



**MANAGER'S BRIEFING
HIGH POINT MUNICIPAL BUILDING
JANUARY 19, 2016 – 4:00 P.M.
3RD FLOOR LOBBY CONFERENCE ROOM**

MEETING MINUTES

Present:

Mayor William S. Bencini, Jr.; Mayor Pro Tem Golden (Ward 1); and Council Members James Davis (Ward 5); Latimer Alexander (At-Large); Cynthia Davis (At-Large); Christopher Williams (Ward 2); Alyce Hill (Ward 3); and Jay Wagner (Ward 4)

Absent:

Council Member Jason Ewing (Ward 6)

Staff Present:

Greg Demko, City Manager; Randy McCaslin, Deputy City Manager; Randy Hemann, Assistant City Manager; Eric Olmedo, Budget and Performance Manager; Jeron Hollis, Communications & Public Engagement Director; JoAnne Carlyle, City Attorney; Jeff Moore, Director of Financial Services; Heather Forrest, Senior Accountant; Kelly Latham, Accounting Manager; and Maria Smith, Deputy City Clerk; Lisa Vierling, City Clerk

Others Present:

Eddie Burke and Katie Jones, CPA Partner, Cherry Bekaert, LLP

News Media:

Pat Kimbrough, High Point Enterprise

Handouts:

Presentation by Cherry Bekaert on the Audit Report

Comprehensive Annual Financial Report (CAFR), with accompanying Auditor's Letter (on file in City Clerk's Office)

Note: These handouts will be incorporated into these proceedings, with the exception of the CAFR, which will be on file in the City Clerk's Office.

Jeff Moore, Director of Financial Services, noted Consideration to Extend the Audit Contract would be on tonight's Agenda because the City missed the deadline. He reported that they are finished and have copied the CAFR for FY Ended June 30, 2015. He then recognized and introduced Eddie Burke (partner) and Katie Jones (who ran the city's audit engagement).

Mr. Moore commented that the City of High Point is in good solid shape with good numbers. He also mentioned that he and Eric Olmedo, Budget and Performance Manager, reported back in September/October the preliminary financial results that show the City is in a good, strong financial position, with a Clean Audit Opinion. He did reiterate that the audit report did come in late, primarily due to work load issues and the number of new accounting standards that came into play this year. He explained these were not errors from the auditors, they were not errors due to staff's efforts, but changes in presentation. One of the biggest was the introduction of the Local Government Employees Retirement Liability/Asset, which is now being pushed down at all levels at participation.

Mr. Moore then turned the meeting over to Eddie Burke to share his presentation.

Mr. Burke noted the presentation should cover everything they have issued an opinion on, or any letter that they have issued. He briefly identified the role of Cherry Bekaert as the external auditor in this process, which consists of three primary responsibilities:

1. Making sure they perform the audit is in accordance with the auditing standards that apply to the City which would be government auditing standards.
2. Issue an opinion on the areas that are actually being audited.
3. From a required communication perspective the standards and specifically addresses certain matters and if they arise during the audit process, they are required to communicate that to the oversight body. This is done two ways: 1) A letter in a package where they address all the areas. 2) Bullets points that identify the most significant in that area.

Mr. Burke reported there were four audit opinions issued and all were unmodified. This is the highest level of assurance they can issue on a set of financial statements. The first opinion is on the overall financial statements. The second opinion (referred to as a yellow book report), which is where they look at the internal control environment and audit in compliance with the North Carolina General Statutes. The last two opinions has to do with the Federal and State dollars that were received and administered throughout the year.

Mr. Demko asked Mr. Burke to explain "unmodified opinion" and asked if this is what was previously referred to as a "clean opinion." Mr. Burke replied that was correct and further explained that the term was actually "unqualified" at one time and it was changed about three years ago to the new term.

Mr. Burke reported that overall, the internal control environment at the City is good with no significant deficiencies or material weaknesses identified in the audit. He noted from a single audit perspective and federal perspective there were no findings. He did share that from a State perspective, one of the programs they reviewed there was a report required to be filed by the end

of October, but it was actually filed towards the end of December. It was considered a non-material, non-compliance.

From the required communication perspective, Mr. Burke mentioned GASB 68 and 71 which was a standard that had to be implemented entirely across the United States. Mr. Burke stated this basically required employers who were participating in cost sharing plans had to record the prorated share of any asset and liability of the total plan. Mr. Burke commented that State of North Carolina is actually one of the best funded plans (one of the top two or three funded plans) in the Country as of June 30, 2015. The City of High Point actually had an asset recorded on their books and mentioned several cities north and south of High Point actually had liabilities. Mr. Burke explained whether it is an asset or a liability, it can change dramatically in one year depending on the market conditions at June 30th. He reported one other change that was requested by the Local Government Commission and it had to do with the way units of government in North Carolina was handling and reporting notes receivable. He explained there was an alternative method acceptable under general accepted accounting principles, but when North Carolina started looking at this, there was a variation in the way units of government were reporting that and they wanted that to be more consistent.

Mr. Burke shared that the financial statements were due on October 31st (with a grace period of November 30th), and would be filed in the next couple of days. From an IT management perspective, there was one recommendation noted having to do with formalizing the process of user access controls. Under the "other matters," they did perform data analytics. He explained that auditors are required to do some type of test, so they contacted IT and got data dumps out of the city's computer system (employee master files, payroll earning records, P-card limit records, P-card transactions, vendor lists, disbursements) and dumped all this into a system, then did some matching (hits). He commented that if there were any "hits" it raised the risk of a particular transaction. He also noted what they were particularly looking for the vendor master list to see what activity the city has had with those vendors within the last year or two. Mr. Burke noted this information was given to Mr. Moore and he would be following up on some of the "hits" they had, and they would be following up on this and reporting it in the next audit.

From an internal control perspective, the auditors looked at four basic areas. The first had to do with significant transaction cycles, which are the key cycles in the accounting system that generates numbers in the financial statements. Mr. Burke shared for each of these cycles; they received a very detailed description of what was going on. From an internal control perspective, they took the payroll cycle and expanded that process to the entire year (pulled and reviewed a sample of 40 items) and found that the City of High Point was following protocol throughout the year. Mr. Burke also had IT give them the history and detail of all the journal entries posted for the entire year and loaded that information into some software (Active Data) and set some parameters for higher risk journal entries. There were no problems when they did this test.

He stated that they also looked at four areas in IT Controls: backup/ recovery, access/security, and network/security. He commented that the control environment looks okay now, but because things are constantly changing, three months from now it may not be okay. He encouraged staff to stay on top of this and continue monitoring any activity to minimize or alleviate any hacking attempts into the city's system.

Mr. Burke reviewed the internal controls and noted the next thing they did was to go in and audit the information. They looked at this from an asset perspective (cash and investments; accounts/notes receivable; revenues; capital assets), liability perspective (accounts payable; expenses; accrued expenses; payroll; long-term debt; pensions) and other areas (related parties; estimates; leases; legal).

From a grant perspective, Mr. Burke reported they looked at five programs (two federal and three state programs). He shared that the Federal Programs reviewed were: Highway Planning and Construction Cluster, Federal Transit Cluster. In this audit, they reviewed highway planning and construction cluster, federal transit cluster and the State Major Projects reviewed were: Furniture Market, Transportation, Powell Bill, and State Maintenance Assistance Program (SMAP). For each of these programs, they looked at administrative controls, outside monitoring reports, and performed some compliance testing. He reiterated that the programs were being operated properly with the exception of the program where the report was filed late.

Mr. Burke then reviewed the General Fund Revenues (around \$101 million); the budgeted revenue in the general fund was around \$97 million. He shared that we exceeded the budget with a little over \$3M which was primarily due to sales tax. He noted that the biggest piece of the budget is the property tax and sales tax. He commented from an expense perspective, total expenses were approximately \$90 million; the budget was roughly \$96.5 million, and the city was under the budgeted expenses for the year at \$6.7 million. He reported the two areas where the city was primarily under was general government and public services.

Mr. Burke reviewed the General Fund - fund balance at the end of the year. He reported this amount was around \$33.6 million. GASB standards actually require this number be broken out into different classifications. He reviewed three of them: "Restricted" (\$9.8 million- with a majority of this reserved by State Statute); "Assigned" (primarily the budget amount for next year that was appropriated into the June 30, 2017 budget; and the "Unassigned" (a little over \$16 million. He explained that the city has an internal policy for this number to be higher than at least 10% of the budgeted General Fund expenditures. He calculated this amount out to be around \$9.7 million and pointed out at \$16 million, the city was over that number for June 30, 2015.

Mr. Burke moved on to Proprietary Funds and noted overall the city had operating revenues around \$194 million; charges for services was around \$189 million. He advised the two biggest revenue numbers here were water/sewer (roughly \$45 million); electric was \$129 million; then the mass transit and other non-major proprietary funds. From the expense perspective, he noted it was around \$183 million in proprietary funds. He shared the three biggest areas of expenses were power purchase, management administration, and distribution maintenance on the system. Mr. Burke noted the three major proprietary funds were: water/sewer, electric and mass transit, are all operating from an income perspective in the black (self-supporting).

Mr. Burke then reviewed the snapshot of the overall capital assets with a majority of these in infrastructure, building and land for both the proprietary and governmental activities.

For the long term debt, Mr. Burke shared that it was around \$84million. For the business type activities was around \$217 million. He noted the governmental bonds were around \$68 million and for the business type activity the city has both GO bonds and revenue bonds which is around \$194 million.

Finally, in summary, Mr. Burke concluded that there were clean opinions with all four. He stated that there were no PAJE and no adjustment journal entries were posted this year and overall good internal controls. He did note that they did receive full cooperation from everyone in the City. Mr. Burke took a moment to thank Mr. Moore's staff and all the other department heads that they worked with and reiterated what Mr. Moore stated earlier that the City is in good strong financial condition June 30, 2015, and asked if anyone had any questions.

Council Member Alexander wanted to know the process on how it was viewed and for the procedures as they were related to and expenses, credit card expenses, and expense slips that were turned in for reimbursements and when they got to the top of the line they were not approving their own expenses. Mr. Burke replied for expenses in general, they did this, but on the credit cards, they audited the information through the data analytics and looked at the types of purchases to make sure the purchases were properly coded. Council Member Alexander wanted to confirm that there were no cash advances on credit cards. Mr. Moore acknowledged that was correct. Council Member Alexander asked if Mr. Burke could recommend where the city could possibly look at the debt-to-asset ratios and debt-to-revenue ratios. Mr. Burke referenced a site at the LGC that has this information since they compile this information all across the state. Mr. Demko noted that the debt service of the General Fund is right at 1% of the expenditures. Mr. Moore suggested it might be good to have Davenport Company come in and run through a variety of metrics that would include some of those benchmarks and how High Point compares to other North Carolina cities; AAA cities in North Carolina as well as in the region.

Mayor Pro Tem Golden asked if the delinquent filing resulted in a penalty against the city and Mr. Moore replied there were no penalties and explained because of the resource challenges the city has, if there is any financial penalty, any financial detriment to the City for filing a report late, those are at the top of the list. He noted if it is just for information returns or some other type of report, those go lower in the queue. Mr. Moore further explained the result of missing the deadline for filing this report was actually a misunderstanding with NCDOT and involved the State Maintenance Assistance Program Grant Report File by Transit Division; it used to be that the FDA and Staff report were filed at the same time because they wanted the information simultaneously. Council Member J. Davis noted this was one of the matters that were briefly discussed during the Finance Committee meeting held on January 13th, and if there are no objections, he plans to lump it in with the Finance Consent items. He asked if there were any additional questions about this. There were none.

Mr. Demko asked Mr. Burke how things went with this audit since it was the first audit engagement with the City of High Point. Mr. Burke replied that the transition went well acknowledging there were some delays because of the challenges that Mr. Moore noted earlier. Mr. Demko commended Mr. Moore and his staff for making the transition to a new auditor. Mr. Moore recognized from his perspective in having new auditors and helping to educate them on

High Point's processes and noted their approach was much different than McGladrey's. Mr. Moore took this opportunity to thank Kelly Latham and Heather Forest for their support.

Council Member J. Davis mentioned the last item on Finance was to Acknowledge Receipt of the audit and he asked if anyone objected to also lump this matter into the others on the Finance Consent Agenda.

Mr. Burke asked Council if the presentation is along the lines of what they expect or if it was too much detail, etc.... Mr. Demko stated the other key piece is the city has traditionally been conservative on budgeting with revenues and expenses, so it is always nice to see a bump in the fund balance that gives the city the flexibility to do many of the programs that he will be asking Council to consider the future years. Council Member C. Davis suggested having the notes beforehand would be helpful for Council and Mr. Burke noted he just jotted those notes down at the last minute and did not have them in a formalized document.

Major Water Line Break at Scientific/Cedrow

Randy McCaslin, Deputy City Manager, informed Council of a major water line break involving a 25-inch water line at the intersection of Scientific Street and Cedrow Drive. He noted that approximately 1,000 customers were without water. He stated that the water pressure in that part of the system dropped down to basically nothing and there is a state regulation that if it gets under 25 psi, a boiled water report must be issued. He noted that a copy of the report that was sent out by Jeron Hollis, Communications & Public Engagement Director, would be at the dais. The report basically states that there were about 1,000+ customers that would need to boil their water for the next 24 hours. He explained that at the end of the 24 hours, it is hopeful that all the lab results will be back where they should be. The city is continuously flushing the system so there should not be any problems at all with the water. Council Member C. Davis asked when it went below the required level and if the residents should have started boiling the water last night. Mr. McCaslin stated that there was no way of knowing that because the pressure dropped to almost zero. Mr. McCaslin personally does not think that there is anything wrong with the water but would rather be safe than sorry. Mr. Hollis stated that advisory is recommended and not mandatory. Mr. McCaslin commented that they do not think anything is wrong with the water, but it is better to be safe than sorry. He reported it would take about two to three days to completely fix the water line.

Council Member C. Davis asked about the age of the line and Mr. McCaslin believed it was put in the mid-60s to mid-70s. Council Member Alexander inquired about any damage to the general area that occurred as a result of the water line break. Mr. McCaslin commented according to the news media, the water was running across the road at a good pace so it probably washed some of the pavement away. Council Member C. Davis inquired if this would impact the citizens water bill and the answer was no. Mr. Demko acknowledged the need to continue to replace obsolete water lines and provide a reliable source.

Pending Inclement Weather Forecast

Council Member Alexander inquired about the pending weather forecast. Mr. McCaslin replied that it would be cold with the anticipation of some nasty weather coming in at the end of the week. Mr. Demko pointed out this would bring on additional water breaks and fires due to the

anticipated extremely cold temperatures. Council Member Alexander asked for an update on the brine application to the roads. Mr. Hollis explained the city's crews would start applying brine tonight to the major arterials and bridges. Mayor Bencini asked if it might be possible for staff to keep Council updated frequently regarding the weather updates.

Fair Housing Ordinance

Council Member C. Davis mentioned that she plans on requesting that this matter be tabled until the procedure is ready for Council to look at. She pointed out staff was asked several months ago to come back with a procedure. She noted there is no direction to citizens if the ordinance is repealed and no procedure is in place. Jeron Hollis, Director of Communications & Public Engagement explained the procedure is actually the same as what was reported in the last presentation. Staff gets the incoming concerns and forward these to the State Human Relations Commission. Council Member J. Davis stated he did not see this and pointed out it says that the manager will come up with the recommendation.

Council Member C. Davis shared that she read the packet she got from staff on Thursday, but then she was told that we were going to do away with it and then the manager was going to come up with a procedure. She noted that she is confused based on conversation with staff, and asked what the city is doing. Mr. Demko referenced the memorandum in the packet from Mr. Hollis and noted that basically staff is going to accept complaints, and determine whether it is Fair Housing or Minimum Housing. Council Member C. Davis reiterated that she was confused after reading the packet on Thursday of last week and meeting with the Attorney earlier and she was advised that they would line out everything and then the manager would produce a procedure. She asked if this was something that was added.

JoAnne Carlyle, City Attorney, clarified that it went from repealing it to amending it and then adding...the only thing that would be in there is that the manager would be directed to set a procedure. Mr. Demko confirmed that the procedure would be outlined in the staff report. Council Member J. Davis viewed his staff report and read that it be will amended to reflect the language within the lines of the City's current practices. He also stated that it does not state the City's current practices. Then it says the manager will establish a procedure for addressing citizens' concerns relating to fair housing issues. He reiterated that nowhere in the document does it state what the City's current practices are. Mr. Hollis clarified that the Council was briefed and the incoming cases were discussed and they were being reviewed by Community Development, then forwarded to Planning and Inspections if it involved Minimum Housing. Council Member J. Davis asked Mr. Hollis if those could be put into the document. Mr. Hollis advised once the staffing issues are remedied, and noted this gives the manager the flexibility to make any necessary changes, but the general idea is that it is intake that is forwarded on to the State Human Relations Commission.

Council Member C. Davis commented that was what she had read from the document she had received on Thursday, then today what was provided was different. Mayor Pro Tem Golden stated that the big difference was the city was not going to do any investigating in-house. Mr. McCaslin noted it would depend on whether it is a minimum housing code violation or a true fair

housing violation. Mr. Demko reiterated staff does not have the authority to do this, that is why the complaints are reported to the State. Ms. Carlyle shared that right now there is an ordinance in place that cannot be enforced, so the choices are to:

- (1) Repeal it (get rid of it completely), or
- (2) Amend it (as we currently have it proposed) and direct the manager to take care of things in-house, or
- (3) Put in a process

Ms. Carlyle recommended if Council wants to put in specifics, then it would require amending the ordinance every time an amendment is requested. Mr. Demko suggested that Mr. Hollis read the current process into the record during the Council Meeting before Council votes on it. Council Member J. Davis suggested it be put into the record.

Procedures for Special Use Cases (Quasi-Judicial Proceedings)

Council Member Wagner asked City Attorney Carlyle to brief Council regarding the procedures for a Special Use permit case and a regular zoning case. Ms. Carlyle stated that a Special Use Permit is quasi-judicial process which requires to be sworn in and hopefully no one here has had any conversation with anyone prior to tonight regarding the case, and if they have, it needs to be disclosed at the very beginning to determine whether or not they need to step away from the dais.

She explained tonight's Special Use Permit request involves another request for a cell tower and one of the key things she is expecting to hear tonight is they will probably address some of the health concerns that the residents have. She reminded Council that their hands are completely tied by the federal government as to what can be accepted as fact. She pointed out Council could not take comments of this nature into consideration. Mayor Bencini felt it might be helpful for Ms. Carlyle to remind Council and the audience of this at the meeting. Council Member C. Davis stated that she had been contacted by only one in the public and they were concerned by the height limits and plane crashes with the interference.

Council Member J. Davis shared that he had an interesting phone call today from someone who questioned Council's thought processes and intellect and asked who knows the difference between a frying hen and laying hen. Council Member Wagner responded that the young chicken is what is available for purchase in the stores, then they go through an egg laying phase and when they quit laying eggs is when they kill it and it becomes a stewing or roasting chicken.

Continuation of Discussion on Fair Housing Ordinance

Mr. Hollis referred to the memo, third paragraph that states, "Currently the Human Relations function exists as the Division of the Communications and Public Engagement Department. Resident concerns involving housing issues are received by city staff and referred to the appropriate agencies that have the resources and authority to investigate and respond."

He shared that on a typical call that comes in, if it is someone that has a Minimum Housing issue, then it would be sent to the appropriate area in Inspections. If it is someone with a Fair Housing issue, that would be sent to the State. He pointed out this language is specific enough, yet

broad enough so the issues are handled on a case-by-case basis. Council Member J. Davis suggested that staff read this into the record at the City Council Meeting.

There being no further discussion, the meeting adjourned at 5:03 p.m. upon motion duly made and seconded.

Respectfully Submitted,

Maria A. Smith
Deputy City Clerk

DRAFT