

FINAL
AUDIT ADVISORY BOARD MINUTES
Wednesday, July 29, 2009 AT 5:00 P.M.
CITY HALL, 8th FLOOR, CITY COMMISSION CONFERENCE ROOM
100 NORTH ANDREWS AVENUE
FORT LAUDERDALE, FLORIDA

Board Members	Cumulative	
	January – December 2009	
	Present	Absent
Joseph Welsch, Chair	2	0
Marco W. Hausy	1	0
Delores McKinley	1	1
John J. Zullo	2	0

Staff

Michael Kinneer, Finance Director, Board Liaison
John Herbst, City Auditor
Marguerite Rosenberg, Controller
Lynda Flynn, Treasurer
Renee Foley, Assistant Internal Audit Director
Jennifer Picinich, Recording Secretary, Prototype, Inc.

External Auditors

Cynthia Borders-Byrd, C. Borders-Byrd, C.P.A., LLC
Tom Bradley, Ernst & Young, LLP
Alyson Silva, Ernst & Young, LLP

Communications to City Commission

There was unanimous consensus approval to request that an audit of the Police Department's overtime be conducted.

1. Roll Call

The meeting came to order at 5:02 p.m. It was noted that a new member, Mr. Marco Hausy, had joined the Board.

Chair Welsch stated that the minutes for this meeting could be in summary form and to include the communication to the Commission as an action item. Mr. Herbst pointed out that as long as there was consensus from the Board, items could be brought to the Commission's attention prior to the approval of the minutes at the next meeting. Mr. Kinneer informed the Board that Item 5 on the agenda would be the appropriate time to discuss those items.

Chair Welsch recommended that a Vice Chairman be selected now that there are four members of the Board, in case he is unable to attend a future meeting.

Motion made by Chair Welsch, seconded by Mr. Hausy, to elect Mr. Zullo as Vice Chair. In a voice vote, the **motion** carried unanimously.

Chair Welsch asked the members of the Board to introduce themselves, along with staff and the external auditors present at the meeting

The newest member of the Board, Mr. Hausy, is currently with the Miami Dade County Internal Audit Department.

2. Approval of May 18, 2009 Meeting Minutes

Mr. Zullo requested changes to the minutes as follows:

Page 3, paragraph 2, first sentence should read:

“Mr. Zullo inquired if any of the federal granting agencies (federal auditors) audited the City’s programs and, if so, did they have any audit comments or findings?” instead of “Mr. Zullo asked if there were any comments from Federal auditors regarding the grants that were examined.”

Page 10, paragraph 5, first sentence should read:

“Mr. Zullo asked if any of the current audit findings were items that were also reported in the previous year’s audit” instead of “Mr. Zullo asked if any of the items for which the auditors have made current recommendations might have been overlooked as a finding in previous years.”

Motion made by Chair Welsch to approve the minutes with the modifications, seconded by Mr. Zullo. In a voice vote, the **motion** carried unanimously.

3. Audit Plan Fiscal Year 2009

Tom Bradley, representing Ernst & Young, referred to the 2009 Financial Statement Audit Plan and gave a brief overview of the agenda that would be covered in their presentation. He introduced himself as the Coordinating Partner; Alyson Silva, Senior Manager and Cynthia Borders-Byrd, Subcontractor Partner.

Ms. Silva conveyed that the audit deliverables would include opinions on basic financial statements, internal control communications, findings on compliance matters and a summary report of audit results.

Ms. Silva reviewed:

- global audit methodology
- business and industry risk considerations
- auditing of “significant accounts”
- testing control processes
- the audit of federal and state grants

Mr. Hausy inquired as to whether any new grants came out this year, especially with the current economical situation, that are different than prior grants and whether a new methodology would be used for testing new grants. Mr. Bradley stated there is a rotation of grants so generally the same grants are not tested every year.

Ms. Silva mentioned fraud considerations and the risk of management override. She then reviewed the timetable for the audit as follows:

- Complete the financial audit in January 2010.
- A draft of results is due to the Audit Advisory Board in February 2010 and then goes to the Commission from that point.
- The single audit would be completed January through March 2010, issued in April and is due June 30,2010.

Mr. Herbst stated that he did not see anything in the timeline referring to interim field work. Mr. Bradley said it would not be beneficial to include since the City does not fully close its books for periods prior to September 30th.

Ms. Silva stated interest is posted on a monthly basis and is allocated quarterly.

Mr. Herbst made the following suggestions:

- He encouraged the auditors to discuss timeliness with staff.
- He would like the City to help facilitate the construction of the audit time line.

Ms. Silva reviewed the following Statements:

- GASB Statement No. 49 regarding pollution remediation obligations -- they have talked to the City and the City is following up with respect to this Statement.
- Statements No. 51, 53, 54 are not effective until fiscal year 2011. No. 52 is effective for 2009, but is not going to impact the City.
- Statement on Auditing Standards (SAS) 115 regarding communicating internal control related matters identified in an audit “is effective for audits of financial statements for periods ending on or after December 15, 2009, however, early implementation is permitted.”

Ms. Silva reviewed the required communications under Government Auditing Standards which sets forth services they will provide, other services they could provide and their responsibilities regarding internal control and compliance.

Ms. Silva stated they will perform the audit in accordance with GAAS and Government Auditing Standards, as well as OMB A-133 for the federal single audit. She completed the review with Appendix B, which is a table of required communications and their timing.

Mr. Herbst asked in reference to audits done in prior years, if there are any audit procedures that need to be added. Ms. Silva responded that she doesn't think there are any new procedures they need to do. Ones that are recurring they know about and are already part of their audit approach. They know what the City's plan is and a lot of the procedures are going to be addressed when they open up a new system.

Mr. Hausy inquired if any of the deficiencies in internal controls are being remediated that haven't been in the past. He asked if they have seen a change or if any of these are being addressed during follow-up.

Ms. Silva said management is working on plans to address those deficiencies. A lot of the changes probably will not take place during fiscal year 2009 that they are auditing because of the timing.

Mr. Hausy asked if there are historically similar internal controls that are deficient repetitively and don't seem to be changed. Ms. Silva said there are several prior year items such as inventory of capital assets.

Mr. Bradley stated that some of the issues have to do with prior items, in particular, regarding the housing department. He said the City has hired additional people including a director to oversee the grants and they have been informed that improvements have been made. When Ernst & Young does the single audit this year and tests those housing grants, they will find out whether those improvements have in fact been made.

Mr. Welsch asked if the City is making inroads overall to improve the system. Ms. Rosenberg responded positively and stated the upgrade was implemented successfully. She followed by stating:

- The fixed asset implementation is a major implementation not an upgrade.
- The City currently and has historically used a manual fixed asset Excel generated tracking system.
- There was a delay in order to concentrate and focus on the upgrade accounting system, which was successful.

- The fixed asset implementation will begin in Spring 2010.
- Steps are being taken to reach that timetable and they are moving forward.

Regarding turnover, Mr. Hausy inquired if they are fully staffed at this point. Mr. Kinneer stated there are no vacancies and that there are new people on staff. It is their goal to follow the timetable while they continue with day-to-day operations. Mr. Kinneer also said it is a very manual process, they are looking at how they can do better, and it is a challenge.

Regarding the current highly manual process, Mr. Hausy inquired if there is any recommended assistance. Ms. Silva said they are looking into getting assistance such as with writing reports.

Ms. Rosenberg stated that the new team has identified areas of weakness, and they are well aware of them. However, they have their hands tied, agreeing with Mr. Kinneer that operations are behind. The Finance and Treasury Division are on a treadmill to catch up.

Mr. Kinneer said there are 2,000 Excel spreadsheets with information that is entered manually.

Mr. Zullo inquired if the timeframe for the implementation was anticipated as being 18 months? Mr. Kinneer stated that the 18-month timeframe Mr. Zullo referred to is probably the utility billing system, which is scheduled to go live in May of 2010.

Mr. Hausy inquired of Ms. Rosenberg when her department expected to be back on track. She responded that staff is working very hard, concentrating right now on operations. Mr. Kinneer added that if they adhere to the schedule, timeliness will be very different for future audits, as there will be more time for day-to-day operations.

Mr. Herbst inquired regarding the working trial balance, what the estimated due date is to provide that to Ernst & Young. Ms. Silva said they would want that information by Thanksgiving time. Mr. Herbst stated that gives the City roughly 60 days to have the trial balance done.

4. Review Charter

Mr. Welsch gave a history stating that the [Board] was formed in 2004 and met seven times. They met three times in 2005, two in 2006, two in 2007 and one in 2008. This is the Board's second meeting in 2009.

5. Communications to City Commission

Mr. Herbst suggested the Board come back to this item at the end of the meeting.

6. Other Business

Mr. Welsch suggested breaking down public safety overtime between the police department and the fire department. Mr. Herbst agreed with this idea, and that public safety is an area of prime public concern.

Mr. Welsh also recommended that the audit staff review overtime procedures and the adequacy of justification for it. Mr. Herbst stated he believed Internal Audit was doing that. Ms. Foley confirmed that they are in the process of reviewing police overtime.

Mr. Welsh stated that the City has set-up an advisory board regarding reducing our carbon footprint. He believes this is helpful, but an advisory board of members of the City is needed, such as the directors of different organizations.

Mr. Herbst said there is a Green Action Team and stated the following:

- The Team was set up two years ago and included internal staff department heads such as the Public Works Director, Planning and Zoning and Mr. Herbst himself.
- The Team was originally chaired by Stephen Scott, Assistant City Manager at the time.
- The Team is still active and has put together a list of everything the City has accomplished to date and initiatives the City is contemplating.
- The Team will work with the Green Advisory Board established by the Commission.
- The Team was formed following an initiative of the Governor.

Mr. Welsch inquired as to when the audit would be done on the overtime issue. Ms. Foley said the draft would be completed in the next month or so and that City staff has 20 days to respond regarding the management comments. The report then goes to the Acting Director and the City Manager to sign off on, and then the final report is issued.

Mr. Welsch wanted to know if the audit would include review of overtime for police and any guidance from the Commission. Ms. Foley said the City includes recommendations. Mr. Herbst said most procedures and practices are covered by the Collective Bargaining Agreement which is very specific concerning how overtime is allocated. Ms. Foley agreed and said it also includes police policy and a small amount of the Policy and Standards Manual.

Mr. Herbst explained that the Commission can set policy, not procedure, and that the Commission as a body has told the Manager and the Chief to “get your overtime under control.” The Commission left the direction at a very broad policy level, without giving the City a target number to get overtime down to.

Mr. Welsh inquired if the City has considered hiring a new person versus going into overtime. Ms. Foley responded yes and stated that some of the overtime is shift related.

Mr. Zullo inquired about the process for developing the agenda and whether the Board should develop its own agenda. Mr. Welsch responded that under the guidance of the Charter, the City provides the agenda and the Board can provide input and comments. The Board does not have the responsibility under the code to set the agenda.

Mr. Herbst stated that in his experience with the Budget Advisory Board, the committee members send one-way communication to the Chairman who passes that to the staff liaison. The Board Chairman can state what the Board would like discussed at the meeting but cannot engage in back and forth dialogue or ask for clarification. When communicating an agenda request, sufficient detail should be provided to the Board Chair regarding the item.

Mr. Herbst informed the Board that his department is working on a request from the Mayor for an analysis of the City’s real property to be able to ascertain which property to keep and for what purpose.

Mr. Welsch inquired about keeping track of assessments for the cutting of lawns and cleaning of pools, and turning utilities on and off at abandoned and repossessed homes. Ms. Foley said they lien the property if the owner has the water utility, or it goes to collections. Mr. Welsh inquired as to where the City stands in the lineup of creditors. Mr. Herbst responded generally second position since the bank has the first security interest in the property.

Mr. Zullo stated he had reviewed the findings of prior audits. He inquired as to what can be done now to prevent the same issues from happening in subsequent years.

Mr. Kinneer said 13 of the 15 findings were related to housing grants. A lot of those issues have been resolved or addressed by the hiring of a new accountant working in neighborhood housing as well as the addition of a new supervisor or director. They are aware of the single audit that came late in the year, and he is not sure if they will have time to do something about it. Ms. Silva stated that Ernst & Young has had several meetings regarding “things that can be done.”

Mr. Welsh requested a highlight of what happened with the housing report and being \$2 million short. Mr. Kinneer responded that it was addressed at Commission and the City will return the funds to the City's reimbursable account that the City can withdraw from. The City would refund from the general fund, for example, the CRA.

Mr. Herbst explained that there were a number of disallowed costs of about \$2 million. The settlement agreed to with HUD is that the City will identify \$2 million of future expenditures that are CDBG eligible activities and the City will fund those particular activities and not bill them. The City will do projects within the Northwest Progresso Flagler Heights CRA district that were already on their list of projects to do. They will point to those and ask HUD to give credit for that activity. The CRA will transfer money to the general fund and, as CRA does the Community Development projects, will then reimburse the CRA.

Mr. Welsch summarized that the grant would be approved without funding and the grant procedure would go through. Mr. Herbst affirmed this.

[Out Of Order on Agenda]

5. Communications to City Commission

The Audit Advisory Board requested City staff provide a break down in an audit for public safety of police and fire and an audit of overtime in the police department.

7. Next Meeting Date

Mr. Welsch stated the Board will meet quarterly. A date is yet to be determined for the next meeting. Ms. Rosenberg will send an email regarding the date. Mr. Kinneer expects the meeting will be set for the end of October or beginning of November.

Mr. Zullo inquired if the Board will provide a written communication with recommendations and comments to the Commission in response to the audit finding. Mr. Welsch said the Board's recommendations could be done as a separate letter or included in the Communications to the City Commission.

Mr. Herbst offered encouragement to consider early adoption of GASB 54, which breaks out reporting of the fund balance into new categories that are now more user-friendly to the layman. He then commented on Ernst & Young's audit section on fraud considerations and the risk of management override. Mr. Herbst stated would like to know Ernst & Young's understanding of the programs and controls that are in place and how effective Ernst & Young feels those particular programs are.

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There being no further business to come before the Board at this time, the meeting was adjourned at 6:22 p.m.

[Minutes prepared by J. Picinich, Prototype, Inc.]