

PUBLIC WORKS COMMISSION
SPECIAL MEETING OF WEDNESDAY, FEBRUARY 4, 2015
11:30 A.M.

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

Others Present: Brian Meyer, Assistant City Attorney
Kristoff Bauer, Deputy City Manager
Elizabeth Somerindyke, City Internal Audit Director
James Arp, Council Liaison
Jason Poole, TRP CPAs, LLC
Taylor Stephenson, TRP CPAs, LLC
Kelly Puryear, TRP CPAs, LLC
PWC Staff
Media

Absent: Karen McDonald, City Attorney
John Ellis, Hope Mills Liaison
Mike Bailey, Hope Mills Liaison
Glenn Adams, Cumberland County Liaison

Chairman Lallier called the Special Meeting of February 4, 2015 to order.

Approval of Agenda.

Upon motion by Commissioner Fowler and seconded by Commissioner Rogers, the agenda was unanimously approved.

Chairman Lallier noted Commissioner Greene will attend the meeting via telephone due to a previous commitment.

Chairman Lallier read the following comments into the record.

“This special meeting was called for the purpose of receiving the report from TRP CPAs regarding an Agreed Upon Procedures Review of the NavIgate Project. This review is performed at the request of the Commission and for its benefit. The review is due to allegations made by certain individuals of mismanagement, misappropriation of funds and Commission neglect of its oversight of the NavIgate Project.

The Commissioners believed it was their fiduciary responsibility to determine if the allegations had merit or not. TRP CPAs was engaged to perform this agreed upon procedures review. TRP is a highly regarded local CPA firm with governmental accounting experience. In addition they had the expertise and ability to complete this review in a timely fashion. Here today is Mr.

Kelly Puryear, (who is in the hallway) Mr. Jason Poole and Ms. Taylor Stephenson.”

Chairman Lallier stated the presentation will not be lengthy and that he will entertain questions from PWC Commissioners, PWC Staff and member of City Council once the presentation is completed.

Chairman Lallier stated the report will not be made available until TRP receives a ruling by their attorneys to distribute it. While still in session, TRP received the permission to release the report. Copies were distributed to PWC Staff, City and also to the Media (upon their verbal request).

Chairman Lallier then presented to those present Mr. Jason Poole.

Mr. Poole gave a background of his firm, TRP CPAs. He stated the firm was engaged by PWC to do a Review of Agreed Upon Procedures.

Jason Poole gave the definition of an Agreed Upon Procedures Engagement. It is an engagement in which a practitioner is engaged by the client to issue a report of findings of specific procedures performed on the subject matter. This is different from an audit because an audit issues an opinion and an agreed upon procedure issues findings. Typically for an audit, the practitioner would issue an opinion on the financial statements as a whole (balance sheet, income statement, cash flows and different funds). With agreed upon procedures, the practitioner is looking at a single process or single issue; verifying cash, or verifying some account receivable which is outside the normal process of the audit. During an audit this is performed, but when an agreed upon procedure is performed the focus is in one narrow aspect. The CPA must be independent and free of conflict of interest to perform an audit or an AUP (agreed upon procedure). The procedures to be performed are both agreed upon by the accountant and the client.

Mr. Poole then gave the scope of the AUP Review and his findings on the AUP Review. (Please see the report on page _____ of the minutes).

He noted on December 14, 2011, PWC Commissioners approved awarding a contract to Infosys and Oracle. (Infosys and Oracle entered into a joint venture to bid on the project). They were the primary vendor on the project. The contract amount was \$14.5 million. City Council approved the recommendation on January 9, 2012, to allow Steve Blanchard, CEO/General Manager to enter into the contract. Mr. Poole noted modifications were approved through the normal process of budgets.

Mr. Poole referred to a yearly schedule of costs that were approved and costs that occurred. He stated for fiscal year 2011-2012, PWC spent 5.1 million on the NavGate CIP Project. PWC had an approval to spend \$5.9 million for the year and also had a total project approval amount of \$15.29 million.

Mr. Poole stated his firm stepped through the process of how budgets were approved each year, looking to see if in any one year PWC was over the budget or if PWC was over the budget for the complete project. He stated PWC was not. Mr. Poole noted PWC plans to spend \$4,905,784. This is a current estimate as of January 30, 2015. The budget for this year was only \$1,035,000. And PWC will use a budget amendment to increase the total cost to \$20,229,391. Also in the prior year, PWC budgeted to spend \$6.79 million and the entire budget was not spent and is being used in the current year.

Mr. Poole noted the vendors which were used on the project and the amounts they have or will receive. The identified (third party) vendor costs were \$19,424,352. There were capitalized labor (Project Manager) costs of \$241,022. The total identified expenses are \$19,665,374. PWC estimates an additional \$564,017, through the end of the project (it is not 100% complete) for a total cost of \$20,229,391.

Mr. Poole made several other observations on costs which were not included in the CIP costs and he noted they were correctly classified.

Commissioner Rogers asked for clarification on why TRP CPAs agreed with PWC in capitalizing some expenses and to not capitalize other expenses. In particular, PWC capitalized contract labor and the utility chose not to capitalize the internal labor costs. Mr. Poole stated he agreed with PWC's philosophy of charging the expenses of a dedicated person, like a project manager to the project (internal or external). Mr. Poole stated a project manager is directly related to the project and is overseeing the aspects of the project.

Commissioner Rogers asked if this is a business choice to choose to capitalize the costs or if this is the generally accepted approach. Mr. Poole stated this is the generally accepted standard. There are standards which state when you begin capitalizing and when you stop capitalizing.

Commissioner Rogers asked Mr. Poole, in his point of view, if the decision to not include expenses related to employees who spent time and energy working on the project was correct in as much as it relates to capitalization. Mr. Poole stated yes, that is how they viewed it.

Mr. Miller stated there is guidance from the Federal Energy Regulatory Commission that governs utilities and PWC follows that guidance and how items are capitalized and expensed. Discussion ensued.

Commissioner Rogers asked Mr. Poole if there was any information he did not receive that was requested. Mr. Poole stated all the information that was requested was received by TRP CPAs.

Commissioner Rogers also asked Mr. Poole to explain how he was able to determine that both the Commission and the City approved (in effect) \$20 million in capital. Mr. Poole explained there are 200-300 page books (budget books) that have a page in it that pertains to NavIgate. These books are submitted to the Commissioners and City Council that tracks the current year costs and the future costs. Discussion ensued.

Commissioner Fowler stated he was asked to look into the project and that the project has run over \$30 million. Commissioner Fowler asked Mr. Poole if he saw \$10 million hidden somewhere. Mr. Poole stated no.

Commissioner Arp commented that this project appears to be 1% over budget. He stated that normally software projects run 10 – 20% over budget.

He commented there have been allegations, insinuations and accusations that there were excessive cost overruns with this program. And based on Mr. Poole's review of the figures, processes and procedures, that is not the fact. Mr. Poole confirmed that based on agreed upon procedures they applied, they did not see the project being over-budget other than the

\$229,000. That is based on the information provided by staff (budget department, finance department, management) and review of invoices. Mr. Arp confirmed that General Accepted Accounting Procedures and also Governmental Auditing Standards were used.

Commissioner Lallier thanked Mr. Poole, Mr. Puryear and Ms. Stephenson for conducting the review on behalf of the Commissioners and presenting the findings to them in a timely manner. He also thanked Staff for their assistance.

Commissioner Lallier stated based on previous comments it was important for them to have the review completed in a timely manner. The City is free to conduct a review or audit, or whatever they choose to do. This was not meant to pre-empt them. He hopes in the end, those who have commented about mismanagement, misappropriation of funds and lack of Commission oversight will acknowledge none of that has happened.

There being no further business, upon motion by Commissioner Rogers, seconded by Commissioner Fowler and unanimously approved, the meeting was adjourned at 11:59 a.m.