

**CITY OF FORT LAUDERDALE
 AUDIT ADVISORY BOARD MINUTES
 MONDAY, MARCH 31, 2008 AT 5:00 P.M.
 CITY HALL, 1ST FLOOR, COMMISSION CHAMBERS
 100 NORTH ANDREWS AVENUE
 FORT LAUDERDALE, FLORIDA**

Board Members	Attendance	Cumulative	
		January – December 2008 Present	Absent
Norman Thabit, Chairperson	P	2	0
Mike Moskowitz, Vice Chair	A	1	1
Delores McKinley	P	2	0
Joseph Welsch	P	2	0

Ex-Officio Members

Raymond Mannion, Director of Finance

Staff and Guests

John Herbst, City Auditor
 Alyson Silva, Ernst & Young
 Steven Scott, Assistant City Manager
 Joanne Rizi, Finance
 Tom Bradley, Ernst & Young
 Cynthia Borders Byrd, C. Borders-Byrd
 Patrice Jones, Ernst & Young
 Elsie Hogan, Finance
 Hilda Testa, Recording Clerk, Prototype Inc.

• **Roll Call**

The meeting was called to order at 5:04 p.m. by Chair Thabit; it was determined a quorum was present.

• **Approval of Minutes from February 11, 2008 Meeting**

A board member noted a change to the minutes on page four, paragraph four, “Chair Thabit cited the original audit” The statement should read, “Chair Thabit cited the original ordinance”

Motion made by Mr. Welsch, seconded by Ms. McKinley, to accept the minutes of the February 11, 2008 Audit Advisory Board meeting. In a voice vote, the motion passed unanimously.

- **Ernst & Young LLP, Financial Statements – FYE September 30, 2007 Audit Results, Communications and Report to Management**

Mr. Tom Bradley, Ernst & Young provided handout information to the Board members, and introduced the other members of his team. Chair Thabit noted for the record that Mr. John Herbst, City Auditor, was present in the room, along with Elise Hogan, Treasurer.

Mr. Bradley stated the presentation would cover deliverables resulting from the audit, as well as provide a current status of the audit. Mr. Bradley noted there had been a planning meeting to prepare for the audit, and he would speak to the results and findings from the meeting, introduce a draft internal control report, and provide a peer review report.

Ms. Alyson Silva, Ernst & Young, discussed the auditor's opinions to be issued, including:

- The basic financials of the City
- Wastewater treatment rate computation, which is in process.
- Status update of open items, including legal letters, letter of representations, tie out procedures and executive review procedures, which are in process.
- Independent partner review.

Referring to the handout, Ms. Silva indicated the internal control, financial reporting, and compliance would be issued in accordance with government auditing standards. A new auditing standard was released earlier in the year, changing the definitions for significant deficiencies, and the reporting requirements. A draft of the report was included to the Board in Appendix C.

Ms. Silva explained copies of the issuance of management letter and the A133 audit were also included in Appendix C.

Ms. Borders-Byrd stated the A133 audit was in process, including two state grants (Schiff and DOT) and four federal grants (TDBG, AIP, FEMA, and SRF). The audit would cover approximately 89% for expenditures for the federal grant, and 81% for the state grants. The original audit work had been completed, and the findings are in the process of being summarized.

Ms. Silva provided a summary of the areas covered with the Board previously in the planning process, and noted the anticipated time line was the only change in the original plan.

Mr. Bradley provided information regarding required communications, including:

- Ernst & Young requirements under generally accepted auditing standards, including an audit of the City. Mr. Bradley stated the auditors are anticipating issuing an unqualified opinion on the financial statements.
- Significant accounting policies and accounting principles followed the City. The auditors evaluate the policies for appropriate conservancy. The auditors felt the policies and principles of the City were appropriate.
- Accounting estimates for accounts receivable allowances, self-insurance reserves, compensated absences, and environmental liabilities were evaluated, and any audit adjustments needed would be discussed with the Board.
- No changes in or adoptions of new accounting principles.
- No significant unusual transactions or controversial accounting methods.
- Audit adjustments and unrecorded differences would be discussed later.
- Audits are designed to catch fraud and illegal acts material to the financial statements, and no fraud or illegal acts were noted.
- Inquiries of management, accounting personnel, and the Audit Committee are required. Mr. Bradley asked the Board members if they were aware of any allegations of fraud at the City, or any actual fraud at the City. The Board members stated there were none.
- Internal control recommendations would be discussed in detail.
- Management analysis and statistical information was evaluated, and no disagreements with management were found.

Mr. Welsch asked if any of the weaknesses shown in Appendix C had impacted the conclusions on the financial statements. Mr. Bradley stated they did not. Mr. Bradley indicated one material weakness, but noted the opinion on the financial statements was, in fact, only an opinion, and additional audit work had been performed to rule out a material misstatement of the financial statements.

Chair Thabit asked for clarification on the September 3, 2006 date on Page Eight. Mr. Bradley stated that would be corrected to read 2008.

Ms. Silva noted the receivable from FEMA, recorded in the inter-governmental revenue fund, was about \$23 million, which was significant to that fund's financials. The amount related to reimbursements the City had not yet received which were incurred previously in connection with Hurricane Wilma and Hurricane Katrina. Since the City believes they are entitled to the reimbursements, there was no allowance recorded against the receivable.

Chair Thabit asked when the receivables were expected. Mr. Herbst was unaware, but clarified it would not be in the next 90 days. Ms. Hogan stated many of the receivables were for major building repair, and were still in negotiation with the insurance companies, causing the delays in receiving the funds. Mr. Mannion stated the Finance Department had been in complete cooperation with the FEMA requirements and documentation related to the storms, including a 100% review of invoices.

Ms. Silva directed the Board members to Page Ten of the handouts, and noted procedures and findings were necessary to identify fraud risks, and Pages 11 and 12 listed the fraud risks relating to the City, the procedures, and findings relating to the risks. There are no findings of material fraudulent activity, but the findings for the single audit are still in the process of being evaluated.

Ms. Silva stated the accounting and auditing developments which could potentially impact the City were previously communicated to the Board in the planning session, but wanted to point out the actuary's evaluation is in work, and should be finished soon.

Ms. Silva stated Appendix A had been provided for reference of the timing for required communications.

Ms. Jones stated Appendix B provided a summary of audit differences, and explained to the Board members how to read the charts. Chair Thabit noted most of the adjustments were non-cash audit adjustments, and asked if that would affect the City's cash flow. Mr. Bradley stated the adjustments would not affect the cash flow.

Ms. Jones stated a summary sheet of adjustments had been provided on each opinion, including governmental activities and business activities, and related to the government wide financial statement. Mr. Herbst asked about the rationale for the City not posting up unreported issues. Ms. Rizi explained the decision was based on materiality, and noted some postings were immaterial and would have seriously delayed the audit process. Chair Thabit asked if the items would be corrected following the audit. Ms. Rizi explained some items, like interest income, and accrued liabilities would be posted

in 2008. Ms. Hogan explained specific transactions and provided clarification on how the postings would be made. Mr. Mannion noted many of the unposted items were estimates which would be self-correcting.

Mr. Herbst asked about a \$500,000 entry for internal special assessment funds. Ms. Jones stated the entry would be left as is by the City, and that item would show up annually. Ms. Rizi stated these funds were prior to Gatsby 34, and had been run by the GFOA for their opinion. As the special assessment loans are paid, the loans would reduce and eventually be off the books. Mr. Mannion explained beautification projects are paid off fairly quickly, with annual payments of about \$470,000. The entries should be off the books in approximately nine years.

Chair Thabit asked about the unrecorded audit differences of \$3.3 million for cash and investments. Mr. Jones explained the differences were included in the previously discussed special assessment loans. Mr. Mannion noted the entries are not truly unrecorded or obfuscated as they are recorded, however the entries were recorded incorrectly in the past.

Mr. Herbst asked if the entry could be properly recorded now. Ms. Rizi stated there was an internal funding mechanisms allowing the funds to be borrowed from the pool, and the capital project pays interest on the loan, and a new funding source would have to be substituted in order to change the transaction.

Ms. Jones noted a draft report on internal controls in Appendix C, which appears different from last year due to the significant deficiency and material weakness revisions. Certain comments in the report were deemed to be a significant deficiency, and a description of those items was provided to the Board. Ms. Jones also provided a report on material weaknesses and a summary of the audit results. Ms. Jones stated the Federal Awards and State Project section would be included upon completion.

Ms. Jones stated comment 2007-1 dealt with the City accounting staff, including staffing constraints and turnover in the three key finance positions experienced this year. The City is working to fill the positions to expand the breadth and depth of the Accounting Department. The comment is deemed to be a material weakness, and caused delays in the initial reporting process.

Chair Thabit stated a search firm had been hired to fill the positions, and expressed concern regarding the salaries being offered for the positions. Mr. Mannion stated although he was unaware of the Florida market for the jobs, it was felt the Director's position, Controller position, and Treasurer positions were at an appropriate level. Mr. Steven Scott, Assistant City Manager, stated the last salary survey was done two years ago, and assured the Board the three positions had not been vacated due to salary.

Mr. Welsch asked how many applications had been received, to which Mr. Mannion stated approximately two dozen had been received through the City from all over the nation. Chair Thabit expressed concern over repeated audit findings regarding lack of adequate personnel.

Mr. Welsch asked if the auditors were finding these same personnel issues in other cities. Mr. Bradley stated there is turnover in all entities, and noted the three vacated positions had been held for an extended period of time.

Ms. Jones stated comment 2007-2 dealt with the land inventory, and showed \$2.6 million in additions to land inventory. Of that \$2.6 million, \$1.4 million related to land taken off the books in 2001. The land came off the books erroneously, as the City had not disposed of the land, including the land being leased to the Post Office. The City determined the land should be on the books, and Ernst & Young proposed the land should be reversed and recorded at the government wide level.

Ms. Jones explained \$1.2 million in miscellaneous properties should have been recorded, but were not on the books. Chair Thabit asked about the City's response to the item. Ms. Rizi stated the miscellaneous properties were purchased in the late 1990s and later deeded over to the City by a third party grantor. The transactions should have been picked up as inventory at the time the deeds were turned over to the City.

Mr. Welsch noted this item showed a ten year old problem not picked up in prior audits. Ms. Rizi stated the current procedures would not allow something like this to occur today, and there was now a clear understanding on what needed to be done in the future. Chair Thabit suggested the City's response should clearly state where the problem occurred so the City Commission was fully aware of the problems from the past and the changes made to correct the problem.

Ms. Jones stated comment 2007-3 dealt with a transfer of capital assets, and related to \$937,000 and \$528,000 in assets constructed in prior years and recorded as capital outlay at the time of construction in the governmental funds, and reported as capital losses at the government wide level. The actual assets were water, sewer, and storm water, and should have been capitalized in the enterprise funds. Entries had been made to correct the transactions.

Ms. Jones stated comment 2007-4 dealt with capitalized interest. Ms. Jones explained the City capitalized interest in accordance with the applicable standards, but difference had been noted in how the amounts were being capitalized how the standards provided for the calculations. The corrections had resulted in a net adjustment of \$917,000. This amount was more significant due to the fire bond during the year.

Ms. Jones stated comment 2007-5 dealt with errors in calculations found in the compensated absences system, showing a \$470,000 net impact.

Ms. Jones stated the utility accounts receivable system showed deficiencies in aging customer accounts. Chair Thabit noted approximately \$685,000 in September credit balances, and asked if those funds were due back to customers. Mr. Welsch noted a part of the balance included deposits made by customers to begin service. Mr. Bradley explained some assumptions could be made, but to clear the balance each account would need to be evaluated. Chair Thabit asked if the accounts could be cleared and recorded as income to the Water and Wastewater funds. Mr. Bradley explained the appropriate disposition would need to be determined through researching the items.

Chair Thabit noted the write-off procedure in place to clear transactions, and suggested the City Attorney provide the correct procedure for writing off the credit balances. Ms. Hogan explained the new utility billing system should go before the City Commission in June. Chair Thabit did not feel implementation of the new system would address the issue of credit balances. Mr. Herbst advised there was also a time limit requirement that needed to be met.

Chair Thabit suggested the City get with the City Attorney to determine how the transactions should be handled. Ms. Hogan stated the current system treated all credit balances as current, requiring evaluation of each individual account. Ms. Hogan explained there were 34,000 accounts on the books, requiring a great deal of staff to evaluate each account. The new system would provide increased detail and aging of credit balances. Chair Thabit suggested the City response also provide possible solutions. Mr. Mannion agreed to speak with the City Attorney regarding the issue.

Ms. Jones noted the sanitation enterprise fund showed a liability for the Wingate landfill. The auditors suggested the City engage an outside engineer to analyze the liability. In answer to questions from the Chair, Ms. Rizi explained the charge being seen on water bills is a separate issue, and the audit finding related to the post-closure care and cost of monitoring. The charge on the water bill resulted from the original cleanup and debt service from the bond.

Chair Thabit asked if an internal or external engineering would be used. Ms. Rizi stated internal engineering would be used, with an external engineer looking at monitoring every two years. The liability is adjusted as required by the engineering evaluation. Ms. Jones stated the issue could be reevaluated and the comment removed based on the findings of the engineer. Board members discussed the benefits to both internal and external engineering being used to perform the analysis.

Ms. Rizi provided the amount dropped approximately \$150,000 to \$170,000 per year, amortized over 27 years. Mr. Herbst suggested the Engineering Department provide a report to the auditors next year to address concerns versus simply reviewing the annual costs.

Ms. Jones noted the tracking and maintaining of capital assets, and conducting a physical inventory. Ms. Jones pointed out the capital assets are significant, causing these comments to be classified as a material weakness.

Ms. Jones referred to the draft management letter provided to the Board, and discussed items mentioned in the letter. Under investments and real estate, Ms. Jones pointed out the \$32 million increased investment in real estate from pension funds. The auditors recommended controls and processes be in place to ensure proper valuation of the properties. Chair Thabit asked for clarification on the investments being made. Mr. Mannion explained the properties were commercial buildings with tenants in place in one building.

Chair Thabit requested information on the titling of the buildings. Mr. Mannion stated the buildings are titled to the pension fund, and they are tax exempt. Mr. Herbst explained all assets owned by the pension trust are required to be in the name of the trust, and would be a non-taxable entity. Mr. Mannion advised the Board the pension plans were currently being audited internally, and the data from those audits could be used to update the audit findings.

Ms. Jones cited a comment on deferred revenue, totaling \$580,000 in deferred revenues on money advanced to the City by the State Housing Initiative Program (SHIP) for grant monies received in FY2004 and FY2005. The City was required to spend the money within 24 months. The City had been granted an extension through September 30, 2007, but were unable to expend the money. The auditors proposed a reclassification to a payable. Mr. Mannion stated the City response had been drafted, and explained a reallocation of grant funds had been requested, an improved tracking system had been implemented, period status reports on SHIP funds, review of the grant funding would be performed on a quarterly basis.

Ms. Jones stated comments had also been made on the following:

- Procurement manual – in the process of being revised
- Bank reconciliations – improvements made in terms of timeliness
- Payroll – a process was implemented in March 2008 to provide documentation in the appropriate files

Chair Thabit asked about Item Six on Page Five, component units, and explained Lauderdale Isles Water Improvement District is a component unit, and was not discretely reflected. Chair Thabit noted the City Commissioner sits on the Board, taxes were levied, and even though the dollar amounts are small the law requires including component units. Chair Thabit asserted Lauderdale Isles needed to be included as a component unit. Ms. Rizi explained the literature had been studied at least twice, and Lauderdale Isle did not meet the criteria or materiality to be included. Chair Thabit disagreed, and felt Lauderdale Isle did meet the criteria, and the materiality was not an issue since reporting was a legal requirement, per FS 218. Ms. Rizi agreed to look at the requirements again.

Chair Thabit emphasized the fact that Lauderdale Isles is a dependent district, and was unable to operate without the City's involvement. Mr. Herbst asked if a budget for Lauderdale Isles had been adopted. Chair Thabit stated there was a special assessment versus a millage. Mr. Herbst requested the City provide an opinion following the evaluation of the statute.

Mr. Welsch asked for information regarding Ernst & Young's contract with the City. Chair Thabit stated there had been a two year contract, which had been extended for three more years. Chair Thabit thanked the auditors for their work on both the audit and the presentation to the Board.

Chair Thabit suggested the review of the charter be deferred to a later meeting when all the Board members were present.

- **Review of Financial Statements for the Year Ended – September 30, 2007**

Item deferred.

- **Guide for Members of Advisory Boards**

Mr. Mannion reminded the Board of a discussion at the last meeting regarding entrance fees being collected at the City parks on weekdays. Chair Thabit had requested a draft letter from Mr. Mannion to the City Commission requesting uniformity in the fees charged at the parks. Mr. Mannion explained the City Clerk had advised that an advisory board cannot make a request directly to the City Commission, but needs to go through their Commissioner.

Mr. Mannion also announced Page Seven and Eight of the guide states a liaison cannot do work for the Board, so he would not be able to present the draft letter to the Commissioner.

Mr. Welsch asked for clarification regarding correspondence directly with the Mayor and the Commissioners. Mr. Mannion explained the Board meeting minutes would go before the City Commission. Chair Thabit agreed to go back and read the ordinance to find the correct procedure for reporting to the City Commission. Mr. Welsch asked if the letter could be included as a part of the minutes to go to the City Commission. Chair Thabit suggested the ordinance discussion be deferred to the next meeting.

- **Review of Ordinance, “Charter”**

Item deferred.

- **Other Business**

Chair Thabit asked if the final draft would come before the Board before going to the City Commission. Mr. Mannion explained the comments and responses needed to be finalized, and would be due to the City Commission by April 15, 2008. Chair Thabit requested a final answer on the component unit question with Lauderdale Isles. Chair Thabit requested the issue be covered in the management letter comment to ensure the matter would show up as a follow up action item.

- **Next Meeting Date**

The next scheduled meeting of the Audit Advisory Board was set for May 5, 2008.

Mr. Mannion agreed to determine the effort required to correct the credit balance, or to provide a draft explanation for the management letter for the next meeting. Chair Thabit asked why the procurement manual redrafting process was taking so long. Ms. Rizi explained the new system did not support the old manual. Mr. Mannion agreed to speak to the Procurement Director to provide an update on the status of the manual.

- **Adjournment**

There being no further business, the meeting adjourned at 6:50 p.m.

[Minutes prepared by K. Bierbaum, Prototype, Inc.]