

General Questions re Kroll Audit

1. Why did the city of Hoover need a forensic audit?
2. Who hired Kroll?
3. Was the City of Hoover's accounting firm Barefield Murphy Shank & Smith ("BMSS") involved in the hiring of Kroll?
4. Did the City Council vote to approve the hiring of Kroll?
5. Who did Kroll prepare the audit for?
6. How has Kroll been paid?
7. Who has paid Kroll for their work?
8. What are the dates of payment to Kroll for its work on the audit?
9. What were the terms of the agreement with the City of Hoover? When and what amount of payments have been made to Kroll for conducting the Hoover forensic audit?
10. Was a retainer fee paid? By whom?
11. Has Kroll ever been paid by an account maintained by the Wallace Jordan firm (the City Attorney's firm)?
12. Who from the City of Hoover has been the point person for Kroll, the person that oversaw the audit for the city (*i.e.*, the mayor, city attorney, city council, etc)?
13. With the materials provided to Kroll can it definitively state that no malfeasance, fraud or other misappropriation/misuse of funds by City officials or employees (past or present) has taken place?
14. If it can not answer the above question, why not? What needs to be provided to Kroll to make this determination?
15. When did BMSS find out Kroll had been hired to perform a forensic audit?
16. What concerns, if any, did BMSS raise about the City of Hoovers finances to Kroll?
17. Did Kroll recommend the City of Hoover suspend its normal annual audits while the forensic audit was conducted?
18. Did BMSS stop work for the City of Hoover at any time during the audit?
19. Who did Kroll address questions to at BMSS?
20. When Kroll was initially contacted by the City of Hoover or its representative to potentially be engaged to perform a forensic audit, what were the reasons/areas of concern given for the need to undertake a forensic audit?
21. Did the City of Hoover refuse or fail to give Kroll any pertinent materials?
22. Were any materials requested by but not provided to Kroll?
23. What materials, if any, would Kroll have needed to perform a more thorough forensic audit? Why were those materials not provided to Kroll?
24. In the introduction section of your report and in Section 7.1, you provide that fund balances and other items in the financial disclosures were overstated or misrepresented on more than one occasion, and Kroll highlights one instance of more than \$36 million. What were the other instances? In total, to the extent identified by Kroll, how many times were fund balances and other items reported on financial disclosures overstated or misrepresented? And to what extent, *i.e.*, monetary total?
25. The Kroll report provides that in performing the forensic audit of the finance department operations, Kroll had certain limitations in its scope of review because of lack of accurate financial reports available and potentially thousands of electronic files being deleted without any audit trail. That being the case, how confident is Kroll that its findings are accurate or can be verified in any way and not based on faulty and/or minimum/inaccurate sets of data?
26. What standard is used to qualify replacement files for deleted files as acceptable?

27. What accounting methodology was used by Kroll?
28. Does the deletion of Hoover financial records raise the type of concern that should be referred to law enforcement?
29. How did Kroll determine no crimes have been committed if files were deleted?
30. Does Kroll offer its services as determining if crimes have been committed or is that only a conclusion law enforcement can make?
31. Is it the formal opinion of Kroll that no crimes were committed based on what they discovered during the audit?
32. The Kroll report concludes with the statement, "Although we did not identify specific evidence of financial malfeasance or asset misappropriation by Hoover employees, the deficiencies noted throughout this report could create an opportunity to commit financial fraud." Given this concluding statement in the report, does Kroll agree with Mayor Braccato's portrayal of the audit findings that everything looks good and the report found no significant issues with Hoover's finances?
33. Would referral to law enforcement allow for personnel to be suspended?

Questions Directly Relating to the Report to ask Kroll:

1. Erroneous Financial Reporting

- 1.1. Can you provide more detail on the root cause of the \$36 million overstatement in the General Fund balance? Was this due to a systemic issue, human error, or intentional misrepresentation?
- 1.2. Were there any specific controls or processes missing that allowed this discrepancy to go unnoticed until later in the audit process?
- 1.3. How many similar discrepancies or reporting errors were identified across other financial statements or years?
- 1.4. What recommendations do you have for improving the accuracy of future financial reporting?
- 1.5. What specific concerns did the external auditors raise regarding the delays in finalizing the fiscal year 2022 financial statements?

2. Deleted, Missing, and/or Destroyed Records

- 2.1. Is there any evidence to suggest whether the deleted files were removed with malicious intent or due to negligence?
- 2.2. Were any measures suggested or implemented to prevent future unauthorized deletion of financial records?
- 2.3. The report mentions backup system failures that contributed to the inability to recover files. What recommendations were made to address this issue and ensure regular, secure backups going forward?
- 2.4. Was the identity of the individual(s) who accessed and deleted the records between July and August 2023 confirmed? If so, what justification did they provide?

3. Lack of Formal Policies and Procedures

- 3.1. Were there any drafts or partial documentation of policies and procedures found? If so, why were they never formalized?

- 3.2. What timeline would you recommend for implementing a comprehensive policy and procedures manual, and what key areas should it cover?
- 3.3. Did city officials express awareness of the lack of policies? If so, what steps had they taken or promised to take before your audit to address this issue?

4. Inadequate Implementation of the Munis ERP System

- 4.1. Were there specific points in the Munis ERP system implementation that could be identified as the most critical failures (e.g., training, testing, or stakeholder involvement)?
- 4.2. Was there any evidence that the issues with the Munis implementation have led to financial reporting errors or delays?
- 4.3. Are there specific recommendations for addressing the ongoing issues with Munis, particularly for payroll and general ledger functions?

5. Staffing and Experience Challenges

- 5.1. How has the lack of experience and high turnover in the Finance Department directly impacted the financial reporting process and internal controls?
- 5.2. Did you find evidence that the department was attempting to address the staffing gaps, such as through recruiting or training programs?
- 5.3. Given the benchmarking data provided in the report, what specific steps should Hoover take to align its Finance Department staffing levels and expertise with comparable cities?

6. Fluctuations in Budgeting

- 6.1. What caused the dramatic year-to-year fluctuations in the Finance Department's salary and benefits budget?
- 6.2. Were these changes linked to understaffing, reallocation of funds, or other operational decisions?
- 6.3. Did you observe any gaps in the City Council's oversight or approval processes for these fluctuating budgets?

7. Follow-Up and Implementation

- 7.1. Do you, as the investigator, believe the city's remedial actions—those taken, ongoing, and proposed—as stated by the CFO address the most critical issues identified?
- 7.2. Are there additional follow-up audits or reviews you would recommend to ensure ongoing compliance and improvements?
- 7.3. Were any of these issues flagged in previous audits or reviews? If so, why were they not resolved prior to your investigation?

Questions Relating to the Credit Worthiness of the City for Kroll:

1. Overall Impact on Credit Rating

- 1.1. Based on your findings, which specific issues in the report do you believe would be most concerning to credit rating agencies like Moody's or S&P?
- 1.2. Was Moody's or S&P notified?
- 1.3. Were bondholders notified?
- 1.4. When did the City of Hoover become aware of the various problems that Kroll was asked to investigate?

- 1.5. How likely is it that these findings could result in a downgrade of the city's credit rating if left unaddressed?
- 2. Transparency and Reporting Concerns:**
 - 2.1. How might the identified discrepancies in financial reporting, such as the \$36 million overstatement, impact the city's reputation with credit agencies and investors?
 - 2.2. Were there any recurring reporting issues that could indicate systemic problems, and how could these affect the city's creditworthiness in future evaluations?
- 3. Internal Controls and Risk Management:**
 - 3.1. How might the lack of formalized financial policies and procedures be viewed by credit rating agencies in terms of internal control risks?
 - 3.2. Are there specific control weaknesses that you believe could lead to increased scrutiny or penalties from regulators or agencies?
- 4. Deleted Records and Data Integrity:**
 - 4.1. To what extent could the unauthorized deletion of records raise concerns among credit rating agencies regarding the city's governance and transparency?
 - 4.2. Would these data integrity issues increase the risk of a negative outlook from agencies?
- 5. Staffing and Turnover Risks:**
 - 5.1. How might the high turnover rate and understaffing in the Finance Department affect the city's ability to meet reporting deadlines and maintain strong fiscal oversight, and how would credit rating agencies perceive this risk?
 - 5.2. Are there specific steps the city should take to mitigate the reputational damage caused by these staffing issues?
- 6. Budget Management and Fluctuations:**
 - 6.1. Could the unexplained budget fluctuations highlighted in the report be seen as a red flag by credit rating agencies, potentially leading to concerns about fiscal discipline?
 - 6.2. How might these fluctuations impact the city's ability to project stable financial outcomes for its debt obligations?
- 7. Long-Term Recommendations:**
 - 7.1. What immediate steps would you recommend the city take to demonstrate to credit rating agencies that it is addressing these issues effectively?
 - 7.2. Are there any areas where improvements could yield the greatest positive impact on the city's creditworthiness?
- 8. Communication with Rating Agencies:**
 - 8.1. Have you provided any guidance on how the city should communicate these findings to credit rating agencies to mitigate potential negative impacts?
 - 8.2. Should the city proactively disclose the audit findings to credit agencies, and if so, how can this be framed to emphasize corrective actions?
- 9. Potential for Legal or Regulatory Actions:**
 - 9.1. Could any of the findings, such as the unauthorized deletion of records or significant reporting discrepancies, trigger legal or regulatory actions that would further affect the city's credit standing?

- 9.2. How might these risks be mitigated in advance to reassure both regulators and credit agencies?

10. Comparative Risk Analysis:

- 10.1. How do the risks highlighted in the audit compare to similar issues faced by other municipalities, particularly those that have experienced downgrades?
- 10.2. Are there any parallels or precedents that could help the city understand the potential trajectory of its credit rating?

11. Six Month Revolving Reserve

- 11.1. Is Kroll aware of the City of Hoover's six (6) month revolving reserve "General Funds" requirement?
- 11.2. Did you review the status of the General Funds?
- 11.3. Did you review City obligations and undisclosed liabilities?
- 11.4. Can you confirm the 6 month revolving reserve requirement was maintained?
- 11.5. If so, how? And where are these funds?