

APPROVED
AUDIT ADVISORY BOARD REGULAR MEETING
CITY OF FORT LAUDERDALE
CITY HALL 8TH FLOOR CONFERENCE ROOM
WEDNESDAY, FEBRUARY 29, 2012
5:00 PM

Board Member	Attendance	Cumulative Attendance	
		1/1/12 – 12/31/12	
		Present	Absent
Martin Kurtz, Chair	P	2	0
Cindy Probeck, Vice Chair	P	2	0
Roger Ally	P	2	0
Bob Oelke	P	2	0
Richard Owen [5:06]	P	2	0

Staff

Linda Cohen, Board Liaison
Elizabeth Cohen, Board Liaison
Kirk Buffington, Deputy Director of Finance
Gloria LeClaire, City Controller
John Herbst, City Auditor
Stanley Hawthorne, Assistant City Manager
Douglas Wood, Director of Finance
Michael Walker, Manager of Procurement and Contracts
Lynda Flynn, Treasurer
Emilie Smith, Office of Budget, CIP and Grants
Jamie Opperlee, Recording Secretary, Prototype, Inc.

Communication to the City Commission

None

1. Call to Order

The meeting came to order at 5:00 p.m.

- **Roll Call**

Board members introduced themselves and it was determined a quorum was present.

2. Review of Meeting Minutes for Approval:

- **January 2012**

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

Regarding the local vendor preference discussion, Mr. Oelke remarked that if proximity had a functional value, this could be one of the criteria and provide a reason to prefer a local vendor.

Chair Kurtz asked about the Board's Communication to the City Commission and Mr. Wood agreed to check on this.

Regarding their discussion of the Cayenta billing system, Chair Kurtz said Mr. DiSanto had indicated they could audit around the system, and asked if there was any benefit to having someone audit through the system. Mr. DiSanto stated this was more difficult and they had problems with general controls, control over program changes, documentation, segregation of duties and access. He felt they could never rely on the system. He stated they felt comfortable auditing around it. Mr. Herbst requested a list of what Mr. DiSanto thought would be appropriate for him to audit to provide a higher degree of comfort going forward.

Chair Kurtz asked Mr. Herbst about the outstanding prior audits and determine where the staff stood on the findings. Mr. Herbst agreed to provide a list to Board members.

3. Financial Audit Services (Closing Date: February 20, 2012)

- Michael Walker, Manager of Procurement and Contracts

[Mr. Owen arrived at 5:06]

Mr. Buffington said the Board just needed to select a meeting date to review the three responses received and perhaps the three additional responses.

- Select date for March meeting

The Board decided on March 22.

4. Review of DRAFT of Comprehensive Annual Financial Report (CAFR)

- Douglas R. Wood, Director of Finance

Mr. Wood drew the Board's attention to the draft of the management letter [page 3]. He explained the management letter was required to discuss seven or eight items.

Regarding total assets, Mr. Wood pointed out that governmental activities had decreased and business-type activities had increased for a net \$20 million increase. Regarding revenue, Mr. Oelke requested that dollar amounts and percentages be included for each item. Mr. Wood reported revenues related to governmental activities had decreased 0.3% from 2010 and revenues from business-type activities had decreased by \$2.5 million. Mr. Wood said the General Fund Balance had decreased by \$16 million, primarily due to the directive not to increase the property tax rate despite a decrease in property values. He stated the \$21 million decrease in the unassigned fund balance was primarily due to an early \$15 million contribution to the Police and Fire pension, which was done to save interest costs.

Mr. Herbst said there had been discussion of a long-term pension obligation bond. Mr. Wood said the total unfunded pension liability was in excess of \$300 million and the City Manager had suggested funding a portion of it to save interest. Mr. Herbst pointed out that longer term bonds had higher interest rates than the short-term loans they currently used to pay by the year.

Mr. Oelke had added the portfolios listed in the notes and came up with \$1.175 billion, not the \$1.3 billion figure in the management letter. Mr. Wood agreed to check this figure.

Mr. Oelke stated the net retirements versus assets did not include the \$338 million in unfunded pension liabilities listed under long-term debt, but they did include \$700 million in pension assets under investments. Ms. LeClaire said this was not required. He asked for an additional bullet point to address pensions. Mr. Oelke asked, "If we don't have to disclose the liabilities, how can we include the assets; I think that's just terribly misleading." Mr. Wood said this had been an issue for years and in a few years this would be included in the balance sheet. Mr. Herbst felt they had the latitude to include this. Mr. DiSanto reminded the Board that the pension investments did not belong to the City, even though they managed them. He recommended changing the \$1.3 billion to reflect the City's actual investments.

Chair Kurtz referred to the Statement of Net Assets, and pointed out that cash was down \$73 million and the unrestricted net assets were down by \$73 million. He was unsure which was the cause and which was the effect, but he felt this should be pointed out somewhere.

Mr. Wood referred to the changes in the General Fund on page 9 and noted that General Fund revenues were under budget by \$16 million, with the biggest shortfall in the red light camera program. He said part of the problem was that only six of the planned twelve cameras had been installed and the other problem was the judicial system. Property tax collection was also under budget by \$2 million. Total expenditures were \$9.8 million under budget; this was mainly due to services and material costs that were \$7.2 million under budget.

Mr. Oelke pointed out that last year they had budgeted \$3 million revenue for the red light cameras and they had not come close to actually collecting it but this year they had increase the budget to \$8 million. He said they had been “grossly optimistic” in budgeting and this was why they had fallen short. Mr. Oelke said the decrease in the General Fund was because they chose not to cut expenses, not because revenues were too short. He asked if there was a way to “put some responsibility into the voice of this...”

Mr. Buffington said when the budget was prepared the \$8 million figure was based on experiences from collections in other states. He felt no one could have foreseen the judicial response in South Florida; this had not occurred in any other municipality. Mr. Herbst disagreed, and recalled that he had made a strenuous objection to the \$8 million inclusion in the budget and stated it was a “pie in the sky” number, but his opinion had not been heeded. Mr. Wood said this was not the place to note that opinion; it was not a justification process but a recording process. Mr. DiSanto said this document was meant to explain the financial statements.

Chair Kurtz had been considering a joint meeting with the Budget Advisory Board and he felt this would be a topic for that meeting.

Mr. Oelke asked about the red light camera contract. Mr. Wood did not know the specifics and said the City Manager had met with the contractor. Because of the situation, he believed there would be a modification. Mr. Buffington said the original contract was a revenue split but it had been modified with the statutory changes that required the State to share the revenues. Mr. Herbst said the State also prevented the City from sharing in per-ticket revenue so the contract had to be restructured to pay the vendor a flat lease fee per camera, per month.

Regarding the economic factors that would affect next year's budget and rates, Mr. Oelke said the language indicated they would take money out of the carry-forward Fund Balance to cover lower than anticipated revenues; the flip side of this was that they had continued to spend and needed the funds to cover those expenditures. Mr. Wood stated they were within the 10 - 15% on the undesignated fund balance. He reminded Mr. Oelke that the new City Manager had come in during the latter stages of the budget year and had done several things regarding both revenues and expenditures to reduce the amount needed to cover lower than anticipated revenues to \$6 million. He added that the forthcoming budget would include a financial integrity document which would stipulate that only recurring expenditures should be covered by recurring revenues.

Mr. Wood said they were still unsure of the impact from the early retirement buyout. Mr. Oelke said the early retirement plan would add \$25 million to the unfunded pension liabilities; even though this was not part of the City's budget, it was significant.

Mr. Herbst said they had started out with a \$36 million budget gap and they had utilized a number of mechanisms to close that gap. He was unsure if they should mention any particular mechanism in the context of the financial statements but he agreed the buyout's impact should be mentioned in the footnotes. Mr. Herbst had sent a communication to the Budget Advisory Board, the City Manager and the Budget Office recommending a mid-year discussion regarding some of the budget balancing techniques that were part of the proposed budget. He said some of these things had not been done and he feared they would find themselves in a similar situation to the red light camera revenue issue.

Mr. Oelke said he had asked last May if there was a way to provide a summary of pension information for residents and the City Commission to see. Mr. DiSanto stated the financial statements on pages 26 and 27 included a breakdown. Mr. Oelke wanted this to be on one summary page describing the plans, the current market values, the unfunded liability and the funding ratios, in context over a period of years. Mr. Herbst said the financial statement was not an appropriate place for that; he thought the Board could recommend creation of a summary sheet that could be posted to the City's website.

Motion made by Mr. Oelke, seconded by Mr. Owen to request that the Finance Department prepare a summary of information for both pension plans, listing the information found in the CAFR, summarized into one readable document. In a voice vote, motion passed unanimously.

Ms. LeClaire asked how the Board would like to see the changes they requested. Mr. Herbst suggested sending out the revised draft stating the intended publish date.

5. Update and Discussion of Management Letter Comments (2011 Audit) & 2011 Financial Statement Audit Results.

- Ernst & Young LLP

Mr. DiSanto referred to the summary document and reported they had included comments last year regarding the landfill post closure costs and the utility billing system. These comments had been addressed and would not be repeated in FY 2011. Regarding the information system general controls, Mr. DiSanto said many of these still existed and would be repeated in the management letter, but they were not classified as significant deficiencies or material weakness.

Mr. DiSanto said regarding calculation of compensated absences, management had sampled 30 employees and determined there was a small net difference overall but there were some gross differences on over half of the items. He acknowledged that 30 was probably not a large enough sample on which to perform the calculation.

Regarding valuation of pension investments, Mr. DiSanto said they had recommended the City use a third party specialist to value some of the more complex investments. The City had done this on the pension side and Ernst & Young was recommending this also be done for complex City investments.

Mr. Herbst asked what investments required a third party valuation and Mr. DiSanto suggested the mutual funds, depending on the underlying funds. Mr. Herbst said when they had revised the investment policy, mutual funds were required to be in government agency securities. Mr. DiSanto said this would therefore not require a third-party valuation.

Mr. DiSanto said the enterprise fund receivable errors had been reported as a significant deficiency in the last management letter. These comments had been addressed and the comment would not be repeated. Regarding capital assets, Mr. DiSanto said they continued to have some of the same issues and deficiencies and this comment would therefore be repeated. He noted that significant progress had been made.

Mr. Oelke asked when the last physical inventory had been conducted. Mr. Buffington stated they had begun the process.

Mr. Wood said compensated absences issue was not a dead one. He stated they had met with IT and the people who maintain the databases. He said there were three database, two of which were manual. Mr. Wood would meet with the IT Director and the City Manager and determine if they could get all of the data into one place.

Mr. DiSanto referred to the Financial Statement Audit Results and remarked there were no changes from their last discussion regarding management letter comments or audit differences. Some items remained open and these were listed on page 4.

Mr. DiSanto said the original target date was mid-March but he anticipated they would be ready to issue around March 7.

Chair Kurtz asked if the City had always met their debt covenants and Mr. DiSanto said they always had but the calculation needed to be done.

6. Other Business

Mr. Herbst reported the City Manager was requesting an audit of the integrity of the City's IT systems. Mr. Herbst had recommended and the City Manager had agreed to broaden the scope to a City-wide IT risk assessment. Mr. Wood would provide the Board with a copy of the RPF when it was available.

Mr. Ally asked if the bidding would be reopened to accept Ernst & Young's proposal. Chair Kurtz stated this would be decided by the City Commission on March 6.

Motion made by Mr. Ally, seconded by Mr. Oelke to reopen the process so Ernst & Young, the current auditor, would have the opportunity to present their proposal. (Motion later withdrawn)

Mr. Buffington explained the process could not be reopened, and if this were reconsidered, all three bids that had come in late must be included. Mr. Owen felt that opening the process again would create a process with no official closing time and an argument could be made that other bidders should be allowed to submit their proposals. Chair Kurtz felt the Board should stay out of this discussion; it was the City Commission's decision.

7. Next Meeting Date

Mr. Buffington stated when the Board met as a selection committee on March 22, they could make their recommendation that evening or to hear presentations from a short list at a second meeting.

Chair Kurtz said their next regular meeting should coincide with the single audit; this had been June last year.

Communication to the City Commission

8. Adjournment

There being no further business to come before the Board at this time, the meeting was adjourned at 6:44 p.m.

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