

APPROVED

**AUDIT ADVISORY BOARD REGULAR MEETING
CITY OF FORT LAUDERDALE
8th FLOOR CONFERENCE ROOM
MONDAY, APRIL 21, 2014
5:00 PM**

Board Member	Attendance	Cumulative Attendance	
		10/1/13 – 9/30/14	
		Present	Absent
Martin Kurtz, Chairman	P	3	1
Roger Ally	P	4	0
Jennifer Diehl	A	3	1
Richard Owen	P	3	1

Staff

Kirk Buffington, Director of Finance
Linda Logan-Short, Deputy Director of Finance
Stanley Hawthorne, Assistant City Manager
Laura Garcia, Acting Controller
Emilie Smith, Budget Manager
John Herbst, City Auditor
Marco Hausy, Assistant City Auditor III
Mike Maier, ITS Director
Lura Rogers, Board Liaison

Communication to the City Commission

The Audit Advisory Board wishes to advise the Commission on the pending transition of the City Accounting and Financial Management to an Enterprise Resource Planning (ERP) software application that addresses the lack of capacity and structural ability found in the current antiquated Financial Accounting and Management Information System (FAMIS). Finance and Information Technology are the primary departments responsible for this migration.

An ERP system will allow the City to upgrade the integrity of its financial management system and allow for seamless interaction with analytical tools allowing for a more sophisticated review of data. In addition, a greater range of management activity can be generated from such a system.

The Audit Advisory Board strongly supports this transition. However, in order to take advantage of the system's robust nature, an appropriate level of manpower is required to assure proper implementation of each feature. Too often, cities make the mistake of financing large capital investments in hardware and software without the necessary support staff required to adequately address its operation.

Critical financial processes within the City must continue operating while the new system is being brought on-line. While this certainly requires an investment in training, more importantly, appropriate staff levels must exist to allow the system to be integrated into City operations and assure optimal operational integrity and control of the City's financial system. Without fostering a workable understanding of the software among its users, the ability to maximize our investment is challenged.

For that reason, the Audit Advisory Board highly recommends that the appropriate resource commitment be made for this project. Only by providing the necessary financial support can we be assured of a successful implementation.

Motion made by Richard Owen, seconded by Roger Ally, to approve this Communication to the Commission. In a voice vote, the motion passed unanimously.

Call to Order

Chairman Kurtz called the meeting to order at 5:06 p.m.

Roll Call

As of this date, April 21, 2014, there are 4 appointed members to the Board, which means 3 would constitute a quorum. At this time, there is a quorum.

FY2015 Budget Preparations and Revenue Estimates – presented by Emilie Smith

Emilie began her presentation with an update on where the City was in its budget process. The departments have submitted their preliminary requests and in general, they look good. There is approximately \$12 million in new funding requests from the departments mainly in personnel. Over the past few years, the City has reduced the

number of employees to balance expenditures to revenues. As the recovery has taken place, the departments have been tasked with new directives from the City Manager. The departments believe that additional human resources are required to positively respond to those directives through those requests which we call budget modifications. A total of 65 positions have been requested. Not all of these requests will be funded, but it does represent the level of change being reviewed.

We expect a 4.9% increase in property taxes in 2015 which is the same amount experienced in 2014. After the Revenue Estimating Conference Committee finalized their review all changes were made in the financial system and a final product was produced. In this way, everyone could see all the changes that were made as well as the original amounts and how this compared to the prior year and the budget year. There will be an increase in sanitation franchise fees because of a change in the terms of the contract from a 17% franchise fee to a 23% franchise fee. The City will also be receiving an increase in residential property tax which was not stated previously. As a result, this year the budget includes an additional \$3.6 million and we are expecting \$5.8 million next year. The transportation and sanitation funds will benefit along with the general fund.

Chairman Kurtz asked if the property tax revenue increase is based on assessment increases or new property. Emilie answered that it is a combination of both since we are seeing new construction come on-line. The tax rolls, especially in 2015 and 2016, should be impacted by the new construction and revenue increases coming from re-sales.

Chairman Kurtz asked if they used the same consultant for revenue analysis and Emilie answered yes. The Budget Division will be doing a joint session with the Budget Advisory Board (BAB) and the City Commission. The vision for next year will be presented along with the preliminary numbers from departmental requests. The revenue estimating conference committee will share their findings for fiscal 2015 revenues.

Chairman Kurtz said that he was impressed with the program presented by the committee last year, but that it did not go beyond the general fund. What is the plan for this year? Are they contemplating projecting other funds? Emilie said that they completed revenue projections for all the enterprise funds. This included storm-water, water and sewer, and the building fund, but the main focus is always on the general fund because the city has experienced a deficit for so many years and we did not want to continue dipping into reserves.

The consultant presented a powerful model to demonstrate revenues versus the expenditures going forward. A scenario was presented showing what would have to be sacrificed if the city did not do anything about revenue creation. Chairman Kurtz asked how the actual came out compared to the first year of the projections done by the consultant last year. Emilie said that we are still in the middle of the year but it was pretty close. The Budget Division tracks revenues on a monthly basis which shows all the major funds and trending revenues. The Budget Division does not see anything unusual this year like the \$8 million FEMA expense that occurred last year.

The BAB is prepared to talk about alternative funding sources for capital improvement and infrastructure. For example, the Police Station was built in 1958. The city spends hundreds of thousands of dollars a year in maintenance and should consider replacing the building but does not have the necessary capital in place. The city could raise capital with a general obligation bond or lobby the County to implement an infrastructure surtax which could be as much as 1% and would generate approximately \$17 million a year for ten years.

Chairman Kurtz asked about the ERP and mentioned that the Audit Advisory Board would be submitting a Communication to the Commission about adequate staffing needed for the implementation of the ERP. Emilie mentioned that this was discussed in a meeting with the City Manager. Mr. Feldman supports having adequate staff during the transition period and making sure that when we are running parallel systems, we do not have staff doing double duty. \$1.5 million from general fund has been set aside for the ERP.

Emilie mentioned how Jennifer Diehl's involvement had been a great asset to the Revenue Estimating Conference Committee and she enjoyed having her participation.

Review of Meeting Minutes

1. Review of January 21, 2014 and Meeting Minutes for Approval:

Motion made by Mr. Owen, seconded by Mr. Ally, to approve the minutes of the January 21, 2014 meeting. In a voice vote, the motion passed unanimously.

2. Review of March 10, 2014 and Meeting Minutes for Approval:

Motion made by Mr. Ally, seconded by Mr. Owen, to approve the minutes of the March 10, 2014 meeting. In a voice vote, the motion passed unanimously.

Construction Auditing Direction

John Herbst and Marco Hausy attended a 2-day seminar on construction auditing. Due to concern over some large projects under construction and others being planned for the future, the Auditor's Office believed such attendance would be helpful. The Aquatic Center is in the \$26 million range. There are a couple of parking garages at the beach which could run \$10 to \$15 million, a piece, depending on their size. A proposal being advanced by the Marine Advisory Board would turn the Las Olas surface parking lot into additional marina dockage. This project could cost \$25 to \$35 million. These projects add up to \$75 to \$80 million worth of construction being contemplated. During the \$700 million WW2011 project, the City hired an outside firm to do an audit. Halfway through the Fire Station Bond construction program we also outsourced audit activity.

At this point, the Auditor's Office is considering doing in-house audits like the one being done now for the South Side School. It is a \$12 million project which will probably be \$15 million by the time it is completed. The project is several years beyond the time frame for completion and over-budget. If begun earlier in the process, mistakes could be caught on a real-time basis as opposed to after the fact. We are missing the opportunity to have a real impact and affect the progress by coming in after the fact. There would be value in being more actively engaged in a continuous-type model.

Two organizations with this type of model include the County Auditor's Office who has a licensed PE on staff and the School Board who has a dedicated construction audit team. Both agencies routinely undertake projects worth hundreds of millions of dollars, if not billions, between the airport at the county and high schools which run about a \$100 million each.

The seminar gave us some exposure to a very technically deep field, construction auditing, with its methodologies and contracts. There are five different types of contracts that can be used which include:

- Construction Management
- Design/Build GMP
- Job Order Cost Plus
- T & M
- Design, Bid, and Build

Each contract has its own unique complications and opportunities for fraud and error, the examples of ways in which contractors can manipulate and defraud the owner of a

project are beyond belief. We went into this thinking that construction auditing was something that could be brought in-house, but I am leaning toward it being something that we need to outsource. You could expect to save one to three percent of your contract cost by having an effective audit. This would be a substantial savings on a contract of \$100 million.

We learned the value of a having a strongly written contract up front when the inspector general pointed out that the City's contract for the aquatic center may not give us the most robust protections going forward. There are reputational and financial risks associated with this issue and we are contemplating proposing to the Commission to hire one dedicated person for these projects going forward or continue to outsource the audit function. Given the risk that we face, the nature of the industry and the propensity to commit fraud, it is a necessity.

The dollars involved makes this the highest risk area for the next several years. Chairman Kurtz wondered what kind of company you would outsource this to. Active consideration should include whether or not you could accomplish what you want by bringing someone in-house to get into this earlier. This should really be looked into as an option.

John said he likes the idea of bringing someone in-house and would prefer the continuous audit model but recognizes that firms such as Townsend have been doing this for 25 years and have the deep technical knowledge that is required. Any input from the Board would be helpful.

Mr. Owen stated that if multiple projects were going on at the same time, the City could hire additional contractors, but to have someone in-house would be invaluable. Is there any way we could have both an in-house person and use outside contractors as well?

John said that if we had three projects underway concurrently the Commission would see the value of having a staff person who could oversee the construction. The Aquatics Center will probably run for 18 to 24 months and is currently in the DRC now. As a result, it may start in the next six months.

Chairman Kurtz noted that the two big risks, fraud and contract compliance, are critical to the City going forward and suggested that bonding companies require audited labor charges.

John said that we need a strategy and will probably need more of a financial commitment going forward.

Kirk said that the procurement division now oversees the construction contracting and we will be reviewing and updating the contracts that the City uses in their various infrastructure improvements.

Mr. Ally suggested that with the cyclical nature of construction, if we hire staff, when projects are completed the staff wouldn't be needed.

John said that in the next 3 to 5 years we should see the parking garages and the Aquatic Center and the Las Olas marina coming on board and the next 5 to 10 years we could see a new police station and maybe a city hall. If we had an in house person then we could augment that with some outside expertise this would be the ideal mix.

Chief Security Officer Recruitment and ERP Update presented by Mike Maier

Mr. Maier opened his remarks with an update on staffing. In the case of the Chief Security Officer position, offers have been made to three different individuals. The first person that was offered the position decided to take another position elsewhere. We made an offer to the second ranked person who failed the polygraph test which is required in order for I.T. personnel to work at the police department.

I.T. went through another 20 candidates reducing the number down to the top 10 and interviewed 5 candidates. We made an offer to the top candidate from the group, but he wanted 2 analyst positions to work with him with a \$700,000 budget. Without having that available to him, he wanted \$250.00 an hour. Obviously, he was not going to work out.

Now I.T. is using a headhunter and they interviewed two candidates so far and another candidate tomorrow. However, HR is requiring them to go through another batch of candidates, rank them and maybe interview some of those to make a comparison with those presented by the headhunter firm. Meanwhile, some projects have been contracted out.

Everybody that was interviewed as well as the headhunter said that the salary the City is offering is too low and whoever gets hired will probably only stay a couple of years. The hope is to groom an I.T. City employee to go into the Chief Security Officer position.

Beyond personnel issues, there should be an ERP RFP going out in June or July. A governance board has been put in place with representation from all departments. There now is a process in place so that each department can bring up changes, modifications and enhancements that they feel they need. ERP is a huge project with the expenditure of millions of dollars and it is more than just an I.T. project. Everyone must have a degree of buy-in and this requires everyone at the table making decisions. ERP should be a "best practices" process. Technical user groups have met with the consultant, Plant Moran, and analyzed what is needed. Staff cannot do the initial setups of the ERP system which is the base foundation while doing their job functions at the same time. It would amount to twice the work. Additional staff will be needed in order to run a parallel system to make sure everything is correct before doing a change-over. The original budget was \$7 million dollars.

It was to be a two-tier platform, but departments may decide that more should be added. Originally, it was financial modules and HR modules. Now, there may be a requirement for fleet modules.

Chairman Kurtz asked if not enough funds exist, where would the balance come from?

Mike said that there could be an option to lease with an option to purchase at the end. Kirk said that there would also be an option to borrow from a bank as opposed to the lease rates. Every other city in Broward County was e-mailed to ask if they wanted to partner with us in an ERP system and economies of scale would save dollars if any of those cities were interested. John had looked into this same thing with the County but the city's relationship with the County has since deteriorated. The ERP system represents the second largest risk that we face as an entity and project management has been lacking at the City in a number of areas. This led to Mike forming the governance board and the technical user groups.

Training and additional staffing is critical in achieving the goals associated with the new ERP system. One of the first things everyone wants to cut in developing an ERP system is the training. This, of course, is the most important part of system implementation. Chairman Kurtz concurred and suggested that the Audit Advisory Board was quite aware of the importance of both training and the commitment of additional staff to a successful implementation. In fact, the board was reviewing a communication this evening to be sent to the Commission on this very subject.

After reading it into the record, the board formally moved to accept and send the communication to the Commission.

Other Business

The discussion turned to setting a schedule for quarterly meetings on a regular date. Linda suggested that when she reviewed the City's calendar for meeting space, Thursdays were underutilized. The board formally approved the last Thursday of the month for their regular quarterly meetings. 5:00 P.M. was determined to be an appropriate time for the start of the meeting.

Special meetings were also placed on the calendar. The first Thursday in March was set to review CAFR prior to submission to the City Commission. The date for this meeting was March the 2nd. The next regular meeting is scheduled for July 31, 2014.

The subject for the next meeting is a discussion of outstanding audit findings. Not only will the external audit be discussed, but internal auditor's findings will be added. These include individual department discussions within the overall scope of activity.

The meeting was adjourned at 6:19 P.M.

[Minutes prepared by Lura Rogers, Board Liaison]