

**AUDIT ADVISORY BOARD MEETING**  
**Monday, March 15, 2010 at 5:00 PM**  
**City of Fort Lauderdale Executive Airport**  
**6000 Northwest 21<sup>st</sup> Avenue**  
**Fort Lauderdale, Florida**

<b>Board Members</b>		<b>Cumulative</b>	
		<b>January-December 2010</b>	
		<b>Present</b>	<b>Absent</b>
John J. Zullo	P	1	0
Martin J. Kurtz	P	1	0
Cindy Probeck	P	1	0

**Staff**

John Herbst, City Auditor  
Lynda Flynn, Interim Director of Finance  
Renee Foley, Assistant Internal Audit Director  
Shonda Singleton-Taylor, Acting Director, OMB  
Gloria LeClaire, Controller  
Joanne Rizi, Finance Department  
J. Opperlee, Recording Secretary, Prototype, Inc.

**External Auditors**

Tom Bradley, Ernst & Young, LLP  
Alyson Silva, Ernst & Young, LLP

**Guests**

Fort Lauderdale Commissioner Charlotte Rodstrom

**1. Roll Call**

The meeting came to order at 5:10 p.m. It was noted that a new member, Ms. Cindy Probeck, had joined the Board.

**2. Introduction of newest Board member: Cindy Probeck**

Ms. Probeck is an independent consultant with a 20 year history in public accounting. She has a Master's Degree in International Business and has almost completed her C.F.A.

**3. Approval of minutes for meetings held December 14, 2009 and March 1, 2008**

Mr. Zullo distributed a list of proposed changes and corrections to the minutes of December 14, 2009. Mr. Zullo clarified the page 2 change relating to evaluation.

**Motion** by Mr. Kurtz to accept the minutes as amended by Mr. Zullo's memorandum, seconded by Ms. Probeck. Ms. Foley noted a correction on page 4: "it was Ms. Foley speaking, not Ms. Silva." Mr. Kurtz added that correction to the **motion**. In a voice vote, the **motion** carried unanimously.

**Motion** by Mr. Zullo to approve the minutes of March 31, 2008, as presented in the package, seconded by Mr. Kurtz. In a voice vote, the **motion** carried unanimously.

### **Communication to the City Commission**

Mr. Zullo announced he has written a communication to the City Commission to be included in the minutes, as opposed to a separate document, as discussed at the last meeting. Mr. Zullo distributed a copy of his communication. He clarified that this would be an addition to the December 14, 2009 minutes section called "Communication to the City Commission." Mr. Zullo stated he had created a synopsis of the Board's responsibilities and made comments on each one.

Mr. Bradley commented that the document is confusing. For example, Section 2 makes it sound like Ernst & Young had problems complying with the audit timelines, where in fact it was due to the City's inability to complete their work on time. He added that in Section 4 there is a draft of the internal control report discussed at the May, 2009, meeting. Mr. Zullo replied that Section 2 was referring specifically to a memo from the City Auditor, and has no reflection on Ernst & Young. Regarding Section 4, Mr. Zullo stated that the topic had been discussed, but there was no document. Ms. Silva noted that they had provided a draft, and inserted a blank where the single audit will be.

Mr. Zullo further remarked that he thought it was the responsibility of the Board to report to the City Commission as per requested annually, and his document is the result of that. Mr. Bradley expressed reluctance to approve the document, as he was not present at that time. Mr. Kurtz remarked that he would agree with the document if the previous chairman agrees with it.

### **4. Ernst & Young LLP, Financial Statements – FYE September 30, 2009 Audit Results, Communications and Report to Management**

Mr. Bradley referred the Board to the book in front of them containing the City of Fort Lauderdale 2009 Financial Statement Audit Results. Mr. Bradley gave a brief overview of his presentation.

Mr. Bradley directed the Board's attention to p. 3, which has a diagram showing Ernst & Young's methodology using a risk-based approach. His team focuses on the parts which are most significant from an audit perspective, and on the highest risk areas, such as areas of judgment.

He then discussed p. 4 summarizing the deliverables. They issue an opinion on the financial statements of the City, and do an audit of the City's waste water treatment rate computation. It is part of the Large User Agreement, so they recalculate the rates to ensure the right amount is being charged. The audit is done in accordance with government auditing standards, and they issue a separate opinion for that. Further, Ernst & Young issue internal control communications to the extent there are significant deficiencies or material weaknesses.

Mr. Bradley reported that the financial statement portion of the audit is "substantially complete" and they still need to do some of the general audit procedures. A Letter of Representation from Management will be provided, and they have taken a preliminary look at the Comprehensive Annual Financial Report.

Mr. Bradley remarked that their Engagement Quality Review Partner (formerly called Independent Partner) has been through the financial statements once and most of those comments are cleared. Most of the legal letter updates are in. The single audit is currently in process.

Mr. Bradley directed the Board's attention to p. 5, which covers required communications under professional standards. The first one relates to generally accepted auditing standards, and the City is responsible for keeping books, records and preparing the financial statements. Ernst & Young, as the auditing firm, is responsible for performing the audit. At this point, Mr. Bradley stated they believe they will be issuing an unqualified opinion on the City's financial statement, the best type of opinion one can receive.

Part of their audit includes ensuring the financial statements are transparent, that they include all the required disclosures, and that the City has chosen the appropriate accounting principles. Ernst & Young agrees with what the City has done in those regards. They did not have any disagreements with City management while doing the audit and there were no limitations placed on the scope of the audit.

Under the AICPA rules and other guidelines, the auditors are required to be independent, and they believe they are with respect to the City.

In 2009, the City adopted two accounting principles: accounting and financial reporting for pollution remediation obligations, and land and real estate held as investments. Neither of those had a significant impact on their findings.

There were no significant and unusual transactions, no significant issues discussed with management prior to hiring Ernst & Young to do the audit, no serious difficulties

encountered in dealing with management, no material alternative accounting treatments and no other significant matters, other than this report and the Representation Letter.

On p. 9, Mr. Bradley directed the Board's attention to accounting estimates, one of the key areas that is examined during the audit. Ernst & Young agrees with the estimates the City has made, so there are no changes there.

Regarding fraud and illegal acts, Mr. Bradley informed the Board that they interviewed staff at all levels to see if they knew of any instances of that nature. He then inquired if any member of the Audit Advisory Board had heard of any instances of fraud, and they all replied that they had not.

On the subject of internal controls, the auditors report on significant deficiencies and material weaknesses. There were two findings in the last year's report that will be repeat findings this year: utility and accounts receivable, and capital assets due to lack of a recent physical inventory. These will be repeat findings because the City is in the process of installing new computer systems and remediating these issues.

Regarding third party providers, Ms. Cynthia Borders-Byrd and her firm served with Ernst & Young on the audit, doing the single audit.

Mr. Bradley remarked that that concluded the required communications and turned the discussion over to Ms. Silva.

Ms. Silva began with an overview of p. 10: findings and observations. The main areas of audit focus are summarized here. In the revenue recognition and investments, there were no audit differences noted.

Page 11 covers accounts receivable, including those due from other governments. The City has a very significant receivable, about \$21 million from FEMA. However, since the City expects payment soon, there was no allowance recorded against it. FEMA has completed some of their close-out audits which determine how much the City will get, and there is at least \$14M they have finished so far. Ms. Rizi reported the City had actually received \$11M. Ms. Flynn explained that many of the City's expenditures ran over the usual amount. Mr. Kurtz asked if the \$14M was the full amount requested. Ms. Flynn explained she had only requested \$12M of the \$14M in case something comes up later on. Mr. Kurtz asked if there were any disallowed expenses. It was noted there have been adjustments made in the past, but Ms. Silva reported that based on the \$6M that is left, they looked at the detail of the project worksheet and the City is saying they believe they will collect.

Ms. Silva mentioned there was an interfund transaction associated with this between the general fund and the intergovernmental revenue fund, which is where the receivable

is recorded. The City classified about \$3M as an "advance" receivable, which takes up to a year to collect. Mr. Bradley commented that an advance receivable reduces the unreserved fund balance in the General Fund.

Ms. Silva noted one accounts receivable adjustment under \$300,000 for an item that was over-accrued in the General Fund.

Under capital assets and depreciation the City has completed a lot of significant projects this past year associated with the Waterworks 2011 Project, and those new assets came into service into a depreciable category. Some of the items that were replaced need to be removed from the books. That has not yet been reflected in the financials. That also includes any potential impairments and Ms. Silva noted there are a few capital assets that either changed usage or are no longer being used. Mr. Herbst asked what the dollar scope of that would be and Ms. Rizi replied it would be \$10M. Mr. Bradley added it would be in the enterprise fund, in the Water and Sewer Fund.

Ms. Silva then discussed self- insurance and OPEB liabilities, noting there were no audit differences.

No audit differences were noted with long-term debt.

Regarding accounts payable and accrued liabilities, Ms. Silva pointed out that they did not have any entries that came out of their search for unrecorded liabilities. She remarked that a journal entry will be recorded as it relates to a settlement between the City and HUD to return CDGB grant monies from prior years, amounting to approximately \$2.5M, which had not been accrued on the 09-30-09 financial statements. Ms. Rizi commented that there is a payment agreement, and Mr. Herbst said the City will be getting credit for work they are doing. Mr. Bradley added it is not a cash-out, per se. Mr. Herbst clarified by saying it is for projects that are already underway within the CRA that the City can take credit for, not an additional payment that would otherwise have to be made. Ms. Rizi added that one payment has to be made in 2010 for \$200,000. Ms. Silva noted the payment will be made at the entity-wide level, and will not be in the fund level.

Ms. Silva moved on to credits and contingencies, noting there was one entry that was not reflected in the audit booklet. This entry related to a settlement reached during FY 2009 for which the City will be paying out \$1.3M. This concerns a contractor that performed some debris removal services, and the City had not paid him. This item is similar to the \$2.5M, in that it will be recorded at the entity-wide level financial statements, but not at the fund level.

Regarding federal and state grant compliance, Ms. Silva stated that Ernst & Young does the single audit in conjunction with the subcontractor C. Borders-Byrd. There are eight

programs altogether. They began with the City's housing program and Ms. Borders-Byrd is now concluding the four housing programs. The remaining four programs will be started after the next day's meeting to approve the first four. Mr. Zullo asked how the initial conclusion compared to last year's. Ms. Silva reported definite improvement over last year's, although some of the improvements were made later in the fiscal year and they may be reported as findings.

Mr. Herbst asked if there were items in the single audit that have been reviewed and were found to be in compliance with guidelines. Ms. Silva explained that the \$2.5M goes back several years, and she recalled it probably had something to do with a land purchase by the City using CDBG funds. Mr. Herbst remarked there were a number of findings, and Ms. Silva noted that some things they look at are outside the scope of this audit, as this audit follows the compliance supplement and they sometimes dig deeper. Some of those findings would be the same type Ernst & Young might find, others would be outside of their scope. She concluded there have been improvements.

Page 13 covers critical policies, estimates and areas of emphasis. This portion of the audit examines the accounting policies that the City follows, plus any judgments and sensitive estimates. Regarding revenue recognition, Ernst & Young believe that the policies and the deferred revenue calculations are consistent with the prior year and they are appropriate and deemed reasonable. In addition, the investments seem to be properly recorded and the policies appear to be consistent and appropriate.

Regarding capital assets, Ms. Silva noted that the useful lives appear to be reasonable based on the description of the historical lives of the property and equipment, and the assumptions used in calculating capitalized interest appear to be reasonable as well.

Regarding pension annual required contributions, the assumptions provided to the actuary are consistent with the prior year and they appear reasonable. The same applies to self-insurance and other post-employment benefits. Regarding other judgmental liabilities, there are certain estimates of reserves that appear to be reasonable.

Ms. Silva then moved on to the summary of audit differences on p. 17. She referred to a list by opinion unit, the first unit being Governmental Activities. This entry is the \$2.5M payable to HUD, which the city will record at that level. There are a few entries not on the list because they came in after the date when they prepared this communication, but she has previously discussed them. For unrecorded audit differences for governmental activities, there is the \$290,000 entry, an over-accrual within the general fund with respect to a specific due from another government that was an estimate and was not trued up. Also, in the column under prior period, the net prior entries with turnaround affecting the current year are entries that were passed in the prior year that actually have a turnaround effect this year, and thus they are included on this list. Management

will sign as part of the Representation Letter that they believe those are immaterial to the financial statements for this year. For business-type activities, there is also a turnaround effect. For the General Fund, there is the \$291,000 entry already mentioned.

She then skipped to the Aggregate Other Opinion unit. She pointed out several entries including the \$2.5M for HUD. The second entry is a \$2.5M debit to the fund balance, as discussed in prior years. The good news on the second item is that it gets lower and lower each year. The rest of the entries are turnaround effects for the prior year.

Mr. Kurtz asked about the materiality threshold, and Ms. Silva replied that it varies. Mr. Bradley added that these are small numbers so they are not close to the materiality threshold. Ms. Silva explained that anything above their posting threshold where they just list entries is a low number. The planning materiality threshold is a much bigger number.

Mr. Kurtz was curious if the one item that relates to the internal assessment loans is a presentation question, a GAAP question. Ms. Silva said it is a GAAP matter, but not material. It is not a major fund, so they do not give a separate opinion on it. It is basically part of the big umbrella of "everything else." However, if it were at the government-wide level, it would have to be recorded and they would have to give an opinion on it. Mr. Bradley reiterated that the \$291,000 affects the General Fund, but the other ones like the \$2.5M do not. While no fund should be understated, the General Fund is one that people often look at for the true financial position of the government.

Ms. Silva then reported on p. 18, which states the accounting and auditing development fund. They summarized a recent GASB, which covers whatever the City has implemented in FY2009, plus what the City needs to consider for the next year. The first item is Statement of Auditing Standards #115, which is effective for financial statements for periods ending on or after December 15, 2009. What that means is that the internal control report will conform to the new definitions, which are fairly comparable to what they were in the past.

GASB statement #49 was previously mentioned by Mr. Bradley. It is the one that the City adopted in regard to pollution remediation obligations. The City did an analysis to determine if there was any impact to the City by adopting the statement. They determined there was no resulting obligation that needed to be recorded and Ernst & Young agrees with that. Mr. Bradley pointed out the City has a large liability related to Wingate, which is a former incinerator that the City implemented five or ten years ago. When that item originated and the City was looking for responsible parties, they recorded an entry at that time. Ms. Silva added that landfills are excluded from #49.

On p. 19, statement #51 applies to accounting and financial reporting for intangible assets. This will affect FY2010 so the City will need to think if anything should be reported then.

Statement #52 was adopted by the City this year and covers land and other real estate held as investments by endowments. This had no impact on the City.

On p. 20, GASB #53, accounting for derivative instruments, will be effective for FY2010 as well.

GASB #54 is on Fund Balance reporting and governmental fund type definitions, but the City has until 2011 to adopt it.

On p. 21, #55 and #56 are “non-events” as far as affecting the City, and they are GASB’s attempt to incorporate information into their codifications. #55 is on the hierarchy of GAAP, and #56 is the codification of the AICPA standards.

Ms. Silva then reported on p. 22, which delineates the newest GASB statements, #57 and #58. Number 57 is measurements by agent employers and agent multiple-employer plans. This one is effective for the period beginning after June 15, 2011. GASB #58 is accounting and financial reporting for Chapter 9 Bankruptcies and that becomes effective after June 15, 2009. Neither of these should affect the City.

On p. 23, Ms. Silva pointed out they put together this page to document when they communicated certain events, and have included required communications there or in the planning document which was done a few months prior.

She stated that this concludes Ernst & Young’s presentation.

Mr. Kurtz asked if Statement #52 had any effect on the real estate held by the pension funds. Ms. Silva replied that it is related to endowments, and the City does have the cemetery care fund but the portion of real estate there is “very very small.” She noted that the real estate investments in the pension fund are at fair value.

Ms. Rizi commented that their printing deadline is the upcoming Friday, and their report will go to the City Commission on its first meeting in April. Mr. Bradley commented that the City has a March 31 deadline with the Government Finance Officers Association. There was a brief discussion regarding the various deadlines and timelines, with the consensus being that all timelines would be met. Mr. Zullo informed Ms. Rodstrom that there is an award program with the GFOA and it is advantageous for the City to stay in it.



Mr. Zullo requested that when the reports are completed, that Board members receive copies of the reports from Management.

**Motion** by Mr. Kurtz to forward the audit to the Commission. There was no second made to the motion.

Ms. Rodstrom suggested waiting until there is more time to review it. Mr. Zullo remarked that he understands the time constraints involved, but the Board does not have the actual reports for internal controls or the audit report. He wondered how feasible it is to actually hear these items in advance of issuing the reports. Mr. Bradley commented that for the financial statements, there will be the opinion, and the Management Letter is done at the time of the Single Audit. That will not be ready for March 31.

Mr. Kurtz stated that he wanted to see the Management Letter before it goes to the City. Mr. Bradley reiterated that as far as the financial statements are concerned, there are only two repeat findings.

Mr. Herbst inquired if there would be a comment about management and staff turnover, and Mr. Bradley replied they would need to look at some adjustments and he was sure there would be a comment pertaining to turnover.

**Motion** by Mr. Kurtz to accept the external auditor's presentation on the financial statement results for FY2009. There was no second made to the motion.

Mr. Kurtz wondered when the Board would have the opportunity to review the final document before it goes to the City Commission. He also wondered what would be in it that is not in there now. Ms. Rizi answered it would have the \$2.5M adjustment, the capital assets, and the accrual of the settlement. Mr. Bradley added from their side they just have the opinion of the financial statements.

**Motion** by Mr. Kurtz, seconded by Ms. Probeck, to approve the presentation by Ernst & Young for presentation to the City Commission, assuming there are no other significant changes that were not discussed here. In a voice vote, the **motion** passed unanimously.

## **5. Review of Financial Statements for the Year Ended – September 30, 2009 Comprehensive Annual Financial Report (CAFR), FYE 9/30/09**

Ms. Flynn commented that she is also new to the Board, being the Interim Finance Director. She remarked that Ms. Rizi would have discovered anything in the financials that the Board needed to know. Along with other Board members, she finds the audit to be a great accomplishment.

## **6. Other Business**

Mr. Kurtz asked how many members were on the Board. Mr. Zullo replied that a quorum is at least three members. A Commissioner can also be a member, and there are two or three vacancies now. Mr. Herbst mentioned that the City Commission is actively seeking recommendations if anybody has a recommendation or suggestion.

## **7. Next Meeting Date**

Mr. Zullo suggested that they try to coordinate the next meeting with the issuance of the single audit, and Ms. Silva said the deadline is June 30. Mr. Zullo asked if they could have copies for a June 15 meeting and Ms. Silva thought that would be possible. Ms. Rodstrom asked if the Board members had the presenters' contact information in case of questions, and the answer was they did. The next Board meeting was tentatively scheduled for June 15, 2010.

There being no further business to come before the Board at this time, the meeting was adjourned at 6:16 p.m.

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

APPROVED

MEMORANDUM

TO: Recording Secretary

DATE: June 14, 2010

FROM: John J Zullo CPA

CC: Linda Cohen, Board Liaison

SUBJECT: Corrections to the Board Meeting Minutes of March 15, 2010

The following proposed changes/corrections are suggested.

Page 2, first paragraph: under **Communication to the City Commission**

*First sentence:*

Delete: "Mr. Zullo announced he has" Capitalize "A"

Insert : "drafted by Mr. Zullo" after communication

Insert: "proposed" after City Commission

*Third sentence:*

Change: "his" to: "the suggested"

*Fifth sentence:*

Delete: "made comments on each one"

Insert: "attempted to respond to each specific sub-section."