

APPROVED
AUDIT ADVISORY BOARD REGULAR MEETING
MONDAY, MARCH 28, 2011 AT 5:30 PM
FORT LAUDERDALE EXECUTIVE AIRPORT
ADMINISTRATIVE OFFICE - MULTIPURPOSE ROOM
6000 NW 21 AVENUE, FORT LAUDERDALE, FL

Board Member	Attendance	Cumulative Attendance	
		1/1/11 – 12/31/11	
		Present	Absent
Martin Kurtz, Chair	P	2	1
Richard Owen, Vice Chair	P	2	0
Roger Ally	P	2	0
Cindy Probeck	P	2	1

Staff

Lynda Flynn, City Treasurer
 Marco Hausy, CAO
 Cynthia Borders-Boyd, Auditor
 Gloria LeClaire, Controller
 Renee Foley, Assistant Internal Audit Director
 Linda Cohen, Board Liaison
 Gracelyn Hodge, Ernst and Young Auditor
 Patrice Jones, Ernst and Young Auditor
 Alyson Silva, Ernst and Young Auditor
 Douglas Wood, Director of Finance
 Barbara Hartmann, Recording Secretary, Prototype, Inc.

Communication to the City Commission

Motion made by Mr. Ally, seconded by Ms. Probeck:

The Board recommends extending the Ernst & Young contract for one year, with the proviso that an RFP would be prepared for competitive bidding next year. In a voice vote, motion passed 4-0.

1. Roll Call

The meeting came to order at 5:45 p.m.

2. Introduction of Douglas R. Wood, Director of Finance

Mr. Wood said he had been involved in government finance and accounting for over 42 years, in the cities of Roanoke and Chesterfield Virginia and Houston Texas. He had also gone back to school and worked for a software company for a time.

3. Review of Meeting Minutes

- February 2011 (Board Meeting)

The Board noted corrections to the minutes.

Motion made by Ms. Probeck, seconded by Mr. Ally, to approve the minutes of the Board's February 2011 meeting as amended. In a voice vote, motion passed 4-0.

4. New Business:

- Discussion of Audit/Draft CAFR for FYE 9/30/10

Ms. Gracelyn Hodge, Ernst and Young Auditor, thanked the Finance team for their efforts.

Ms. Alyson Silva, Ernst and Young Auditor, gave a presentation on the Audit/DRAFT CAFR FYE 9/30/10, a copy of which is attached to these minutes for the public record.

Ms. Silva described the deliverables and the updates completed that were noted on the report. Ms. Silva provided an overview of the audit, describing significant considerations and key areas that had come about during the course of the audit. Significant considerations included the City's implementation of the Cayenta utility billing system, the GASB 51 adoption, the hurricane FEMA accrual, the implications of health care reform on other post-employment benefits (OPEB) liabilities and related disclosures, capital assets, compensated absences and connection fees. Key areas included: the deadline had been met; the scope was consistent with the plan; the City's analysis of significant accounting matters was appropriate; internal controls were operating effectively and cooperation between the City and Ernst & Young had been good.

In the Financial Statement Accounts and Disclosures section, Ms. Silva said they had performed the procedures over the Revenue Recognition/Unearned Revenue, and identified any differences in the following areas: an increase in connection fee revenue due to the revenues being improperly recorded in the past; a difference in unbilled receivables in September; an audit difference in the pension funds related to one real estate investment that had not been recorded correctly based a statement the City

received from the trustee; differences in accounts receivable and receivables due from other governments and allowances for doubtful accounts; capital assets and depreciation; self insurance and OPEB liabilities; long-term debt; accounts payable and accrued liabilities; commitments and contingencies and federal and state grant compliance.

In the Accounting Policies, Estimates and Areas of Audit Emphasis section, Ms. Silva stated they had reviewed the following accounting policies: revenue recognition process; investments; capital assets; litigation; pension annual required contribution; self insurance and other post employment benefits and other judgmental liabilities.

Regarding Audit Control-related Matters, Ms. Silva stated they anticipated reporting significant deficiencies/material weaknesses on internal control over financial reporting in the following areas: water and sewer connection fees; sanitation Waste Management receivable; capital assets; calculation of compensated absences; valuation of real estate investments and accounting for unbilled receivables.

Ms. Silva stated the charts in the Summaries of Audit Differences section summarized the impact on the financial statements of anything that would not have been recorded. She explained that anything in the Prior Year column referred to something that had been corrected this year and related to the prior year to something that had been passed last year, so the runaround flowed through this year. Ms Silva referred to page 13, that included total impacts per the financial statements.

Ms. Hodge said Ernst & Young must go through Required Communications, including: their responsibility to obtain reasonable, and not absolute assurance on financial statements; other information in documents containing audited financial statements to ensure nothing was inconsistent with the audit; to provide their views about the qualitative aspects of the City's significant accounting practices and to discuss the following: any significant standards implemented during the year; their views regarding the qualitative aspects of the City's significant accounting practices; significant difficulties encountered in dealing with management when performing the audit; uncorrected misstatements; material corrected misstatements; disagreements with management; representations they requested from management; management's consultation with other accountants; significant issues arising from the audit that were discussed or the subject of correspondence with management; communication of independent matters; fraud and/or illegal acts involving senior management and/or fraud or illegal acts that caused a material misstatement of the financial statements and significant deficiencies and material weaknesses in internal control.

Ms. Hodge remarked that this had been a “tough audit” because it had been the first year for Ms. LeClaire. There had also been some timing delays and compensating absence issues. Mr. Wood asked if the new billing system had added to the timing issues and Ms. Hodge replied that this had been done very early on and they had planned for this, so it had not contributed to the timing issues. She felt unplanned audit issues had taken time to resolve. Ms. Patrice Jones, Ernst and Young Auditor, agreed, and said issues may have come up during implementation of the utility billing system that had not been highlighted in the past, such as the connection fee issue.

Mr. Wood asked if Ernst & Young felt the City needed a separate accounts receivable system for things such as the connection fees, or if they could modify Cayenta to do this. Ms. Jones said she would speak with their IT department regarding this. She stated it was the City’s decision where to record this information, but the auditors needed to be able to track and access it. She said the current utility billing system had presented some access issues. Ms. Hodge offered to have the Ernst & Young IT group discuss this with City staff.

Mr. Wood asked what the City could do better to facilitate the audit. Ms. Silva said in the past few years, it had been a challenge for the City to provide the resources to get the information to the auditors. She remarked that Ms. LeClaire had done a great job, but she was only one person.

Mr. Owen asked if the \$865,000 bad debt expense was due to the implementation of the utility billing system not being done in parallel. Ms. LeClaire explained that this was due to the connection fees. Ms. Silva explained that the litigation reserve was part of the self-insurance reserves so they had considered these together. Ms. Silva informed Mr. Ally that the City had recovered the \$294,000 in sanitation/waste management receivables Ms. Hodge said this had been recorded twice and overstated in the prior year.

Chair Kurtz asked if FEMA had disallowed any of the receivable requests in the past. Ms. Silva stated some portions had been disallowed, but not enough to require a reserve. She anticipated collection within the year.

Motion made by Mr. Ally, seconded by Ms. Probeck, to accept the audit report. In a voice vote, motion passed 4-0.

- Discussion regarding the RFP for External Financial Audit

Ms. Probeck favored extending Ernst & Young’s contract for one more year because of the new system and personnel at the City. Mr. Ally agreed. Mr. Owen thought they

should consider the history when deciding about putting out an RFP. Ms. Silva stated Arthur Anderson had been the auditor until 2002 and the last RFP had come out in 2005.

Chair Kurtz understood the Finance Department's desire to have some stability, but he felt strongly that the auditor should be changed periodically. He noted this was the City's policy. Ms. Flynn noted that the policy was to put out the bid; if the Selection Committee deemed Ernst & Young was the most qualified, lowest bidder, they would get the contract again.

Mr. Wood admitted there was much to do in the Finance Department, and he felt it would benefit staff to have the continuity of keeping the existing auditors for one more year. He thought after that, they needed to have the potential of "fresh blood."

Motion made by Mr. Ally, seconded by Ms. Probeck, to recommend extending Ernst & Young's contract one more year.

Chair Kurtz asked if the Ernst & Young team would stay the same. Ms. Hodge stated if there were no voluntary attrition, she would ensure that the City would have the same team. She would also commit to the same timing. Mr. Wood wished to begin the process earlier next year and Ms. Silva said they would accommodate the City's request.

Mr. Owen wanted the motion to include the Board's recommendation that an RFP be issued next year. Mr. Ally restated his motion, incorporating Mr. Owen's condition: The Board recommends extending the Ernst & Young contract for one year, with the proviso that an RFP would be prepared for competitive bidding next year. Ms. Probeck reiterated her second.

In a voice vote, **motion** passed 4-0.

- Discussion regarding the September 29, 2010 Workshop

Chair Kurtz stated at the September 29, 2010 workshop, the Board had questioned whether the ordinance that created the Board was current or needed to be updated. They had also questioned the purpose of the Board, what the Commission expected of them and whether the Board should serve as the Selection Committee for the RFP or if some Board member(s) should be included on the RFP Selection Committee. The purpose of this workshop had been to address these issues, and to compare this Board with similar boards in other similar cities. Ms. Flynn confirmed that this comparison had never been performed by staff.

Chair Kurtz said the Board would discuss these issues at their May meeting and in the meantime he would discuss with Mr. Wood what kind of supporting information the Board needed. Chair Kurtz felt it would be helpful for a Board member to speak to the Commissioners one-on-one to obtain their input prior to the May meeting as well.

Ms. Cohen said the minutes of the Board's September 29, 2010 regular meeting had been revised the previous week and would be submitted to the webmaster for posting to the City's website after the Board approved them. Specifically, Ms. Cohen said changes had been made to page 4. She stated these changes had been approved at the Board's February 2, 2011 meeting. Regarding the September 29 workshop minutes, Ms. Cohen stated these had just needed her name to be added to reflect that she had been present.

Motion made by Ms. Probeck, seconded by Mr. Ally, to approve the minutes of the Board's September 29, 2010 regular meeting as corrected. In a voice vote, motion passed 4-0.

Chair Kurtz stated the Board also needed to approve the corrected minutes from the September 29, 2010 workshop.

Motion made by Ms. Probeck, seconded by Mr. Ally, to approve the minutes of the Board's September 29, 2010 workshop as corrected. In a voice vote, motion passed 4-0.

- Disposition of Corrections of Minutes of December 14, 2009 and March 15, 2010 Meetings

Chair Kurtz distributed changes submitted by former Audit Advisory Board Chair Zullo for the December 14, 2009 and March 15, 2010 minutes. Chair Kurtz said there had been confusion about what the corrections were, and it was not clear what had been approved. Chair Kurtz referred to former Chair Zullo's submission to the Board of corrections to the meeting minutes of December 14, 2009 and stated these were "mostly technical corrections."

There was a second page submitted by former Chair Zullo at the same time, and Chair Kurtz remarked that at the time, former Chair Zullo had been trying to get the Board to communicate with the City Commission regarding the need for reports from the Board to the Commission. Former Chair Zullo had been devising this report, and had included this with his corrections to the minutes, which had been confusing. Chair Kurtz stated these remarks were not part of the corrections, so this document would not be included as part of the corrections to the minutes. This was a list of recommendations from

former Chair Zullo to the Board that had never been approved. Instead of these recommendations, the Board had decided to have a workshop.

Motion made by Mr. Owen, seconded by Ms. Probeck, to ratify the previous votes and to identify the first page only of Chair Zullo's corrections, dated February 28, 2010, as those that had been approved in the past for the Board's December 14, 2009 minutes. In a voice vote, motion passed 4-0.

Chair Kurtz agreed to forward the pdf document from former Chair Zullo to Ms. Hartmann, and she agreed to forward this to Ms. Cohen.

Chair Kurtz referred to the corrections submitted by former Chair Zullo dated June 14, 2010 for the March 15, 2010 Board meeting minutes and remarked they were "very technical." Chair Kurtz stated he would submit these corrections via email as representing the corrections that had been previously approved to the March 15, 2010 minutes. Chair Kurtz suggested making these an addendum to the minutes, since this was a year later.

Motion made by Mr. Owen, seconded by Ms. Probeck, to approve the Board's March 15, 2010 minutes as amended. In a voice vote, motion passed 4-0.

5. Questions and Answers

None

6. Communication to the Commission

- Ernst & Young, LLP - Contract Extension

Ms. Flynn explained the procedure the Board should use to communicate with the Commission via this section of their minutes.

The Board agreed that their motion regarding the Ernst & Young contract extension should be included in their Communication to the City Commission.

7. Other Business

Ms. LeClaire thanked the auditors for their efforts.

8. Next Meeting Date

Chair Kurtz announced that the Board's next meeting would be in May. Mr. Wood agreed to determine available dates and forward them to Board members.

9. Adjournment

There being no further business to come before the Board at this time, the meeting was adjourned at 7:20 p.m.

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