

PUBLIC WORKS COMMISSION
MEETING OF WEDNESDAY, FEBRUARY 25, 2015
8:30 A.M.

Present: Michael G. Lallier, Chairman
Lynne B. Greene, Vice Chairman
Wade R. Fowler, Jr., Secretary
Darsweil L. Rogers, Treasurer (VIA Telephone)

Others Present: Steve Blanchard, Interim CEO/General Manager
Karen McDonald, City Attorney (VIA Telephone)
Kristoff Bauer, Deputy City Manager
Scott McKay, Partner - Cherry Bekaert, LLP (VIA Telephone)
Michelle Thompson, Partner – Cherry Bekaert, LLP (VIA Telephone)
M. Gray Styers, Jr., Styers & Kemerait, PLLC (VIA Telephone)
PWC Staff

Absent: James Arp, Council Liaison
Glenn Adams, County Liaison
Mike Bailey, Hope Mills Liaison
John Ellis, Hope Mills Liaison
Media

Chairman Lallier called the meeting of February 25, 2015, to order.

Approval of Agenda

Commissioner Greene motioned for the agenda to be approved with the addition of a closed session for legal matters as allowed under N.C. General Statutes 143-318.11(a)(3).

Upon motion by Commissioner Greene, seconded by Commissioner Fowler, the agenda was unanimously approved with the requested addition.

Consent Items

Chairman Lallier requested discussion on Consent Item D.

Upon motion by Commissioner Greene, seconded by Commissioner Rogers, the following Consent Items were unanimously approved following discussion on Consent Item D.

- A. Minutes of Special Meeting of February 4, 2015
- B. Minutes of Meeting of February 11, 2015
- C. PWC Resolution No. PWC2015.02 to declare personal property described as one (1) 1996 International Cab and Chassis with a 4900 Digger Derrick Body, VIN No. 1HTSDAAN6TH303113, as surplus and authorize its sale by public auction.

Discussion on Item D:

Commissioner Lallier requested for Mr. Noland to update the Commission on the project fund and the related budgets. Mr. Noland delineated the process of completing the design and entering into task authorizations. Mr. Noland stated the selected companies have been authorized to begin preliminary engineering and base mapping and until issues were resolved with mediation, further engagement is on hold.

Mr. Lallier asked if there were any quality issues with this process going forward. Mr. Noland affirmed there are no quality issues.

D. Phase V, Area 18-19 Capital Project Fund and Related Budgets

1. Adopt PWC Resolution No. PWC2015.03 to establish the Annexation Phase V – Areas 18 through 19 Capital Project Fund
2. Approve the Initial Budget for the Annexation Phase V – Areas 18-19 Capital Project Fund for Fiscal Years 2015-2017
3. Approve Amendment #13 to the Annexation Phase V Reserve Fund from inception through Fiscal Year 2015
4. Request that City Council adopt a similar resolution and budgets at their Council Meeting on March 23, 2015

Update on Internal Control Remediation Effort

*Presented by: Dwight Miller, Chief Finance Officer
Scott McKay, Partner - Cherry Bekaert, LLP
Michelle Thompson, Partner – Cherry Bekaert, LLP*

Dwight Miller, Chief Finance Officer, presented Scott McKay, Partner – Cherry Bekaert, LLP. Mr. McKay and Michelle Thompson, also a partner with Cherry Bekaert, provided an update on control remediation efforts.

Mr. McKay stated in November 2013 the Commission implemented the Oracle Enterprise Business System and the Work and Asset Management modules as part of the initial phases of their ERP implementation. As of the result of the 2014 audit there were 2 significant control deficiencies identified.

1. Periodic access review (PAR) and control over Oracle system access had not been established and aligned with the Commission’s segregation of duties (SOD) and anti-fraud program of controls.
2. The Commission was unable to timely close and properly account for electric work orders and capital projects via Oracle WAM and EBS Fixed Asset modules apart from a lot of work around activities, which are not sustainable and significantly increased the risk of error.

Commissioner Lallier asked Mr. McKay to elaborate on the deficiencies. Mr. McKay stated the first deficiency had to do with separating duties and aligning the system access inside of Oracle to make sure it matches with the Commission's desired level of separation of duties. It is a fundamental internal control that supports the anti-fraud program of control for most organizations. It is common after a big systems implementation that organizations may not have gone through all their systems' access to ensure that all people who have access to the system have appropriate access levels. It is a complex process and is very common in a new system implementation.

Mr. McKay stated, the second deficiency relates to how the Commission accounts for electric work orders. They were not able to account for them through their new Oracle, WAM and EBS systems as they were able to account for them through their legacy business systems. He stated, Cherry Bekaert did not find an error, but they believe the condition of not being able to timely close work orders and having to do a lot of manual work around activities in order to get the financial accounting correct to report the external activities of the Commission is not sustainable in the long run and increases the risk of error for the Commission.

Commissioner Rogers asked if there has been a significant increase in errors as a result of this issue. Michelle Thompson (Cherry Bekaert) responded by stating the process of closing out the electric work orders for the accounting of them properly has to be done by year end. At year end last year, it was accomplished through a manual process and not through the system process. At that time the volume was enough that PWC could do that manually and Cherry Bekaert was able to account for them properly but the system and the controls around that were not working yet. Michelle Thompson went on to say that the control issues that were reported has to do what can potentially go wrong because everything at that time was a work around system.

Scott McKay discussed the first deficiency. He went on to state in November 2014, the Commission engaged Cherry Bekaert Risk Advisory Services to assist with 1) Identifying conflicts in Oracle Roles, Responsibilities and User access against alignment with the Commission's segregation of duties (SOD) controls and 2) to assist the Commission in re-establishing its periodic access review (PAR) controls as part of its anti-fraud program.

In December 2014, Cherry Bekaert and PWC reviewed and agreed on the scope of their services: They were: Relevant fraud risk factors by business cycle to include: General ledger and financial reporting; Order to cash including accounts receivable; Long lived asset accounting; Inventory; Procurement to payment; Hire to retire including payroll. The scope also included the Commission's desired levels of segregation of duties (SOD); Relevant anti-fraud controls elements needed for effective SOD; Desired levels of SOD and "High Risk" Oracle functions necessary to align the Oracle system access with SOD and requirements and timing of a Periodic Access Review (PAR) control and its basic operation.

Commissioner Rogers asked if the Commission's desired level of segregation of duties matched with what Cherry Bekaert would recommended. Mr. McKay responded that the Commission's desired level of segregation of duties was not too disparate of what they would expect it to be inside an organization of this size. Mr. McKay also stated that the Commission has a good understanding of what the separation of duties should be and the conditions already existed functionally. It was just not reflected within the system.

Chairman Lallier also asked for additional explanation on ‘hire to retire’ risk. Mr. McKay provided clarification.

Scott McKay stated in January - February 2015, Cherry Bekaert worked with the Commission to develop and run a series of custom diagnostic queries against Oracle to accomplish the following: Evaluate, test and correct Oracle Roles and Responsibilities for “High Risk” functions; Assess User’s access to align with the Commission’s SOD as part of its anti-fraud program. They also discussed with Management the description of the periodic access review (PAR) control process, and what is needed to mature the design of the PAR control for the new Oracle environment.

He went on to detail the remaining open items to be completed. Scott McKay stated the targeted completion date for these items is mid-March. Discussion ensued.

Chairman Lallier asked staff if the targeted completion date is realistic. Mr. Miller replied that it is sufficient. Discussion ensued on the PAR (periodic access review) control process.

Chairman Lallier asked for confirmation that it is typical to have these types of issues when a new system is rolled out. Mr. McKay stated the first issue is very typical (access issue) and that it is not atypical to have issues with a major ERP in a separate module to account for a different type of transaction and integrate with the ERP.

Commissioner Fowler asked why this type of problem is common. Mr. McKay replied that the integrators are more focused on supplying access to allow the system to be tested and allowing users to complete their duties. He stated Cherry Bekaert sees this issue a lot. Discussion ensued.

Mr. McKay discussed the second deficiency and the Oracle WAM & EBS Project Scope. In January 2015 The Commission engaged Baker Tilly (BT) to assist in its efforts to develop an internal control remediation plan to correct deficiencies in timely closing and accounting for electric work orders through Oracle WAM and EBS. The projected timeline is as follows.

- 2/9 – 4/10 Baker Tilly fieldwork, process documentation, and gap analysis
- 4/6 - 4/24 – Baker Tilly finalize recommendations for control remediation plan
- 5/4 – 6/30 – Baker Tilly to assist PWC with Oracle configuration changes, if required
- 5/4 – 6/30 – Baker Tilly to assist PWC with implementation of remediation plan, conduct training and testing of PWC’s control remediation efforts
- 7/1 – 7/10 – Baker Tilly to report to Commission management and Cherry Bekaert of final results of control remediation efforts.

Mr. McKay stated Cherry Beaker’s role is more of oversight. They consult with Baker Tilly and Management. They reviewed, consulted and/or participated in the following with Baker Tilly and Management; their proposed project plan scope, approach and related work plans. Based on Cherry Beaker’s knowledge of the internal control environment and related control deficiency Mr. McKay stated he believed Baker Tilly’s approach, scope and how they are approaching remediation appeared sound and reasonable. Cherry Bekaert participated in the project kickoff and Q&A session.

Cherry Bekaert reviewed Baker Tilly's client assistance package and initial information gathering procedures. Cherry Bekaert also reviewed the results of Baker Tilly's preliminary observations and recommendations.

Scott McKay reviewed Baker Tilly's observations in detail; their suggested immediate recommendations and next steps recommendations.

Scott McKay also stated Baker Tilly informed him without the additional resources to complete the next steps, their timeline may be impacted. Chairman Lallier asked if staff has committed to the additional resources. Steve Blanchard responded staff has committed to the additional resources and are in the process now. Commissioner Rogers requested to know the cost of the project. Mr. Blanchard stated that the exact cost and amount of people have not been identified yet. He offered to report back to the Commissioners with the amount of additional resources and cost. Mr. Blanchard projected that they may only need the additional resources for approximately 45-60 days. Discussion ensued.

Commissioner Fowler asked the level of staff's anticipation of this issue and how much has been built into the project cost. Mr. Blanchard replied this is more of the implementation part of the process and we are not questioning whether Oracle platform or the WAM platform is working, it is just the communications piece. He went on to state, as identified in the report we have a limited amount of staff and we have been working on the total project. This is one piece that we have not had time to work on because staff is multi-tasking. Baker Tilly is stating we need to pull in more people while our people are working on this issue. Discussion ensued.

Commissioner Rogers asked for an estimate of cost. Mr. Blanchard estimated it may cost approximately \$200,000. Discussion ensued on Baker Tilly's recommendations and Cherry Bekaert's oversight of the project.

Chairman Lallier asked Cherry Bekaert and staff if PWC will have these issues resolved by the beginning of FY2016 and have an automated work asset management function. Mr. McKay responded there are a lot of unknowns when you start a project and Baker Tilly has stated that unless they can get these immediate observations, recommendations and next steps completed the timeline would be very aggressive and somewhat at risk. Mr. Blanchard also stated Baker Tilly has said this is a very tight schedule for them and they have dedicated resources to have it completed. He hopes to have everything in place by the end of the fiscal year and the auditors will be able to comment that it has moved in a positive direction. There will be a number of work orders in queue and he is not positive that they will be completely cleared up by then. Discussion ensued.

Commissioners asked staff to provide monthly milestones on progress to completing the WAM/EBS deficiency. Chairman Lallier also asked staff to provide specifics on work orders (amount of work orders, time to complete; inventory of monthly work orders). Discussion ensued.

Chairman Lallier thanked Cherry Bekaert and staff for the report.

General Manager Report

Steve Blanchard, Interim CEO/General Manager stated PWC has been in contract with Cushman & Wakefield as the property manager and real estate manager for the RC Williams Business Center for about a year. Mr. Blanchard's stated it will be in PWC's best interest to give notice to cancel the contract and not renew it for another year or two.

Susan Fritzen, Chief Officer of Corporate Services went on to state PWC entered into the contract with Cushman & Wakefield a year ago. Prior to that engagement, PWC handled the property management of the building and typically worked with a local real estate agent to handle the marketing and leasing aspect of the building. All the other maintenance functions were handled internally. Once PWC decided we would not sell the building, we looked into the current approach and the Commission approved it. Ms. Fritzen stated this approach has not worked as well as we hoped it would work. The firm is in Raleigh and the tenants still call PWC to handle maintenance issues.

Ms. Fritzen went on to state over the last year, 92 work orders were generated by the management company. Of the 92, 38% were issues such as access badges for building access; and HVAC settings and thermostat settings which PWC's staff handled. Based on these issues, Ms. Fritzen stated, we have determined it is best to take back the management side of it and work with a local realtor to do the marketing and leasing side of it. Mr. Blanchard stated PWC pays Cushman & Wakefield \$26,000 a year to do the property management and he does not believe we are receiving \$26,000 in benefit. He went on to say, our people are already spending time handling issues at the building.

Commissioner Rogers asked if there is a local property manager that can meet our needs. Susan Fritzen stated we looked at that approach when we sent out an RFQ/RFP over a year ago and we did not find anyone locally who could meet our needs. Discussion ensued.

Commissioners agreed with staff's suggestion to discontinue the property management contract with Cushman & Wakefield and go out with an RFP/RFQ to engage a broker to handle the marketing and leasing of the building.

REPORTS AND INFORMATION

- A. Position Vacancies
- B. Approved N.C. Department of Transportation Encroachment Agreement(s):
 - Encr. #17966 – Sewer Main Crossing – SR-2219 & SR-2341
 - Encr. #17472 – Installation of overhead electric distribution line – Yadkin Rd & Santa Fe Dr.
- C. Approved Railroad Encroachment Agreement(s):
 - Encr. #17768 – Pipeline Crossing – 700 Winslow Street

Closed Session as allowed under N.C. General Statutes 143-318.11(a)(3) to discuss the pending litigation on the request for declaratory rulings

Chairman Lallier entertained a motion to go into closed session for legal matters to discuss the pending litigation on the request for declaratory rulings as allowed under N.C. General Statutes 143-318.11(a)(3).

Upon motion made by Commissioner Greene and seconded by Commissioner Fowler, the Commission unanimously voted to go into closed session at 9:56 a.m. as allowed under N.C. General Statutes 143-318.11(a)(3) to discuss the pending litigation on the request for declaratory rulings.

Following discussion, upon motion made by Commissioner Fowler and seconded by Commissioner Greene, the Commission voted to return to open session at 10:47 a.m.

There being no further business, upon motion by Commissioner Fowler, seconded by Commissioner Greene and unanimously approved, the meeting was adjourned at 10:47 a.m.