

Governance & Accountability Committee

Meeting Summary for November 24, 2014

Page 5

Howard: How far do you want to go back?

Campbell: This is the first material weakness we ever had.

Howard: I think I would be interested in some history from all of these categories. Can we go back maybe five years?

Campbell: OK.

Howard: OK then let's move on.

City Manager and City Attorney Evaluation Process

Staff Resources: Ron Carlee, Bob Hagemann and Cheryl Brown

Howard: Carol, will you be taking the lead on this?

Jennings: We have been through portions of this and actually the full Council has already met with the City Manager about his evaluation criteria. We have asked for a little bit more back from Bob so that is provided in the materials and then we took the actions of the process and attempted to simplify the process and those are the last two pages. (Attached)

Howard: So, on the Managers' process I definitely recommend that the Council recommend we start at noon and not at 2. I feel rushed.

Jennings: Tonight we have the calendar for the year so when we get to the point of adopting that you may want to adopt that then.

Howard: Ok let me get the support of the committee on that.

Mayfield: I am fine with 12 o'clock.

Howard: Ok so are we voting to recommend?

Jennings: Our plan is that the committee recommend that these two items, the evaluation dimensions and process will go to full Council on December 8th.

Howard: So a motion to forward the criteria for the Manager and the Attorney as well as calendars for the evaluations.

Mayfield: With amendments

Howard: With amendments. I got a motion?

Autry: Second

Howard: I got a second. All in favor by saying "Aye"

Governance & Accountability Committee

Meeting Summary for November 24, 2014

Page 6

All: "Aye"

Howard: Opposed by the same sign

(No response)

Ethics Review

Staff Resource: Bob Hagemann

Howard: We will postpone this until the next meeting. We need to take some feedback into consideration.

Next Meeting:

Jennings: Mr. Chairman would you also like to consider canceling the December 22nd meeting?

Howard: No problem we can meet in January. OK. That's it. Thank you.

Meeting adjourned at 1:25 p.m. ~jcs

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

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

Staff Resource: Carol Jennings, Chief of Staff

AGENDA

- I. **City Manager and City Attorney Evaluation Process**
Staff Resources: Ron Carlee, Bob Hagemann, Cheryl Brown
Action: Review and recommend the City Attorney's Evaluation Criteria
Action: Review and recommend the FY2015 City Manager and City Attorney evaluation schedules to the Mayor/Council.

Attachments
- II. **Ethics Review**
Staff Resources: Bob Hagemann
- III. **Annual Audit Update**
Resources: Eddie Burke of Cherry Bekaert, Robert Campbell, Teresa Smith
- IV. **Next Meeting**
Consideration of cancelling next Committee meeting scheduled on Monday, December 22, 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
Cheryl Brown
Robert Campbell

Corporate Communications
Stephanie Kelly

Proposed FY2015 City Attorney Evaluation Criteria

- 1. Advise the Mayor and City Council** – Provide high quality legal advice and services. When, as is often the case, the law is uncertain, advise as such and identify and develop options and solutions that will assist rather than frustrate the Council in achieving its objectives. Understand that legal risk is but one of many factors for the Council to consider in making its policy decisions.
 - Provide written legal opinions and memoranda that are thoroughly researched, well-reasoned, clear, and concise
 - Answer questions and provide procedural advice at official meetings in a manner that facilitates the work of the Mayor and Council
 - Respond to requests for advice or assistance from the Mayor and Councilmembers in a timely, understandable, unbiased, and non-partisan manner
 - Be accessible to and meet with elected officials as needed
 - Treat the Mayor and each Councilmember in a fair and equitable manner

- 2. Represent the City's Interests** – Professionally and aggressively defend legal challenges to Council decisions and actions of the City and its employees. If the City has legally wronged a citizen, seek a resolution that is both fair to the citizen and protective of the taxpayer.
 - Oversee the handling, trial, and settlement of lawsuits
 - Treat the court, members of the bar, and citizens with courtesy and respect
 - Clearly and courteously explain the City's legal position to citizens and the media

- 3. Assist the City Manager and Staff** – Advise the City Manager and his staff.
 - Provide timely day-to-day legal advice and services
 - Work with the administration as a member of the team while maintaining an appropriate level of independence

- 4. Manage the City Attorney's Office** – Develop an effective and efficient organization.
 - Recruit and retain a competent and diverse staff
 - Provide an appropriate level of managerial oversight and direction
 - Address personnel issues in a direct and timely manner
 - Responsibly manage the department's budget

- 5. Professional Development** – Continue to learn and grow.
 - Stay abreast of changes and developments in state and federal law
 - Attend relevant Continuing Legal Education programs
 - Engage with the bar and professional organizations

- 6. Manage special projects and/or anticipated high-priority issues.**
 - Airport
 - Ethics policy

Timeline for Completing the City Attorney's FY15 Evaluation

Evaluation Date: Monday, August 24 meeting, 2:00 p.m., CH 14

Leading up to the evaluation date:

- *Tue, May 26 The City Attorney provides the Governance & Accountability Committee with , with recommendations on the dimensions on which he will be evaluated in the coming year, including the work plan. He also provides a recommendation on a multi-rater evaluation, which may include subordinates, peers, or people external to the City with whom the City Attorney may work closely.
- Fri, July 24 The City Attorney submits to the Mayor/Council via the Mayor/Council packets self-assessment of his performance based on the dimensions previously set and provides other information he considers important in assessing his performance, including the results of multi-rates evaluation.
- Mon, July 27 HR sends website link for Mayor/Council to individually complete an online survey of the City Attorney on the agreed dimensions. Stated deadline of Sunday, August 9, extend to Wednesday, August 12, if needed.
- Fri, Aug 14 Results of online survey go to the Mayor/Council and City Attorney in confidential envelopes within the Mayor/Council packets. He also provides recommendations fo the dimensions on which he will be evaluated in the coming year, including the work plan.
- **Mon, Aug 17 One week prior to the evaluation, the Governance & Accountability Committee reviews all of the evaluation material received by and about the Attorney and proposes specific areas to be reviewed with him during the evaluation meeting.

MON, AUGUST 24 EVALUATION MEETING

- a. The Mayor/Council reviews compensation information with the Human Resources Director and then meets alone to consider the recommended areas of discussion from the Governance and Accountability Committee and may add other items for discussion if agreed to by six members of the Council.
- b. The City Attorney joins the Mayor/Council at an appropriate time and provides a self-assessment, addressing the items identified by the Governance & Accountability Committee and any additional items identified by the Council. The Mayor/Council then provides its feedback to the City Attorney as well as holds a general discussion around the City Attorney's future work plan.
- c. Mayor/Council meets alone to discuss the interaction of the City Attorney, their overall evaluation of performance, and, as appropriate, changes to compensation or employment agreement.
- d. Mayor/Council take a public vote on any change to compensation at the evening meeting.

*Assumes 2015 Governance & Accountability Committee meeting schedule will remain the 4th Monday of each month

**A change to the Governance & Accountability Committee meeting schedule will be needed for this meeting (3rd Monday of the month)

Timeline for Completing the City Manager's FY15 Evaluation

Evaluation Date: Monday, July 27 meeting, 2:00 p.m. , CH14 (NOTE does meeting need to start at noon to provide adequate time?)

Leading up to the evaluation date:

- *Tue, May 26 The City Manager provides the Governance & Accountability Committee with recommendations on the dimensions on which he will be evaluated in the coming year, including the work plan. He also provides the Committee with a recommendation on a multi-rater evaluation, which may include subordinates, peers, or people external to the City with whom the City Manager may work closely.
- Fri, June 26 The City Manager submits to the Mayor/Council via the Mayor/Council packets a self-assessment of his performance based on the dimensions previously set and provides other information he considers important in assessing his performance, including the results of multi-rater evaluation
- Mon, June 29 HR sends website link for Mayor/Council to individually complete an online survey of the City Manager on the agreed dimensions. Stated deadline of Sunday, July 12, extend to Wednesday, July 15, if needed.
- Fri, July 17 Results of online survey go to the Mayor/Council and City Manager in confidential envelopes within the Mayor/Council packets. He also provides recommendations on the dimensions on which he will be evaluated in the coming year, including the work plan.
- **Mon, July 20 One week prior to the evaluation, the Governance & Accountability Committee reviews all of the evaluation material received by and about the Manager and proposes specific areas to be reviewed with him during the evaluation meeting.

MON, JULY 27

EVALUATION MEETING

- The Mayor/Council meets alone to consider the recommended areas of discussion from the Governance and Accountability Committee and may add other items for discussion if agreed to by six members of the Council.
- a. The City Manager joins the Mayor/Council at an appropriate time and provides a self-assessment, addressing the items identified by the Governance & Accountability Committee and any additional items identified by the Council. The Mayor/Council then provides its feedback to the City Manager, as well as holds a general discussion around the City Manager's future work plan.
 - b. Mayor/Council meets alone to discuss the interaction of the City Manager, their overall evaluation of performance, and, as appropriate, changes to his employment agreement.

*Assumes 2015 Governance & Accountability Committee meeting schedule will remain the 4th Monday of each month

**A change to the Governance & Accountability Committee meeting schedule will be needed for this meeting (3rd Monday of the month)

Governance and Accountability Committee Annual External Audit Timeline Update

The Governance and Accountability Committee (Committee) is serving as an Audit Committee for the City. The Committee was provided a timeline for the annual external audit at the May 27, 2014 meeting. The following table provides an update on the timeline for the annual audit process.

Timeframe	Task Description	Who?	Task Completed
April 2014	Annual meeting with the Independent Auditors to plan and determine the scope of the audit	Committee, Independent Auditors, Finance	Complete
June	Chair of Governance and Accountability Committee signs the independent audit contract as required by the Local Government Commission	Committee Chair	Complete
June – July	Independent Auditors perform preliminary work; Committee may identify particular areas, if any, where the Committee/Council would like the independent auditor to focus	Independent Auditors, Committee (as needed)	Complete
July – December	Finance/Financial Reporting staff prepares the CAFR	Finance/Financial Reporting	Complete
August – October	Independent Auditors complete audit work; if needed, Independent Auditors may discuss concerns identified during the audit with the Committee	Independent Auditors, Committee (as needed)	Complete
November	Independent Auditors present results of annual audit to the Committee	Committee, Independent Auditors, Finance	In Progress
January 2015	Report to the Council on the annual financial statements and Independent Auditor's report. Independent Auditors present their report to the Council.	Committee, Independent Auditors, Finance	

Governance and Accountability Committee

Annual External Audit – Audit Findings and City Response

The following are the two findings from the external audit of the City's fiscal year 2014 Comprehensive Annual Financial Report (CAFR), and the proposed corrective actions:

Finding #1

Material Weakness – Prior period adjustments and current year adjustments in construction in progress in Governmental Activities, Storm water fund and the Water/Sewer fund.

- In the storm water fund, the City had a \$31.9 million project in construction in progress that did not extend the useful life of the infrastructure in place and should have been expensed in prior periods.
- Also, in the storm water fund, the City had an \$8.5 million project in construction in progress that should have been capitalized as storm water systems in prior periods.
- In governmental activities, the City had an \$18.4 million project in construction in progress that did not extend the useful life of the facility in place and should have been expensed in prior periods.

Cause

As part of the annual CAFR preparation process, Finance requests departments to review open projects in order to determine whether a capital asset has been completed and is in use, whether the project is ongoing and should remain as construction in progress, or whether the project will not result in an asset and should be expensed in the current period. It appears that some departments may not have a clear understanding of the request made by Finance and therefore, capital assets are not being classified correctly in the appropriate accounting periods.

Correction

The FY14 CAFR has been updated to correct for the audit findings so it will be accurately presented.

Finance will work with the departments to educate staff on when the capital asset criteria have been met, when construction in progress is appropriate, and when projects should be expensed. Finance will review and discuss departmental responses in order to ensure that projects are correctly classified. Finance, Storm Water and Utilities are already discussing ways that the departments can work together to ensure that projects are accounted for correctly in future years.

Finding #2

Significant Deficiency – Accrual adjustments as of June 30, 2014 in the Public Transit fund.

The City did not properly accrue for project/grant related payable activity in the public transit fund which caused expenses to be under-stated in that fund. The net effect on fund net position was an overstatement of \$3.5 million.

Cause

As part of the annual CAFR preparation process, Finance has an annual process to review outgoing payments subsequent to the fiscal year end to ensure that all accounts payable are accounted for in the correct accounting period. In conjunction with the transition to the new Munis Enterprise Resource Planning (ERP) system, certain procedures should have been adjusted during the ERP system implementation period in order to reflect the accrual of payments to the correct fiscal year.

Correction

The FY14 CAFR has been updated to correct for the audit findings so it will be accurately presented.

The new Munis ERP system includes features that will help with the identification of payments that should be accrued at year end. Finance will also work with departments to ensure that payments related to the reporting fiscal year are accounted for in the correct accounting period.

Audit Wrap Up & Presentation

City of Charlotte, North Carolina

November 24, 2014

Cherry Bekaert LLP

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Table of Contents

- 1 Results of Our Audit
- 2 Audit Areas of Focus
- 3 Internal Control
- 4 Required Communications

Results of Our Audit

Audit of Financial Statements

We have completed our audit of the financial statements of the City for the year ended June 30, 2014.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles.

The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements. The scope of the work performed was substantially the same as that described to you in our engagement letter.

We have issued an unmodified opinion on the Financial Statements.

Results of Our Audit (continued)

Internal Control Over Financial Reporting

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses

We have issued an unmodified opinion over the Internal Control over Financial Reporting.

Results of Our Audit (continued)

Internal Control Over Compliance

In accordance with *OMB Circular A-133, Audits of States, Local Governments, and Non-Profits*, and the State Single Audit Implementation Act we have also issued our report on our consideration of the City's compliance with requirements of laws, regulations, contracts and federal and State grants that could have a direct and material effect on the **determination of the financial statement amounts**. The purpose of the report is to describe the scope of our testing over compliance and the results of that testing, and not to provide an opinion on the internal control over compliance.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

All records and information requested by Cherry Bekaert LLP were freely available for our inspection.

Management and other personnel provided full cooperation.

We have issued an unmodified opinion on the Internal Control over Compliance.

Audit Areas of Focus

Primary Area of Focus	Procedures Performed
Cash and Investments	Cash reconciliations were inspected for accuracy and agreed to original bank statements
Receivables and Revenue	Analytically reviewed revenue and receivables and confirmed directly with revenue sources the amounts received in the current year.
Capital Assets	Obtained the fixed asset roll forward and capital outlay reconciliation and analytically reviewed depreciation expense.
Accounts Payable and Expenses	Search for unrecorded liabilities was performed to determine that all liabilities were reported at year end.
Accrued Expenses and Payroll	Analytical procedures were performed to determine that the fluctuation in payroll expense was consistent with the City's hiring activity.
Debt	Performed a roll forward of debt balances from prior year to current year, confirmed balances with the N.C. Local Government Commission (LGC) and tested covenants for compliance.

Audit Areas of Focus (cont.)

Primary Area of Focus	Procedures Performed
Single audit	Performed test of compliance with grant agreements and certain laws and regulations.
Litigation	Discussed actual and threatened litigation with management and reviewed accounting detail and noted instances of recording of legal fees and obtained representations with respect to the effect of litigation on the financial statements.
Management's Judgments and Accounting Estimates	<p>Accounting estimates are an integral part of the financial statements and are based on management's current judgments. We believe that the following items represent significant judgmental areas that impact the City's financial reporting:</p> <ul style="list-style-type: none">• Collectability of receivables• Useful lives of assets and depreciation expense• Retirement plan liabilities• Other Post-employment benefits liability• Liabilities reported for risk management

Internal Control and Findings

Cherry Bekaert is required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the City's internal controls over financial reporting. The definitions of material weakness, significant deficiencies and control deficiencies and the findings of the audit follow:

Internal Control Category	Definition
Material Weakness	A deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.
Significant Deficiency	A deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

Finding	Description
Findings of the Audit	<p>#1 Material Weakness – Prior period adjustments and current year adjustments in construction in progress in Governmental Activities, Storm water fund and the Water/Sewer fund.</p> <p>#2 Significant Deficiency – Accrual adjustments as of June 30, 2014 in the Public Transit fund.</p>

Required Communications

Matters Required to be Reported to Those Charged with Governance

Requirement	Discussion Points
Auditor's judgment about the quality of the City's accounting policies, estimates and financial statement disclosure	In accordance with applicable auditing standards, a discussion was held regarding the quality of financial reporting, which included the City's significant accounting practices, estimates and financial statement disclosures.
Critical accounting policies and practices	The critical areas identified were cash and investments, receivables and revenue, capital assets, accounts payable and expenses, accrued expenses and payroll, debt, single audit, litigation, and judgments and accounting estimates.
Adoption of a change in accounting principle	There were no situations involving the adoption of or a change in accounting principles where the application of alternative generally accepted accounting principles, including alternative methods of applying an accounting principle, would have a material effect on the City's financial statements.
Material, corrected misstatements brought to the attention of management by the auditor	Accrual adjustments as of June 30, 2014 in the Public Transit fund.
Uncorrected misstatements, other than those the auditor believes to be trivial	There were no uncorrected misstatements detected as a result of our audit procedures.
Disagreements with management	There were no disagreements with management on financial accounting and/or reporting matters and auditing procedures that, if not satisfactorily resolved, would cause a modification of our auditor's report.

Required Communications (cont.)

Matters Required to be Reported to Those Charged with Governance

Requirement	Discussion Points
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants, nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Major issues discussed with management prior to retention	Prior to our being retained as auditor for the current fiscal year, there were no major accounting or other issues of concern discussed with management other than issues surrounding the implementation of its new operating system.
Significant issues discussed with management	We have discussed the prior period adjustment and the adjusting journal entries that were proposed by CB.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Representations requested from management	We have received a management representation letter be signed by management and provided to us.
Other issues arising from the audit the auditor considers significant and relevant to those charged with governance	There were no other issues arising from the audit that we consider significant and relevant to those charged with governance.
Material alternative accounting treatments discussed with management	There was no discussion with management concerning alternative accounting treatments.

Contact

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Cherry Bekaert LLP