

APPROVED

**AUDIT ADVISORY BOARD MEETING
Monday, June 14, 2010 at 5:30 PM
City of Fort Lauderdale Executive Airport
6000 Northwest 21st Avenue
Fort Lauderdale, Florida**

Board Members		Present	Cumulative
			January - December 2010
			Absent
John J. Zullo	P	3	0
Martin J. Kurtz	P	2	1
Cindy Probeck	A	1	1
Torey Alston (left at 6:26 p.m.)	P	1	1
Richard Jay Weiss	P	1	1

Staff

Lynda Flynn, Interim Director of Finance
Dawn Johnson, Accountant
Noha Ezzeddine, Senior Accountant, Treasury
Pamela Winston, Housing Department
Gloria LeClaire, Controller
Liz Davila, Recording Secretary, Prototype, Inc.

External Auditors

Alyson Silva, Ernst & Young, LLP
Cynthia Borders, C. Borders and Byrd, CPA

Guests

Fort Lauderdale Commissioner Charlotte Rodstrom

1. Roll Call

The meeting came to order at 5:41 p.m.

2. Introduction of newest Board members

a. Torey Alston and Richard Jay Weiss

Mr. Alston introduced himself, noting he is Chief of Staff for County Commissioner Al Jones.

Mr. Weiss is a lawyer with 30 years of experience practicing primarily in the government arena.

Election of Board Chair and Vice Chair

Motion by Mr. Alston, seconded by Mr. Kurtz, to nominate Mr. Zullo for Chair of the Board. In a voice vote, the **motion** passed unanimously.

Motion by Mr. Weiss, seconded by Mr. Alston, to nominate Mr. Kurtz for Vice-Chair of the Board. In a voice vote, the **motion** passed unanimously.

The following item was taken out of order.

5. Approval of Minutes for May 10, 2010 Meeting

Motion by Vice-Chair Kurtz to accept the minutes of the May 10, 2010 meeting. **Motion** died for a lack of second.

Mr. Weiss noted for the record that he was in attendance at the May meeting, but was late in arriving.

Mr. Weiss remarked that the May meeting could not be “called to order” as there was no quorum. The record should indicate there was no meeting, because there was no quorum.

3. Approval of Minutes for March 15, 2010, Meeting

Vice-Chair Kurtz commented that the next to last paragraph on page 5 was confusing. Ms. Silva remarked that the \$2.5M referred to was a refund due back to CDBG that was finalized during this year.

Vice-Chair Kurtz also commented on the last paragraph of page 6, asking Ms. Silva what the “accounting and auditing development fund” was on page 18 of the audit. She did not have a copy of the audit with her, but thought the minutes meant to say “accounting auditing developments.” Ms. Flynn said the minutes will be corrected to match what is said on page 18 of the audit.

Chair Zullo informed the Board that he had distributed a memorandum regarding the December 2009 meeting and communications between himself and the City and also between himself and Mr. Bradley. He also had distributed a memorandum regarding specific changes to the minutes of the March 15, 2010, meeting. He noted that during the last meeting, Vice-Chair Kurtz made a motion to change the minutes of the meeting before that to a document similar to Chair Zullo's. He said those changes had not been incorporated in the draft.

Vice-Chair Kurtz pointed out they were waiting to talk to the prior Chair of the Board regarding the contents of the first memorandum. Chair Zullo reported that he called the City Attorney's office and they told him they would speak to City staff to see if they would get the items corrected. He also said that his suggestion was to make a separate document. The former Chair suggested incorporating the information into the minutes.

Vice-Chair Kurtz commented that in the interest of moving forward, he withdraws any objection he had to the matter. Chair Zullo concurred, saying he put the packet in for informational purposes and it does not need to be included at this point. He is, however, interested in the changes to the minutes.

Ms. Flynn remarked that the Board approved the minutes of the December and March meeting and the changes were not incorporated. She said she was not present for the full December meeting.

Chair Zullo contributed that the component pertaining to the minutes has to do with procedural issues of the minutes and is on page 4 of the handout. Mr. Weiss remarked that if they are significant comments, they need to be done properly.

Chair Zullo brought up a prior discussion about having verbatim recordings. He emphasized the importance of accurate minutes. Mr. Weiss recommended that someone listen to the recorded minutes and make the appropriate changes to the attachment. That would not require any further Board action. Chair Zullo remarked that his proposed changes, approved in the last meeting, affect the context of what they are talking about.

Motion by Vice-Chair Kurtz, seconded by Mr. Alston, to approve the changes recommended by Chair Zullo and the discussion about Communications to the City Commission at the March 15, 2010, meeting. In a voice vote, the **motion** passed unanimously.

Motion by Vice-Chair Kurtz, seconded by Mr. Alston to approve the minutes of the March 15, 2010, meeting as amended. In a voice vote, the **motion** passed unanimously.

Vice-Chair Kurtz asked how much of the \$21M receivable from FEMA had been collected.

Vice-Chair Kurtz wondered how they stood on the \$2.5M for the CDBG possible return of grant monies. Ms. Winston answered that there is an agreement with HUD, with the first payment due last December, and the remainder being paid over 2010-2011-2012.

Vice-Chair Kurtz was curious about the status of the Wingate liability. Ms. Ezzeddine remarked that as they pay, it is reduced.

6. Discussion of Single Audit Report

Ms. Silva, Senior Manager with Ernst and Young, commented that Mr. Bradley is out of town and therefore could not be present at the meeting. She introduced Ms. Borders-Byrd, noting she is a subcontractor and does a lot of the single audit work.

Ms. Silva began by highlighting a few points in the audit. Page 13 has the Summary of the Auditor's Results, a high-level review of the audit. There are two sections, the Financial Statement and the Federal Award and State Projects Section, which has to do with all the City, Federal and State grant programs.

In the Financial Statement Section, the auditors issued an unqualified opinion. They identified material weaknesses in internal control relating to Capital Assets. One is a current year finding, and two are prior year findings which continued into the current year. That is basically because the City did not have a capital assets monitoring system. There were also significant deficiencies; one is a carry-over item on the Utility Accounts Receivable aging process (a system limitation issue that the City has been planning to correct by implementing a new system). On Completeness of Accrued Liabilities, there is a current year finding as well.

In the Federal Awards and State Project section of the Single Audit, there were material weaknesses and also significant deficiencies. The auditors issued a qualified opinion for three of the programs (Community Development Block Program, Home Investment Partnerships Program and State Housing Initiative Partnership Program). In the prior year, these three programs had adverse opinions, so there was significant improvement over the past year. She noted that last year they had a qualified opinion for the HAPA program, and this year there were no findings on that program.

Page 14 lists the 6 federal and 2 state programs they audited.

Page 15 marks the beginning of the Schedule of Findings and Questioned Costs.

Vice-Chair Kurtz asked for clarification of the difference between material weaknesses and significant deficiencies, and asked for discussion of the items falling into those categories. Ms. Silva responded that anything in the Section beginning on page 15 would be a Material Weakness. She added that at the time of the last meeting, the City was in the process of creating an analysis to determine how much needed to be written off. It ended up being \$11.6M net. The City completed many significant projects this year as part of the Waterworks 2011 Initiative, such as wastewater collection system

components. At the time of the last meeting, the City did not realize some pieces of the old system had to be replaced, and they then determined how much to report.

Mr. Weiss was curious what the follow-up and charting mechanism is for items brought up at the meeting and in the reports. He suggested it should not be Vice-Chair Kurtz's job to look back through the minutes and find the questions that were asked. He was also interested in how the recommendations in the audit reports are followed up on, and how the Board is informed of the progress.

Chair Zullo remarked that he understood from speaking to Mr. Bradley that, in a general way, the findings of the audits are the responsibility of the Office of the City Manager. Mr. Weiss mentioned that cities get in trouble when nobody does anything about the deficiencies.

Ms. Flynn commented that the City Manager's office prepares a response to each audit finding every year. Mr. Weiss wondered if he could see a type of spreadsheet showing the recommendations that were made, the proposed corrective action, and what happened with the action. In terms of the current report, he requested every corrective action item be put on the spreadsheet and have a report at every meeting as to what the status of each item is.

Vice-Chair Kurtz agreed with Mr. Weiss' suggestion, adding that it is "totally reasonable." He remarked that there had been a lot of turnover at top positions in the City and that has made it somewhat difficult for them to respond. However, he is concerned with the repeated findings and the lack of follow-up on those.

Mr. Weiss reiterated his wish for ongoing status reports on the action items. Vice-Chair Kurtz suggested to Ms. Flynn that it may not be too difficult. Ms. Flynn responded that she thinks the Chair should utilize a Communications to the City Commission to request this action of the City Manager, as she cannot take direction from the Board.

Mr. Weiss suggested that the Chair merely approach the City Manager more informally and request the report.

Motion by Vice-Chair Kurtz, seconded by Mr. Alston, to authorize Chair Zullo to speak to the City Manager to work with staff to develop a tracking tool that the Board can use moving forward. In a voice vote, the **motion** passed unanimously.

There was a short discussion on why the meetings are held at this location, as it is difficult to get to. It was noted that this facility is used so that the meeting can be recorded, as there are only two rooms available, and the other one is taken. Mr. Weiss said he would rather be flexible on the meeting time than on the place. Ms. Flynn

remarked that her staff schedules the meetings, and she will try to reschedule it for downtown. Vice-Chair Kurtz suggested to Ms. Flynn that she find out when another room is available and let the Board know.

[Mr. Alston left the meeting at 6:26 p.m.]

Ms. Silva returned to her presentation on the single audit report, noting they had left off at Item 2009-1 (Review of Capital Asset Activity). She reported that there was an entry recorded, and the recommendation is that the City makes sure that they look at the numbers to see if they “make sense.” The City has responded that they will be doing that.

On Item 2009-2, Ms. Silva reported a significant deficiency relating to the \$2.5M that had to be returned to HUD. The agreement was reached during FY2009, but the City had not recorded a liability for it in the Financial Statements until the audit firm brought it up to them. Also, they noted that there was a case settled that should have been accrued for \$1.5M at the end of the year. In total they had about \$4M in entries for accrued liabilities. Their recommendation is that the City make sure they assess litigation and that the Finance Department communicate to the other City departments regarding what items need to be recorded.

She then directed the Board’s attention to page 18, Letter B, Prior Year Findings. These are items that were communicated in prior years but remain applicable as they have not yet been addressed:

- PR-1 - The Utility Accounts Receivable has to do with limitations on how the Accounts Receivable are aged. This should be resolved with the new system.
- PR-2 and PR-3 – These are Capital Asset related items, linked to the issue with the Capital Asset system. The City is now using Excel, which involves a high risk of error. The City has not done physical inventory in many years.

In response to a comment by Vice-Chair Kurtz, Ms. Silva remarked that the inventory process would not be similar to what the City is doing on their fleet, as the inventory she is referring to is a city-wide capital assets inventory. It will be a huge undertaking.

[Chair Zullo left the meeting at 6:30; the meeting was suspended due to lack of a quorum and resumed at 6:32]

There was a short discussion on the need for a City to have a physical inventory of assets, and it was noted that it is a requirement and it keeps “things from disappearing.” It is the Finance Department that would do the inventory. Ms. LeClaire remarked that anything purchased by the City that is \$1,000 or more is put into Capital Assets system.

Due to the assets not being in a system right now, they cannot produce any reports to take out into the field to do physical reports. She said there is someone now who is trying to get everything into the new software, and they are aiming for a deadline of September 30th to enter all the data.

Ms. Silva continued, moving on to page 21 which covers the Federal Awards and State Financial Assistance Projects. Last year there were 15 findings, and this year there are only 7 findings. Many are considered material weaknesses.

Mr. Weiss was curious what the process is for making sure the vendors are eligible. Ms. Silva answered that it is different depending on the grant award and how much the expenditures are. The City policy is that any applicant having expenditures over \$25,000 that gets the Federal awards needs to have EPLS screening conducted or a contract clause or separate statement from the vendor. The City implemented some corrective action in June of 2009, so a lot of the new vendors did have EPLS evidence in the file, but the older ones did not. The City needs to go back to the older ones and make sure the EPLS documentation is in the file.

Ms. Borders-Byrd commented that in 2007 there were 20 findings, 17 in 2008, and only 7 in the current year, indicating significant corrective action. There are 14 compliance requirements in each of the grants and they make a sample selection testing for compliance. What is shown in the audit is the result of those tests.

Vice-Chair Kurtz pointed out that the ones identified as major programs represent the largest of the grants. Ms. Borders-Byrd replied that in 2007 the City lost its low-risk status, so they had to audit at least 50% of the federal grants, as well as all grants that had findings. It turns out that the largest grants were the ones with findings. If the corrective action continues, hopefully they can reach the point where they are not auditing as many grants.

Vice-Chair Kurtz asked what would be required to get back to the low-risk designation. Ms. Silva answered that it would probably mean several years of no material weaknesses and no material non-compliance. She mentioned some of the grants are more important than others just because of their nature. She said that Item 2009-1 was a "very easy fix," not a material weakness. Some of the more challenging ones would be Subrecipient Monitoring, making sure the City has the documentation to back up all the monitoring they are doing. The reporting is always a challenge. The SHIP is also a very challenging program because there are multiple grant years involved.

Vice-Chair Kurtz wondered if the auditors see anything that might require money going back to the grantee. Ms. Silva answered that they did not find that.

Mr. Weiss expressed concern about the following statement from page 24 of the audit: "The City does not have an adequate loan origination or servicing system in place to ensure loan receivables are properly established, earned income is properly recorded and write-offs of uncollected amounts are properly authorized." Ms. Silva remarked that is a material weakness and a qualified opinion because it is a non-compliance matter. She said the City has done a lot with that but has to get to the point where the tracking of receivables is in the general ledger system.

Vice-Chair Kurtz wondered if they could take the three qualified opinion grants and have them at the top of the report tool they want to have developed. He said the top ones should be the ones with material weaknesses, then the significant deficiencies and the others. Mr. Weiss suggested having committee items on the report also, perhaps such as what came out of the Management Letter.

Vice-Chair Kurtz was curious if all the programs are audited by the grantee as well as the single audit. Ms. Silva replied that some are, but it depends on the agency. If they do have a report, Ernst and Young will look at it.

Ms. Winston informed the Board that the Housing and Community Development (HCD) had those three grants, but did not have a grants accountant prior to her coming on board in February of 2009, and her first priority was to deal with the OIG audit.

Vice-Chair Kurtz asked about the status of finding a replacement for the Finance Director, and Ms. Flynn said she did not know, but the City Manager's Office is responsible for that.

Vice-Chair Kurtz brought up the Subrecipient Monitoring and asked what type of system she was talking about implementing. Ms. Borders-Byrd replied that HCD does have policies and procedures for Subrecipient Monitoring. The HAPA grant, which was approximately \$7.5M, probably allocated \$7.3M of that to subrecipients, and they followed ACD's monitoring procedures. She continued that on the other two grants, they saw evidence of monitoring, but were unable to discover documentation for it.

Mr. Weiss asked how the report referenced on page 28 got filed if the amount was not accurate. Ms. Winston responded that HUD 6002 section 3, summary 4, is something HUD had not enforced. With the new administration in Washington, they are doing a lot of training in order to be accountable. Ms. Borders-Byrd mentioned that the filed report was on one vendor, and the report they were supposed to file is a summary of all the vendors.

Ms. Silva continued with the next section of the report beginning on page 35, Schedule of Prior Audit Findings, which shows the previous items and then the current status. She informed the Board that the Management Letter begins on page 76.

Mr. Weiss was curious what the financial condition of the City was. Ms. Flynn replied that the City just issued a new water and sewer bond for \$83.4M and both Moody's and S&P reviewed the financial condition of the City. The City received stable ratings even though the economy has diminished, and it was deemed in a position to continue with the projects they have. They said the City is aggressive with maintaining the rates so there are sufficient revenues. In addition, Ms. Flynn remarked that they received an affirmation of their General Obligation bond. The Moody rating was Aa1 and the S&P rating was AA.

Mr. Weiss asked about the City's reserves position and Ms. Flynn answered that the general fund reserve is \$72M.

Vice-Chair Kurtz remarked that the most significant of the comments seemed to him to be grant administration. He wondered if policies and procedures have been established at this point, or if it was just a recommendation. Ms. Silva referred to the Management response, and noted that the policies and procedures discussed became effective October 21, 2009.

Vice-Chair Kurtz was curious if the auditors reviewed the new system of the "work flow chart" as part of their audit and Ms. Borders-Byrd answered affirmatively. She noted they found 14 different grant compliance requirements that they issued opinions on, and they found 14 different systems of internal controls. The point of the comment is that the City should simplify and standardize the process.

Vice-Chair Kurtz asked who was responsible for that GFTS system and Ms. Borders-Byrd said it was Kathleen Gunn, Assistant to the City Manager in the Grants Office.

Vice-Chair Kurtz wondered in terms of percentages from where they stood (on this comment) to where they would like it to be. Ms. Borders-Byrd remarked that they would like to see it more detailed, but it is difficult to state a percentage. It is on the radar, but not done yet. The City now has a grant management system and is in the process of populating that system.

Mr. Weiss expressed concern that there was no timeframe for anything to get done, and wondered if that was standard. It was noted that the City has budget restraints and they have to work within that. Chair Zullo mentioned that it depends on the issue. As this Board meets four times a year, in the interim, priorities and resources change. He believes the City is moving forward in all of the areas consistently.

Vice-Chair Kurtz commented that this type of monitoring by this Board has not been done before, and he thinks it is the Board's responsibility. Mr. Weiss suggested discussing reasonable deadlines with staff and if they are not met, then it is the Board's obligation to tell the City Commission that they think these things need to be done.

7. Other Business

Vice-Chair Kurtz thanked both firms for the hard work they did on the audit. He added that the report will help the City prioritize their deadlines.

There was a brief discussion on the audit deadlines, with Ms. Flynn reporting that the deadline for the regular audit is March 31, and for the single audit, it is June 30. Vice-Chair Kurtz reiterated his desire to see an interim report.

8. Next Meeting Date - not discussed.

9. Adjournment

There being no further business to come before the Board at this time, the meeting was adjourned at 7:06 p.m.

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