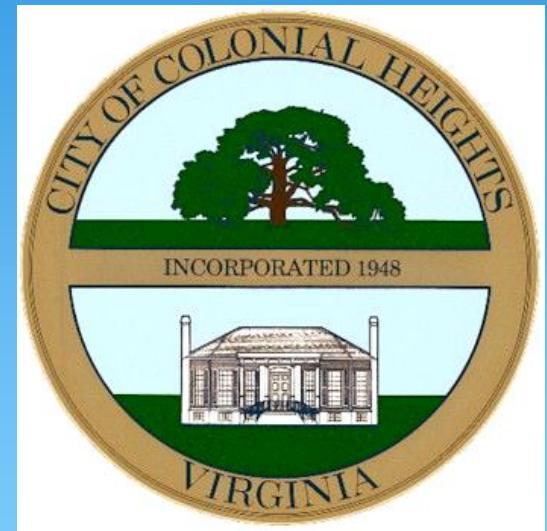


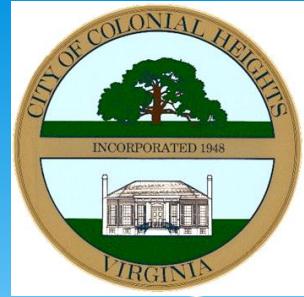
# Colonial Heights City Council Work Session

November 17, 2015



# Colonial Heights City Council Work Session

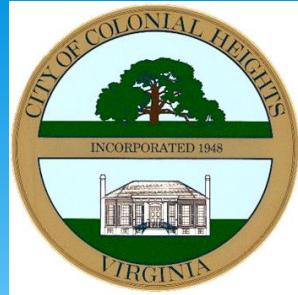
## November 17, 2015



- 1. Call to Order**
- 2. Roll Call**
- 3. Declarations of Personal Interest**

# Colonial Heights City Council Work Session

## November 17, 2015

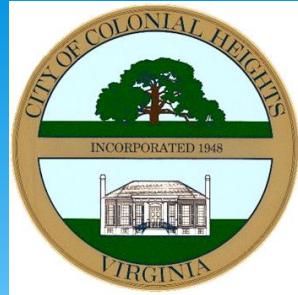


### **4. Reading of Manner Addressing Council**

**ANY MEMBER OF THE PUBLIC ADDRESSING THE COUNCIL SHALL APPROACH THE LECTERN, GIVE HIS NAME AND ADDRESS IN AN AUDIBLE TONE OF VOICE FOR THE RECORD, AND ADDRESS THE COUNCIL AS A BODY RATHER THAN SPEAK TO ANY MEMBER. UNLESS FURTHER TIME IS GRANTED BY COUNCIL, ANY MEMBER OF THE PUBLIC SHALL ADDRESS THE COUNCIL FOR A MAXIMUM OF FIVE (5) MINUTES, REGARDLESS OF THE NUMBER OF ISSUES HE DESIRES TO DISCUSS. PROVIDED HOWEVER, THAT THE MAIN PROPONENT OF ANY APPLICATION, PETITION, OR PLAN THAT IS THE SUBJECT OF A PUBLIC HEARING SHALL BE ALLOWED TO ADDRESS THE COUNCIL INITIALLY FOR A MAXIMUM OF TEN (10) MINUTES AND LATER IN REBUTTAL FOR A MAXIMUM OF THREE (3) MINUTES.**

# Colonial Heights City Council Work Session

## November 17, 2015



### 5. Advertised Public Hearings

*A. A RESOLUTION NO 15-38 Requesting the General Assembly of Virginia, in its 2016 Session, to amend Chapter 8 of the Charter of the City of Colonial Heights, which relates to Financial Administration, by amending Sections 8.1, 8.2, 8.3, 8.4, and 8.6.*



# Public Hearing Steps...

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- a) What is a City Charter Amendment?**  
– *City Attorney*
- b) Key Issues – *Mayor Kochuba***
- c) Briefing on Problems & Recommendations**  
– *City Manager*
- d) Citizen Comments**
- e) City Council Comments and Vote**



# Key Issues...

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- **Treasurer submitted retirement notification – effective Dec 31, 2015**
- **Charter Change does not eliminate:**
  - The Treasurer's position
  - Citizens from voting for a Treasurer
- **Intent of the charter change is to reduce risk to the city:**
  - Maintaining an Unqualified/Clean Audit Opinion
  - Ensuring the city keeps its current “bond rating”
  - Addressing the lack of “State” requirements
    - Specifically who can be a Treasurer

# **TERMINOLOGY RELATING TO AUDIT REPORT COMMENTS**

- **Internal Controls** - Procedures put in place to ensure the integrity and accuracy of financial and accounting information.
- **Material Weakness** - When internal controls are determined to be ineffective. If a deficiency in an internal control is thought to be of “material weakness”, it could lead to a material misstatement in the City’s financial statements and/or standing.
- **Reconciliation** - An accounting process used to compare two sets of records to ensure the figures are in agreement and are accurate. In this particular discussion, reconciliation is the key process used to determine whether the tax money collected by the Treasurer’s Office matches accounting records and , ensuring the two values are balanced at the end of the recording period (**Unreconciled balances** as referenced means are not being balanced and are therefore inaccurate).

# **TERMINOLOGY RELATING TO AUDIT REPORT COMMENTS**

- **Unidentified Differences** – A general term referring to unbalanced accounts or financial records that are not specifically referenced or explained.
- **Qualified Audit Opinion** - A qualified audit opinion would mean that the information provided was incomplete and that the City has not maintained recognized accounting principles. Contrary to its connotation, a qualified opinion is not a good thing. Auditors that deem audits as 'qualified opinions' are advising whomever is reading the document that the information within the audit is not complete or that the accounting methods used do not follow recognized standards.
- **Bond Rating**- A grade given to bonds that indicates their credit quality. Private independent rating services such as Standard & Poor's provide these evaluations of the City's financial strength, or ability to re-pay debt incurred by the issuance of bonds.

# Proposed Finance Reorganization

- The City Finance Department is a complex, interactive operation that is responsible for the effective and appropriate management of **\$75M** in annual operating funds – *all primarily generated by City taxpayers*
- Collections and financial accounting activities currently within the Treasurer's Office must be properly coordinated with the Finance Department to achieve proper and efficient management of city tax dollars and other funds
- All Finance accounting operations should be performed by trained & qualified professionals.

# Tax Reconciliation Issues Identified by External Auditors in Annual Reports (2005-2014)

**FY2005** – “Treasurer Trial Balances – During the course of our audit, it was noted that the Treasurer’s trial balances for Personal Property taxes had material unreconciled balances... Policies and procedures should be established to ensure that transactions related to Personal Property taxes are properly recorded and accounted for within the Treasurer’s office.”

**FY2007** – “...we encountered various instances where audit schedules and support provided to us did not reconcile with what was recorded in the general ledger. We consider the lack of accurate schedules and the number of audit adjustments made to the City’s general ledger to be a material weakness.”

*In supporting correspondence, the Auditor also wrote: “We made a special trip there last year to train (the Treasurer) on reconciliation (and)... we went over the way we needed taxes to be reconciled. The reason we gave the finding again this year is that taxes were not reconciled in that manner.”*

**FY2008** – “With the exception of improved financial reporting of property taxes, the City has made recommended changes per our review.”

# Tax Reconciliation Issues Identified by External Auditors in Annual Reports (2005-2014)

**FY2009** – “Prior Year Material Weakness Not Corrected - ...we were provided with schedules attempting to reconcile...taxes (and) it was noted that there were material differences included in the reconciliation that were categorized as unidentified differences... However, at this point, if there are differences between reported collections and the general ledger, they are not investigated further... It was not until the Finance Department was informed of potentially adverse effects on the audit opinion that (they) became engaged in the process, and was able to lessen the extent of the material differences.”

**FY2010** - *Tax reconciliation assumed by Finance Department for entire fiscal year* - **No Audit Report comments regarding tax reconciliation**

**FY2011** - *Tax reconciliation assumed by Finance Department for entire fiscal year* - **No Audit Report comments regarding tax reconciliation**

# Tax Reconciliation Issues Identified by External Auditors in Annual Reports (2005-2014)

**FY2012** – “. . . consistent (tax reconciliation) reports are not being prepared . . . (P)ersonal property receivable reports were not provided with June 30<sup>th</sup> information. . . (I)f this report is not prepared before new data is entered, (the City) cannot obtain the correct information at period end. We recommend the...office responsible for reconciling taxes be responsible for running the reports.”

“(P)rior personal property receivables that have been written off the general ledger are still on tax software as outstanding (and therefore) subject to collection if a citizen pays a current and proper tax bill . . . even though by State Code the amount cannot be collected. We recommend that at the end of legal collectability, the ...accounts be written off as required.”

# Tax Reconciliation Issues Identified by External Auditors in Annual Reports (2005-2014)

**FY2013** – “It was noted during our tax reconciliation that consistent reports are not being prepared . . . It was also noted that personal property receivable reports were not provided with June 30<sup>th</sup> information...We recommend that the department responsible for reconciling taxes be responsible for running the reports.” (Same issue as identified in FY2012)

“(P)rior personal property receivables that have been written off the general ledger are still on tax software as outstanding . . . (Same issue as identified in FY2012)

**FY2014** – “During our testing of the . . . personal property tax reconciliation, we noted that there was an unreconciled difference of \$191,065.17... No explanation was provided for this unreconciled difference...it was noted that tax reconciliations are not properly reconciled throughout the year.”

\*For FY2015, the Treasurer’s Office did not provide an update on these prior comments as requested and the auditor has indicated that there will also be an adverse management comment regarding tax reconciliation in the FY15 Annual Audit Report.

# Conclusions - Tax Reconciliation and Audit Report Issues

- ✓ Consistent with the provisions of City Code and recognized best practices, the Treasurer's Office is, and has been, ultimately responsible for the reconciliation of tax revenues.
- ✓ Material weaknesses, unreconciled balances, and unidentified differences in revenue accounting by the Treasurer's Office have continued for many years, unresolved.
- ✓ Eight of the last ten Annual Audit Reports - completed by three different external auditors - have all specifically identified this reoccurring problem in the Treasurer's Office.
- ✓ This continuing pattern of unaddressed material weaknesses is likely to result in a qualified audit opinion, which will adversely affect the City's overall financial standing and significantly increase costs for city taxpayers.

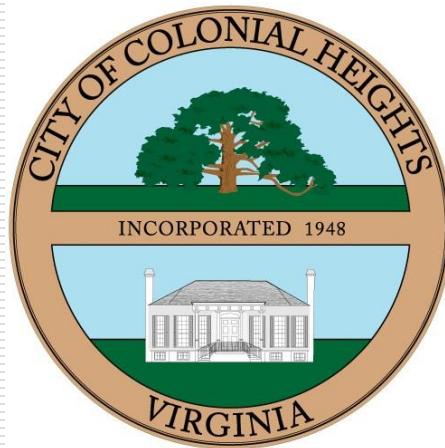
# Audit Committee

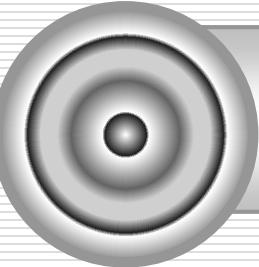
## Presentation on

## Audit/Treasurer Issues

## To City Council

## April 30, 2013



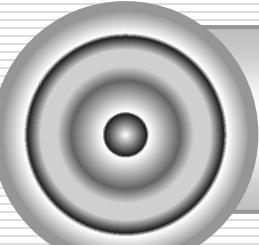


## Background

### Maintaining “Unqualified Audit Opinion”

City Council  
Meeting  
April 30, 2013

- **City Manager Proposed a Re-Organization - Mar 12th**
  - **Improve Reconciliation Process & Strengthen Internal Controls**
    - Realigning Functions from Treasure to Director of Finance
    - Proposal was not adopted
- **Next Step...Audit Committee Review's Independent Audit Reports (2005 - 2012)**
  - Audits were performed by three separate “Certified Public Accounting” firms

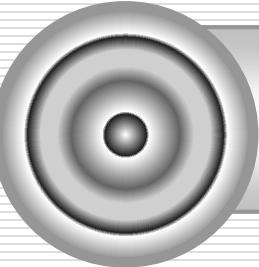


# Audit Reports

City Council  
Meeting  
April 30, 2013

## Significant Weakness's Identified:

- The 2005, 2007, 2009 & 2012 audits identified reconciliation issues, specifically:
  - Tax Reconciliation (2012, Brown & Edwards)
    - Quarterly & Yearly personal property receivables “print outs” are not generated in a timely or consistent manner
  - Material differences were included in the reconciliation (real-estate & personnel property) – categorized as “unidentified” (2009, PBGH)
    - Differences between collections & general ledger were not being investigated

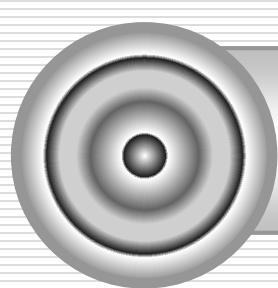


# Corrective Action Plan

City Council  
Meeting  
April 30, 2013

- **To Improve the Reconciliation Process:**

- The office making the collections should perform the reconciliation
- Perform tax reconciliation reports monthly, quarterly & yearly to reduce errors, increase accuracy & expedite year-end close out
- Analyses out balance conditions specifically material amounts
- Synchronize receivables written-offs on the general ledger with the software program as they occur
- Implement procedures to eliminate aged receivables on the current software program
- Develop procedures to generate quarterly or semi-annual reporting
- Expedite Receivables & Enhance Customer Bill Paying (e-bills, online credit/debit cards etc.)
- Implement the Civi-Plus software in the manner as other city departments
- There needs to be accountability for weakness & recommendations identified in the audit reports



## Next Steps...

City Council  
Meeting  
April 30, 2013

- **Council's Approval:**
  - **Implement recommendations within 60 or 90 days**
  - **Officially notify the Treasurers office (via letter) of Council's plan of action & timelines**
  - **Independent auditor to validate corrective actions taken...Or driven based on results**
  - **Based on follow-up review determine next steps...**

# City Council Letter to Treasurer 5/8/2013

**“Council is focused on reviewing the audit recommendations and making sure corrective actions are taken . . .”**

**“By a 6-0 vote, Council voted to require the City Treasurer to implement and perform the changes outlined below, . . . recommendations which have not been addressed from prior outside audits”**



## CITY OF COLONIAL HEIGHTS OFFICE OF THE CITY COUNCIL

C. SCOTT DAVIS, MAYOR  
DIANE H. YATES, VICE MAYOR  
MILTON E. FREELAND, JR.  
KENNETH B. FRENIER  
W. JOE GREEN, JR.  
T. GREGORY KOCHUBA  
JOHN T. WOOD

May 8, 2013

The Honorable Joy Moore  
Treasurer  
P.O. Box 3401  
Colonial Heights, VA 23834

Dear Mrs. Moore:

Since the public hearing on March 12, City Council has not clarified or resolved what entity within City government should perform reconciliations. Recently, the Audit Committee reviewed previous audits from three different auditing firms spanning from 2005 to 2012 and met to discuss recurring findings and recommendations made by the firms. The City Council is focused on reviewing the audit recommendations and making sure corrective actions are taken, in order to maintain the city's unqualified opinion.

Mr. Kochuba, representing the audit committee, made a presentation on behalf of the committee to fellow members of City Council at the most recent City Council Work Session, April 30. Compliance measures were recommended to satisfy deficiencies outlined by the audits. By a 6-0 vote, City Council voted to require the City Treasurer to implement and perform the changes outlined below, based upon recommendations which have not been addressed from prior outside audits.

- The office making the collections, currently the Treasurer's office, should perform the reconciliation
- Perform tax reconciliation reports monthly, quarterly & yearly to reduce errors, increase accuracy & expedite year-end close out
- Analyze out of balance conditions specifically material amounts
- Synchronize receivables written-off on the general ledger with the software program as they occur
- Implement procedures to eliminate aged receivables on the current software program
- Develop procedures to generate quarterly and year-end reporting

# City Council Letter to Treasurer 5/8/2013

**“Council is requesting that these corrective actions and recommendations be implemented by the Treasurer's Office in 60 days.”**

**“The basis for any further actions by Council will be predicated on the implementation of this corrective action plan and the results based on quarterly and/or year-end audits.”**

May 8, 2013  
Page Two

- Implement the Civic-Plus software in the same manner as other city departments - to collect taxes and fees by accepting debit/credit cards on-line
- There needs to be accountability for weaknesses and recommendations identified in the audit reports

City Council is requesting that these corrective actions and recommendations be implemented by the Treasurer's Office in 60 days. This will align with the beginning of the new fiscal year, FY 2013-2014. City Council requests that each monthly reconciliation be sent to City Council through the City Clerk's Office. The City Council will ask the current auditing firm under contract with the City, Brown and Edwards, to review the quarterly reconciliations your office will perform. The basis for any further actions by City Council will be predicated on the implementation of this corrective action plan and the results based on quarterly and/or year-end audits.

With the goal to maintain an unqualified opinion and the 2012-2013 fiscal year ending before the 60-day implementation period, City Council will ask the City Finance Department to perform the year-end reconciliation but for the Treasurer's Office to be accountable for the attributable weaknesses or recommendations that may appear in the audit report as we move forward.

Sincerely,



C. Scott Davis, L.P.D.  
Mayor

/pbw

cc: Mr. Thomas L. Mattis  
Mr. Hugh P. Fisher, III

# Proposed Finance Reorganization

- It is imperative that all Finance operations consistently adhere to standard Internal Controls; and other designated policies and procedures.
- Failure to address the current situation and maintain effective Internal Controls will likely result in a Qualified Audit Opinion – significantly increasing costs to taxpayers.
- Unlike years prior, state funding for local Treasurer functions has all but been eliminated and support staff in the Treasurer's Office are now funded with City tax dollars through the General Fund.

# Proposed Finance Reorganization

- Current day-to-day operational structure of Finance and Treasurer's Office:
  - *Requires an unnecessary duplication of personnel, services, facilities, and costs*
  - *Confusing and frustrating payment systems and policies for citizens*
  - *Poor communication and difficult work environment for employees*
  - *Undermines effective management of all city funds by the City Council*

## **ESTIMATED DIRECT COST TO CITY TAXPAYERS WITH A QUALIFIED AUDIT OPINION**

- ❖ In 2010 & 2012, the City issued general obligation debt in the total principal amount of \$29.4M
- ❖ City Bond Ratings: AA- (2010) and AA (2012)
- ❖ Net Interest Costs: 1.98% (2010) and 2.48% (2012)\*
- ❖ A ‘Qualified Audit Opinion’ would have likely downgraded city bond ratings and added at least 25-35 basis points to Net Interest Costs\*
- ❖ Net projected cost increase to city taxpayers over the life of the bonds - **\$715,000 to \$1.002M \***

\*Analysis provided by independent City Financial Advisor

# Proposed Finance Reorganization Plan

✓ City Treasurer position will not be eliminated, will continue to exist as a constitutional officer, and will continue to be elected by CH voters

# The Roles and Responsibilities of the Treasurer



Treasurers' Association of Virginia

# **The Roles and Responsibilities of the Treasurer**

Treasurers Association of Virginia

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## **3. Authority of Local Government**

**“It is important to remember that the governing body can remove all duties except state tax collections and investments.**

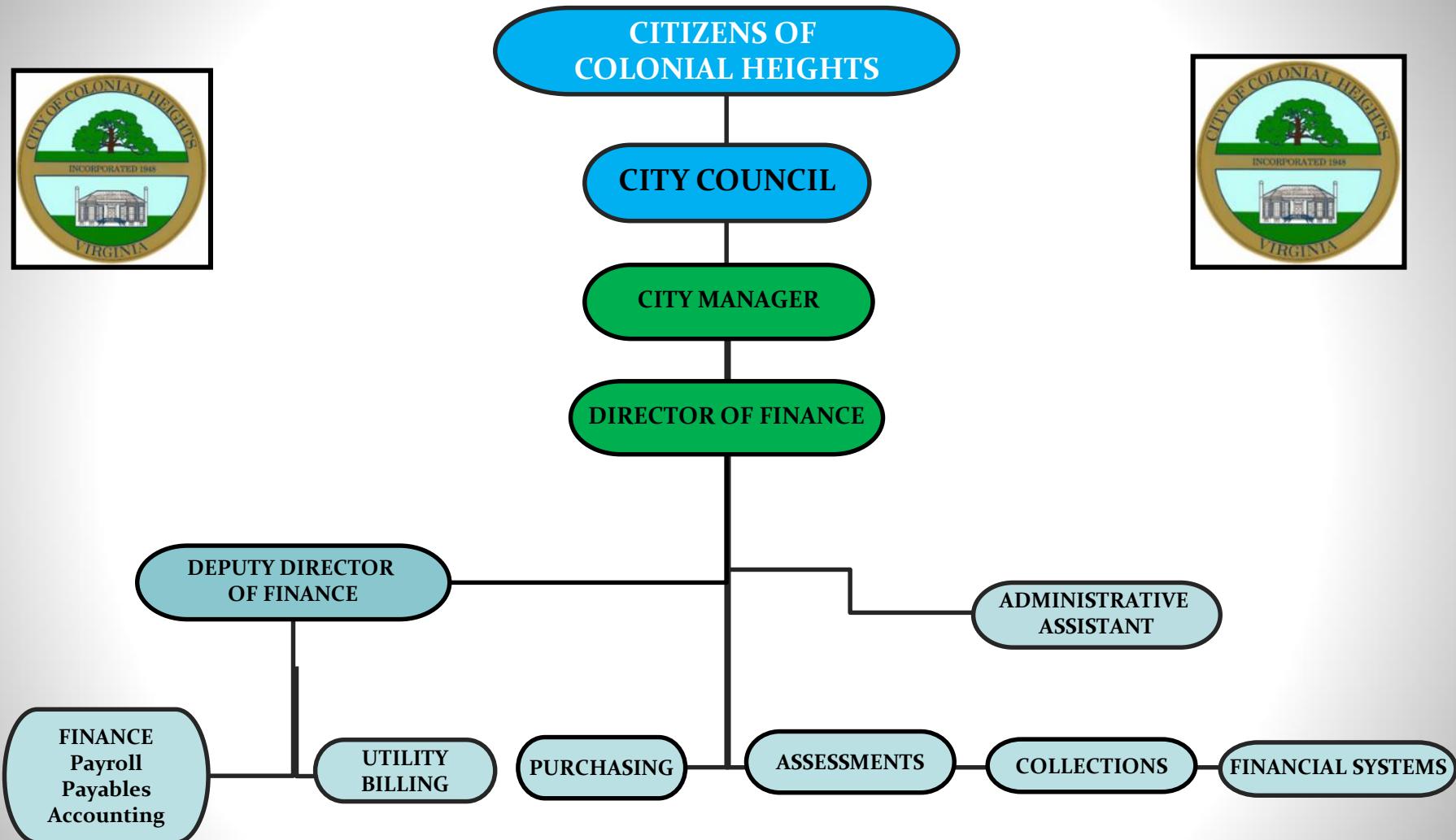
**Treasurers can make themselves valuable to their localities by taking on additional duties and responsibility. In an opinion to a Treasurer, the Attorney General opined that a new officer can resume duties previously removed from predecessor.”**

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# Proposed Finance Reorganization Plan

- ✓ All Treasurer's Office support staff positions will be absorbed by Finance Department.
- ✓ Existing staffing and resources will be realigned with current responsibilities
- ✓ A Department of Collections within the Finance Department will be responsible for local revenue collections

# Proposed Finance Organization Chart



# Proposed Finance Reorganization Plan

- ✓ New office for Treasurer will be established in current Utility Billing Office to meet obligations for state collections.
- ✓ Utility Billing operations will be moved in with new Department of Collections operations.
- ✓ Will dramatically improve coordination of all Finance functions; and will promote sound financial management and Internal Controls
- ✓ Minimal projected overall cost increase
- ✓ No adverse affect on services to citizens

# Recap - Treasurer Duties Already Assumed by City Staff

- Tax Receivable Reconciliations
- Printing and addressing inconsistencies of tax printouts
- Answering telephone calls from general public
- Processing of citizen electronic payments through Civic-Plus Software
- Processing returned checks from electronic payments
- Addressing customer service issues related to incorrect posting of misdirected payments
- Addressing issues of Annual Audit Report
- Trouble-shooting business accounts for customers with problems

# Proposed Finance Reorganization Plan

- ❑ Implied “Checks and Balances” no longer exist
- ❑ Reorganization will not create “bigger government”
- ❑ No other options available to Council