

**AUDIT ADVISORY BOARD MINUTES
MONDAY, DECEMBER 14, 2009 AT 5:00 P.M.
CITY HALL, 1ST FLOOR, CITY COMMISSION CHAMBERS
100 NORTH ANDREWS AVENUE
FORT LAUDERDALE, FLORIDA**

<u>Board Members</u>	Cumulative	
	January – December 2009	
	Present	Absent
Joseph Welsch, Chair	3	0
Marco W. Hausy	2	0
Delores McKinley	2	1
John J. Zullo	3	0
Martin J. Kurtz	1	0

Staff

John Herbst, City Auditor
Lynda Flynn, Treasurer
Renee Foley, Assistant Internal Audit Director
Shonda Singleton-Taylor, Acting Director, OMB
N. Ezzeddine, Senior Accountant, Finance
Joanne Rizi, Finance Department
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

1. Roll Call

The meeting was called to order at 5:00 p.m. Members of the Board introduced themselves.

2. Approval of Minutes for Meetings Held July 29, 2009 and March 31, 2008

Chair Welsh stated that none of the current Board members had been present at the March 31, 2008 meeting, suggesting the minutes be accepted as written.

There were two corrections to the July 29, 2009 minutes:

- Page 7, paragraph 7, add in “subsequent years” in place of “in the current audit.”
- Page 8, paragraph 6, add “finding” to the end of the sentence.

Motion made by Mr. Zullo, seconded by Mr. Hausy, to approve the minutes of the July 29, 2009, with the changes requested. In a voice vote, the motion carried unanimously.

As to the 3/31/08 minutes, it was suggested that “Gatsby” be changed to “Gasby.”

3. Discussion of City Ordinance C-04-30

Mr. Zullo asked what the Board’s responsibility is regarding the ordinance itself. He believed that the draft outline of a memo he prepared should be their response to the City Commission based on the Board’s consensus. He asked for input as to how the document should be framed. The first step would be to determine if everyone was familiar with and had a chance to read the ordinance as written.

Chair Welsh stated he has looked at the ordinance and some of the suggestions are good; however, several of those suggestions had already been included in minutes sent in a report to the City Commission.

Mr. Herbst confirmed that the City Commission has requested items be brought to their attention in “short bulleted fashion” so those matters could be addressed at a subsequent Commission conference meeting.

Chair Welsh did not feel, “unless it’s really some significant item” that a separate report should be forwarded to the City Commission.

Mr. Herbst added that although the minutes will reflect the Board’s discussion, they may not reflect the consensus of the matters to be communicated “as a body” to the City Commission. So, if there is a specific suggestion and (as a body as a whole) the Board is in favor of a particular matter to be brought to the immediate attention of the City Commission, then they would want to make it a consensus recommendation to the City Commission in the form of “Communications to the City Commission” on the first page of the minutes.

Discussion continued regarding the procedures with the City Clerk and format for “Communications to the City Commission.”

4. Other Business

Mr. Martin Kurtz introduced himself. He has been a CPA in South Florida since 1964. He graduated from the University of Miami and moved to Broward County in 1967. Mr. Kurtz's appointment on the Audit Advisory Board is the second time he has been on a Board for City of Fort Lauderdale having previously served on the Downtown Development Board; he has always remained involved in City matters and non-profit organizations in the area.

Chair Welsh asked if Mr. Kurtz's company would be bidding on business with the City; Mr. Kurtz advised he did not believe so, or if so, specifically would not be directly related any City audit.

Chair Welsh stated he has public accounting experience and had been Inspector General for the Federal Government at the Department of Transportation.

Mr. Zullo indicated his background started in finance and he has been practicing as a CPA.

Mr. Hausy also provided a brief synopsis of his background as an internal auditor; he is currently a Comptroller for the City of North Lauderdale.

Ms. McKinley previously worked as an accounting officer in other States and upon returning to Miami worked for the City of Miami for 14 years; she became a CPA in 1986 and is currently with the Broward County School Board.

Mr. Bradley reported they are in the process of completing the audit. Ms. Silva updated the Board stating that the timeline had been amended due to City staffing changes, but they will be returning in March to "wrap it up." It is still too early to address their findings. Ms. Silva stated that the scope of the audit has not changed due to staff turnover, however, it will be a bit more "challenging to get information" even though staff is working to compile the necessary information.

With regard to City staffing, Mr. Herbst stated the Comptroller position has been vacant for several months. Interviews are ongoing and Mr. Herbst believes they are "close to making an offer" on the position, although it is not yet public information. Mr. Kinneer, the Finance Director, has resigned. It is unknown who will take the interim Finance Director position at this time or who their "point of contact" will be. Ms. Rizi has returned to assist with year-end close. Mr. Herbst did say they have more staff than in prior years which should help substantially in terms of "getting the work done on a timely basis" and, although the work may

not be completed as quickly, it should go “reasonably smoothly.” He questioned whether the GFOA would allow for an extension under the circumstances.

Mr. Bradley noted that one of their concerns when there are staffing changes is whether all of the “control mechanisms are still in place.”

Chair Welsh asked if there had been repeat findings. Ms. Silva did not have the prior audit with her; however, she stated she suspected several of the prior findings would be again repeated due to the fiscal year time frame as well as staff changes. She could not identify any issues in particular at that time.

Mr. Bradley indicated high risk areas included grants, as well as the entire process of closing the books and getting the financial statements out on a timely basis. He was not sure if the HUD dispute has been settled.

5. Next Meeting Date

The Board will be meeting quarterly with the next meeting to be scheduled in 3 months. Staff will be setting the date and providing an agenda. Agenda suggestions can be sent to Chair Welsh and he will forward them onto the City.

Discussion continued regarding the police internal audit review. Ms. Foley reported they had briefed Police Department management on the audit results and had submitted to them a draft for management comments. An extension was requested by the Police Department; the comments should be received back by the upcoming Friday. The final report of audit should be ready by the Board’s next meeting.

In response to Chair Welsh’s inquiry regarding whether the Police Department “allowed” them to get into the area of overtime or were “road blocked” by the Union contract, Ms. Silva stated it was a “little of both.” An audit was conducted although there had been issues with the Union when certain items had been requested. The system for controls of overtime were audited. Ms. Silva indicated there are “definitely areas that they can improve on” with better support documentation and retention of schedules to back up and justify the overtime paid out.

Other reports have been finished since the last Board meeting, but are awaiting signature; three grants and a follow up of the Police evidence unit are being worked on. A report on the enhanced Marine Law Enforcement grant will be issued this week. Internal audit reports are posted on the internet subsequent to approval by the City Commission.

Mr. Herbst discussed the audit of Performance Measures indicating that that audit is now on the internet. Several fairly significant weaknesses were found. He claimed that the current Performance Measurements in place were developed with the use of an outside consultant many years ago, adding "There wasn't necessarily what you would expect to find [in the Performance Measures which is a] bottom-up approach with the people who actually do the work so they would have some buy-in to the measures and make sure the measures are actually meaningful and that we manage from the data." Mr. Herbst noted that there "Has not been in the past years a coordinated effort throughout the City to make Performance Measurement and Performance Management a meaningful effort." Some of the Departments looked at, such as with Police and Fire, are "data driven" organizations requiring robust standard operating procedures and measurements resulting in those Departments undertaking change as well as modifying and adding new measures as a result of the audit. Per Mr. Herbst, other departments "Don't quite approach it with the same degree of enthusiasm and acceptance."

Mr. Herbst stated the City Commission is moving in that direction with the City Manager recognizing that this is the "will and direction" of the City Commission. He believes this year, when the budget book comes out, the measures to be implemented will be more meaningful than they have been in the past.

Mr. Herbst added that they are in the process of getting ready to release an audit of the HR Department, the report of which has not yet been given to the City Commission, but will be shortly. A draft report will be issued soon of their review of the fleet. Briefly discussed in the past had been the role of the internal audit and the City Auditors as, under the Charter, reports are to be provided directly to the City Commission. He stated, however, that subsequent to review by the City Commission, those reports and findings can be discussed at length with the Board, with their comments then forwarded on to the City Commission.

[Mr. Kuntz briefly left the meeting from 5:33 to 5:35 p.m.]

Chair Welsh asked about credit card use and was advised by Mr. Herbst that the P-Card is "subject to constant and ongoing audit." From what he has seen and discussions with Procurement staff, Mr. Herbst believes it is a "very tightly controlled operation, the internal controls are very robust, they are designed well and functioning as intended." He stated there should be no problems with the P-Card in the City. He did point out that there is an American Express Corporate card which a number of City staff have and is in the City's name. Mr. Herbst was concerned that the American Express card did not have the same level of

controls, although he indicated the City does not share exposure as the individuals holding the American Express cards are personally liable for payment. He cautioned, however, it is still a City card and it “probably isn’t appropriate for individuals to have those.” He explained he has met with Procurement and the predecessor Finance Director on this matter, with the agreement that use of this card should be curtailed. The individual cardholder is responsible to pay the bill, but it is still a “City” card, and could possibly be used by someone to purchase “things which are inappropriate and would still have the City’s backing” (i.e., tax free purchasing). The only upside is the lack of financial liability on the part of the City. Mr. Herbst explained that this was an earlier “version” of the P-Card, but had not been terminated when the P-Card system came into effect.

Ms. Rizi indicated that petty cash accounts are regularly audited internally; there are approximately 30 accounts with balances ranging from \$50 to in the thousands in petty cash and change funds.

Ms. Rizi added, with respect to the American Express card, that the card had been originally implemented as a travel corporate card. There are still 30 to 50 American Express cards outstanding. Ms. Rizi assumed when the program ended, the cards were then kept solely for personal use. Mr. Herbst responded there is a plan to expand travel arrangements to the P-Card along with necessary policy modifications.

Meals are paid per diem; lodging and transportation are reimbursed under guidance of existing City travel policies.

Mr. Herbst reported that although the City Manager has not resigned, his contract has not yet been renewed. To the best of his knowledge, the position is not being advertised. The current City Manager’s contract is effective through July/August of 2010.

Mr. Herbst advised the Board if anyone has areas of suggestion for audit, to forward those suggestions to him and he will take them under advisement. His method of “delineating” between internal audit and his office is “some of the things internal audit is dealing with are more ‘operational’ in nature” whereas his office focuses more on “performance” such as with HR and Procurement and looking at the internal controls from a “slightly higher level up.” He acknowledged that suggestions and recommendations from the Board for at-risk areas would be appreciated and welcome, stressing, however, that “direction” from the Board to staff must in the form of a consensus from the Board.

Motion made by Mr. Zullo to inquire from Internal Audit Management concerning the fiscal year 2008 Financial Statement audit by Ernst & Young, and their evaluation of the external auditor's performance.

Mr. Herbst stated he does not do a review other than in concurrence with the Board's review although he does have limited contact with the external auditors during the course of an audit to answer inquiries regarding internal control problems or possible fraud.

The motion was then restated by Mr. Zullo.

Motion made by Mr. Zullo to consider the memorandum included in their package from Mr. Zullo to the City Manager regarding the external auditor's performance with regard to the 2008 audit.

Chair Welsh stated that presently no one has the final memo referred to, only a draft. He asked if there was an evaluation of the external auditors subsequent to their audit and was advised by Mr. Bradley that there is no "formal" evaluation, although they do sit down with management and discuss the report.

Mr. Zullo reiterated that the purpose of the memo is to comply with the ordinance regarding evaluating the performance of the external auditors. He stated along those lines, he could create a memo requesting comments on field work, overall timeliness, engagement agreements, reporting, etc., with regard to the external auditors.

Chair Welsh asked who would be responsible for such an evaluation. Mr. Herbst stated the memorandum had been directed to Mr. Kinneer and himself to provide feedback on those issues raised by Mr. Zullo back to the Audit Board, so it could be incorporated into the Board's report to the City Commission.

The motion was seconded by Mr. Hausy under the condition that it was to "approve or evaluate the external auditor's work."

Mr. Kurtz agreed that it would be appropriate as a Board to let staff know "how well the audit firm does their job."

In a voice vote, the motion was unanimously approved.

Mr. Herbst stated that, based on this being a consensus of the Board, he would prepare a memo in the near future.

6. Adjournment

There being no further business to come before the Board at this time, the meeting was adjourned at 5:49 p.m.

[Minutes prepared by L. Edmondson, Prototype, Inc.]

APPROVED

MEMORANDUM

TO: Recording Secretary
FROM: John J Zullo CPA
SUBJECT: Corrections to the Board Meeting Minutes of December 14, 2009

DATE: February 28, 2010
CC: Linda Cohen, Board Liaison

After reviewing the above mentioned meeting minutes the following items are proposed changes/corrections are suggest to correct errors and clarifying the original intent

Page 2, 3rd paragraph: regarding the change in 3/31/08 should read: *GASB*

Page 2, next paragraph, under 3. Clarification of two separate documents is necessary. Replacement paragraph is suggested:

In an effort to facilitate the reporting process of the Board, Mr. Zullo drafted an outline of ordinance C-04-30 in a report format (Board Report) for discussion, review and comment with the intent to reach Board consensus. This and other unofficial draft documents prepared by Mr. Zullo (package) were requested by the City Auditor (during the meeting) and copied, then distributed to all in attendance.

Page 3, paragraph 4, under 4.
Replacement paragraph suggested:

Mr. Zullo indicated that accounting is a second career started in 2002, after a number of years of employment with a regional financial institution.

Page 7, 1st paragraph:
Replace: inquire with *request* – comma after 'audit' second sentence
Delete: by E&Y and their

Page 7, 3rd paragraph:
Replace: to consider *request, a response to*
Insert: *(evaluation report) on*, after memorandum
Delete: included in their package from Mr. Zullo to the city manager regarding
Insert: *Dated 9/15/2009 sent to city management*

Page 7, 5th paragraph:
Replace: memo with *evaluation report request*
Delete: comply...auditors.
Insert: *to assist in preparation of a Board report to the commission.*
Replace: He stated...comments on with: *Items of interest concern include:*

Page 7, 6th paragraph:
Insert: *evaluation report* before memorandum