

APPROVED
AUDIT ADVISORY BOARD REGULAR MEETING
CITY OF FORT LAUDERDALE
CITY HALL 8TH FLOOR CONFERENCE ROOM
TUESDAY, MAY 31, 2011
5:30 PM

Board Member	Attendance	Cumulative Attendance	
		1/1/11 – 12/31/11	
		Present	Absent
Martin Kurtz, Chair	P	3	1
Richard Owen, Vice Chair	A	2	1
Bob Oelke	P	1	0
Roger Ally	A	2	1
Cindy Probeck	P	3	1

Staff

Lynda Flynn, City Treasurer
Pamela Winston, Accountant II
Valeria Florestal, Financial Management Analyst
Marco Hausy, CAO
Greg Brewton, Planning and Zoning Director
Cynthia Borders-Byrd, Auditor
Linda Cohen, Board Liaison
Gloria LeClaire, City Controller
Noha Ezzeddine, Senior Accountant
Dawn Johnson, Accountant
Gracelyn Hodge, Ernst and Young Auditor
Renee Foley, Assistant Internal Audit Director
John Disanto, Executive Director, Ernst and Young LLC
John Herbst, City Auditor
Douglas Wood, Director of Finance
Amanda Lebofsky, Recording Secretary, Prototype, Inc.

Communication to the City Commission

Motion made by Mr. Oelke, seconded by Ms. Probeck to forward the Single Audit to the City Commission and to express the Board's concern about the repetitious nature of some of the findings. The Board therefore will be taking a greater role in following up on the auditor's recommendations and responses from the departments. In a voice vote, motion passed unanimously.

1. Call to Order

The meeting came to order at 5:34 p.m.

- **Roll Call**
- **Introduction of Newly Appointed Board Member, Bob Oelke**

Mr. Oelke stated he had an MBA and he ran a continuing education company for certified financial planners, stockbrokers and insurance agents.

2. Review of Meeting Minutes for Approval:

- **March 28, 2011**

Mr. Oelke noted a change to the minutes.

Motion made by Mr. Oelke, seconded by Ms. Probeck, to approve the minutes as amended. In a voice vote, motion passed unanimously.

3. New Business:

- **Discussion of Single Audit FYE 9/30/10**

Ms. Hodge stated two members of the team had left Ernst and Young since the last meeting. She introduced John Disanto, Executive Director, Ernst and Young LLC. Mr. Disanto said Ernst and Young operated their public sector practice on a statewide basis and they tried to match up the appropriate resources to each location. Mr. Disanto said he had spent most of his career working in governmental entities.

Mr. Disanto had distributed a report summarizing the 2010 results and comparing them with the prior two years' results. He reported that total Federal grant dollars for 2010 were approximately \$21.4 million and total State dollars were approximately \$7.3 million. The material weaknesses and significant deficiencies in internal controls over financial reporting were in the report and Mr. Disanto noted that the types of comments had been consistent for the three-year period.

Mr. Disanto referred to the Management Letter, and said four of the comments had repeated over the three-year period so there had not been remedial action on those.

Regarding the Federal and State Grant Audit Results, Mr. Disanto stated the several of these had been audited more than once in the past few years, primarily because they involved large dollar amounts and/or because the past audit had resulted in findings. Specifically, the housing grants, CDBG, COPS and HOME had repeat findings year over year.

Regarding the Audit Opinions, Mr. Disanto stated they had audited nine programs in 2010, eight in 2009 and nine 2008, and their adverse and qualified opinions had decreased from four in 2008, to three in 2009 and to two in 2010. He summarized that the nature of the opinions was improving; they were still identifying non-compliance, but the significance of it had lessened over three years.

Mr. Disanto said there was still work to be done, and he was concerned that a lot of the same findings were not being remediated. He acknowledged the high turnover in key positions at the City and said it would take time.

Ms. Probeck was concerned that the same issues were not being resolved. Chair Kurtz stated this was everyone's biggest concern, and it did not appear it had improved in one year. He hoped that with the new Finance Director and other new employees, they would see improvement. Chair Kurtz pointed out that seven of the findings in the 2009 report went back to 2007. Mr. Disanto was certain these were the same types of findings. Chair Kurtz said the Board should be monitoring the progress of management's responses to these findings. He intended to work with Mr. Herbst, the internal auditor and Mr. Wood to make sure this was done. Mr. Disanto stated some people who should be monitoring the grant program were not responsible to Mr. Wood, and this created a structural issue.

Chair Kurtz said there had been personnel issues in the past but he felt this had improved. Mr. Wood stated Finance originated no grants; most compliance work was conducted in the departments responsible for administration. He noted the remarks indicated people needed training, but only some had received it. Mr. Wood felt that a lot of the Federal compliance criteria, such as report submission deadlines, did not add value to the results.

Chair Kurtz asked Ms. Borders-Byrd the areas on which the Auditor and the Board should concentrate. Ms. Borders-Byrd felt they should monitor the status of corrective actions before the audit was conducted. She pointed out that many people administering the grants were not accountants, so there were sometimes compliance requirements with which they were not familiar.

Mr. Disanto said Ernst and Young had recommended training, as well as maintenance and review of a checklist of compliance requirements. Ms. Borders-Byrd stated that comment had been ongoing and some departments kept a checklist, but more supervision and accountability was needed.

Mr. Oelke said Mr. Disanto had recommended that Finance set up and/or monitor a system for receivables and loan payments regarding the housing grants. Mr. Wood

explained the City did not have a flexible accounts receivable system, except for the utility billing system. He hoped to get a new system that had flexibility. Mr. Disanto said many cities had a Finance Department employee who acted as grant compliance administrator and worked with all departments and performed monitoring. Mr. Wood said there were now written grants policies and procedures. He said the Finance Department would start requiring departments to comply with the financial policies and procedures.

Ms. Foley said there had been many personnel and supervisory changes and their resources were limited. Mr. Hausy explained they would shift their resource allocation to focus where they could get “more bang for the buck” regarding compliance follow-up.

Chair Kurtz asked who was responsible to follow up on the findings of the Single Audit report. Mr. Wood said this depended on which department operated the grant. He stated he had no operational authority over those people in the individual departments.

Mr. Herbst said the City Manager was responsible for ensuring department heads complied with what they committed to in the report. He added the Audit Advisory Board had oversight regarding follow-up on these issues and they could require departments and/or the City Manager to present a report on the status of these issues. Mr. Herbst said he could choose to follow up on these items but he did not do this, because the external auditors provided annual recaps on prior year findings. Mr. Herbst suggested the Board reinstitute the quarterly report update requirement. Chair Kurtz stated the Board’s agenda and attachments could include reports on the audit findings from departments.

Ms. Winston said they used a spreadsheet and a reconciliation process. She stated she provided her quarterly reports to Mr. Wood and her supervisor. Ms. Winston said they had taken corrective actions and she thought this would show improvement.

Mr. Oelke asked how much more it cost the City to be in the higher risk category. Mr. Disanto explained that the higher the risk, the more programs Ernst and Young would audit each year. In the past three years, they had been auditing nine programs per year. Mr. Disanto said the cost was \$10,000 to \$15,000 per program. Chair Kurtz stated additional fees for the audit in the past year had totaled \$56,000.

Chair Kurtz asked Mr. Disanto for specific recommendations and Mr. Disanto recommended the quarterly reports and presentations to the Audit Advisory Board. Chair Kurtz asked Mr. Wood the pros and cons of his department having a grants administrator performing oversight. Mr. Wood said his department’s job was to monitor or assist from the financial perspective.

Mr. Wood noted that the new City Manager would probably reorganize staff and perhaps reduce the number of departments. He said the City was having issues with the Financial Accounting and Management Information System [FAMIS] and they must find a current, modern system. Mr. Herbst agreed they needed a new accounting system but did not anticipate this would happen soon.

- **Discussion of Results of Survey Regarding the Roles and Responsibilities and the Governing of the Audit Advisory Board**

Chair Kurtz explained in September 2010, the Board had held a workshop to discuss the following: the ordinance that pertained to the Audit Advisory Board; what the Board should be reporting to the Commission; what the Board's role was regarding selection of the auditors and what best practices they should follow.

Chair Kurtz said Ms. Cohen had provided ordinances from Boca Raton, Miami, Orlando and Tallahassee for comparison. In reviewing these, Chair Kurtz had determined that the Board was state of the art for what an audit advisory board should be doing.

Chair Kurtz recommended the Board wait a month to discuss this so they could receive input from the new City Manager and absent Board members. Chair Kurtz stated they would discuss possible recommendations for amendments to the ordinance, a recommended set of written best practices, the need [or not] for an annual report to the Commission and the Board's role in selection of the auditors.

Chair Kurtz pointed out that Board members were appointed in January, in the middle of the audit, so this was not a good time for a new member to join. He felt they might want to recommend a change to Board members' appointment time.

Chair Kurtz said Mr. Herbst felt the Board should be selection committee for the auditor, but Chair Kurtz was unsure they would want this responsibility. Mr. Herbst did not feel that management should represent a majority on the selection committee, since the auditors would be auditing management.

Mr. Oelke remarked on the number of audits, and suggested there should be a way to coordinate them all. He also thought the audit data should be used when creating the budget. Mr. Wood explained that the budget was developed and approved before staff began the audit. He drew the Board's attention to Section 2 of the ordinance: Purposes and Duties, and noted there were several listed. Mr. Wood said the ordinance would allow the Board to be involved in the RFP. He described issues staff faced during the audit process.

Mr. Oelke said his pet peeve was pension accounting. He said the supplemental information on the viability got buried. Mr. Oelke thought the reason for the separate accounting for the pension funds was because a majority of the boards that monitored the pension plans were elected by the participants of the plan and if it had been a majority selected by the City Commission, the supplemental information would be a component unit of the CAFR. He asked if there was a way to amend the auditor's contract to beef up reporting of pension information within the financial documents that were provided to the City Commission. Mr. Wood said what they saw in the CAFR was how this was required to be reported at the national level.

Mr. Oelke said in 2009 and 2010, the actuary's reports to the General Employees Retirement Plans had recommended the amortization period over which the City funded the previous years' shortfalls should be shortened and the payroll increase assumption should be increased. This was not mentioned in the minutes of the General Employees Retirement Plans trustees. Mr. Oelke thought the report was probably provided to Commissioners, but it was unlikely the Commissioners read it. Mr. Oelke stated, "Those pension boards do inflict a financial burden or they can provide a financial benefit to the City and...their activities should somehow be incorporated in the CAFR and I'm assuming that the auditors then would have something to say with that and that might expand the scope of what the contract would be."

Mr. Oelke said there were three funding requirements per GASB, and these were included without context. He wanted some context to explain what the numbers were and to say, "you know what, the unfunded pension liabilities, we had it fully paid off in 2000 and then it started to creep back up and it's skyrocketing." Ms. LeClaire suggested this information could be included in the management discussion and analysis in the front of the report.

4. Questions and Answers

None.

5. Communication to the Commission

Discussed under Item 2, the Single Audit:

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6. Ernst & Young, LLP - Contract Extension

Mr. Wood said they had a draft contract for \$328,000, which included grants. The Commission had approved the extension, per the Board's recommendation. Ms. Hodge stated there were no significant changes to the scope of the contract. Mr. Wood said they would create a new RFP for next year and Chair Kurtz requested Mr. Wood bring the draft to the Board for review.

Ms. Hodge thanked the City for the opportunity. She said Mr. Disanto would be a great addition to the team.

7. Other Business

None.

8. Next Meeting Date

Chair Kurtz agreed to discuss this with Mr. Wood.

Mr. Wood suggested the Board make a recommendation regarding the cycle of their appointments.

Ms. Probeck wanted to discuss requiring departments to provide the Board with their plan and progress reports regarding remediation of the deficiencies in the audit.

9. Adjournment

There being no further business to come before the Board at this time, the meeting was adjourned at 7:40 p.m.