

Minutes  
Finance Committee Meeting  
3:30pm, October 22, 2013  
First Floor-North Conference Room, City Hall

Present: Vice Mayor Esther Manheimer, Chair; Councilman Chris Pelly,  
Councilman Marc Hunt

Staff: Gary Jackson, Eric Hardy, Rhonda Devan, Pat Liguori, Tony  
McDowell, John Sanchez, Cheryl Heywood

**Approval of 8/27/2013 Minutes**

Councilman Pelly made a motion to approve the 8/27/13 minutes and this motion was seconded by Councilman Hunt and unanimously approved by the committee.

**Financial Audit Update**

Mr. Eddie Burke, Senior Auditor with Cherry Bekaert LLC introduced himself to the committee and said that at any point during the presentation, he would be happy to answer any questions the committee had.

**Audit Process**

Mr. Burke reviewed the audit process with the committee. In mid-February, Cherry Bekaert staff met with City staff for a planning meeting. Single audit was performed mid-May through mid-June. Field work was performed during the month of September and the CAFR completion is still in process.

**Primary Areas of Focus**

Mr. Burke named the following as primary focus areas: Regulation Compliance; Cash and Investments; Accounts and Receivable Revenue, Capital Assets and Related Expenditures; Accounts Payable and Expenses; Payroll and related Liabilities; Debt Service; Actual or Threatened Litigation; Post Employment Liabilities, Arbitrage and Risk Management.

**Internal Control over Financial Reporting**

Cherry Bekaert is required to communicate, in writing all material weaknesses and significant deficiencies identified in the City's internal controls over financial reporting. Mr. Burke said there are three categories of Material Weaknesses; 1.) Material Weakness 2.) Significant deficiencies and 3.) Deficiency in Internal Control. No significant deficiencies or material weaknesses have been reported for the City in regard to internal control over financial reporting.

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**Compliance on State and Federal Grants**

Cherry Bekaert is required to communicate, in writing all material weaknesses, and significant deficiencies identified in the City's compliance and internal controls with the city's state and federal grants.

**Single Audits**

The programs single audited this year were the federal grant programs, which include Community Development Block Grant (CDBG), JAG Program and Federal Transit and state grant program which include the Powell Bill.

**Noted Findings**

**Federal Transit**

The city did not obtain and review the certified payroll from contractors to ensure that prevailing wage rates are being paid to subcontractor's. This will be reported as non-material for non-compliance of the Davis Bacon Act.

**Community Development Block Grant (CDBG)**

The city did not obtain personnel activity reports for CDBG employees working on multiple federal awards. This will be reported as Non- Material Non-compliance of Allowable Cost/cost Principles.

The City did not follow up with sub-recipients of CDBG grant funding by monitoring the sub-recipient's single audit submission to the federal clearing house. This will be reported as non-material non-compliance of sub-recipients monitoring.

**Schedule of Expenditures of Federal and State Awards (SEFSA)**

The city determined that certain prior year expenditures were over or under reported. Processes are now in place to assure correct reporting. The prior years errors will be footnoted on the June 30, 2013 SEFSA.

Final review of the CAFR for fiscal year ended June 30, 2013 will be completed in time for the October 31, 2013 deadline submission to the NC Local Government Commission (LGC). After approval by the LGC, the Comprehensive Annual Financial Report (CAFR) will be printed for distribution.

Staff will distribute bound copies of the CAFR at the council meeting to be held on December 10, and Cherry Bekaert will give the final audit presentation at the council meeting to be held on January 14.

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**Cash and Investments**

Ms. Pat Liguori began by introducing herself and explaining that the authorization to invest cash balance of any fund is authorized by North Carolina General Statute. Ms. Liguori discussed the investment strategies used, and the limitations placed on the types of investments that can be made by state statute. High risk investments are not allowed.

**Investment Strategy**

The number one investment priority is first Safety, then Liquidity, so that the funds are available when needed; Obtaining the Maximum Yield; Investing Locally; and finally, the need for Diversification.

**Investment Manager's Report**

The beginning market value during the period 4/1/13-6/30/13 was 109,135,145, with additions of \$136,363,961 and ending market value was 109,135,147. Total investment revenue of \$93,603 as of June 30, 2013 was \$93,603.

**Portfolio and Holdings**

The City's total investment holdings in Certificates of Deposit was \$4,500,000; Commercial Paper was \$16,484,550; US Agencies \$45,137,782; Central Depository and Other Liquid Funds was \$34,094,271 for a total investment portfolio of \$100,216,603 as of June 30, 2013.

**FY 2013 Q4 Results**

The fourth quarter investment revenue totaled \$93,603. Due to the downward movement in the bond market just prior to June 30, the City's portfolio experienced a negative mark-to-market adjustment of \$268,287. This is a requirement for financial review and CAFR disclosure purposes but would only become a true loss if we were to liquidate the entire portfolio, which we do not do.

Councilman Hunt asked for clarification on the mark-to-market adjustment. He also asked why our December 2012 Bank CD effort was not successful. Ms. Liguori advised that the rates offered were too low and that was because banks will not bid competitively if they don't need the cash.

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Councilman Hunt asked if we work with an investment advisor. Ms. Liguori stated that we don't use an investment advisor as NCGS 159-30 restricts our ability to invest into only a certain few investment vehicles so there is really nothing an advisor could offer that we can't do in-house. Ms. Liguori added that she worked with one at her last job at a different NC municipal government. The advisor charged a high fee and didn't add any value to the process.

**Business Calendar**

Mr. Tony McDowell reviewed the draft of the business planning calendar for fiscal year 2013-14. Mr. McDowell will reach out to departments for any changes in fees and charges the first week in November. User fee proposals are due to the budget office on November 25<sup>th</sup>. Capital improvement forms are distributed to departments the first week in December, and they are due to the budget office by January 17<sup>th</sup>. Mr. McDowell will present the quarterly financial report to full council at the December 10<sup>th</sup> council meeting. Operating budget preparation will begin as usual in January. Staff will bring back a final version of the business calendar for adoption later.

Vice Mayor Manheimer adjourned the meeting at 420p.m.