



OFFICE OF AUDIT AND EVALUATION

FY 2003-04 ANNUAL REPORT

Date: October 21, 2004

Report No. 05-02

CITY OF ORLANDO

OFFICE OF AUDIT AND EVALUATION

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Audit and Evaluation Director

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CITY OF ORLANDO

MEMORANDUM

To: The Honorable Buddy Dyer, Mayor

From: Beryl H. Davis, CPA, CGFM, Audit and Evaluation Director

Date: October 21, 2004

Subject: Office of Audit and Evaluation FY 2003-04 Annual Report
(Report No. 05-02)

The Annual Report of the Office of Audit and Evaluation for the fiscal year ended September 30, 2004 is presented for your review. This report provides a description of the mission and goals of the Office and an explanation of the types of work performed during the period.

In this year, the Office issued a total of 38 reports. These included 9 performance audit reports, 1 fraud audit report, 23 follow-up audits or reviews, 3 revenue audit reports, 1 management study report and our FY 2003 Annual Report. A listing of the reports is included as Appendix B.

Our revenue audits and revenue tracking activities resulted in over \$600,000 in additional revenue to the City.

In addition to conducting audits, the Office assisted the Audit Board in its oversight responsibilities; performed a comprehensive re-write of our office policies; assisted in citizen information and recovery from the three major hurricanes that swept through Florida in August and September; acted upon 12 items received through the Office's "Audit Hotline"; consulted with City executive management on several key issues and continued to co-chair the City's employee recognition program, M.E.R.I.T.S.

The Office of Audit and Evaluation remains committed to providing quality assurance and consulting services to the elected officials and executives of the City of Orlando. We will continue our efforts to promote accountability, efficiency and effectiveness at all levels of City government.

We look forward to serving you and the citizens of Orlando in fiscal year 2004-05.

BHD/gjm

c: City Commissioners
Audit Board Members
Jose Fernandez, Chief of Staff
Dykes Everett, City Attorney
Joe Robinson, Deputy Chief of Staff

OFFICE OVERVIEW

Mission To provide meaningful, independent and objective audit and non-audit services by examining and evaluating City operations, contractors and related agencies in order to safeguard City assets and promote maximum accountability, efficiency and effectiveness.

Core Businesses Our efforts are focused on several important areas: Performance Audits, Revenue Audits, Fraud Investigations, Information Systems Audits, Compliance Audits and Non-Audit Services. Our activities provide management with practical and innovative recommendations that add value to City government.

Government Auditing Standards Our Office performs audits in accordance with generally accepted government auditing standards. These standards are promulgated by the Comptroller General of the United States and are referred to as the “Yellow Book.” These standards require the Office to be independent in both fact and appearance, use professional judgment in the conduct of audits, be competent through regular staff training, and have a quality control system that includes an external quality control review (i.e., “peer review”).

The Office of Audit and Evaluation received its latest peer review in October 2002. The review was conducted in accordance with the standards and guidelines published by the National Association of Local Government Auditors (N.A.L.G.A.). Initial contact has been made to schedule the next peer review for early 2005.

Audit Board An Audit Board of local professionals is appointed by the Mayor to advise City Council on financial and audit matters. In this fiscal year, the Audit Board met five times. These meetings included discussions of the City's FY 2003 annual financial report, the City's FY 2004 annual budget and the reports issued by the Office of Audit and Evaluation.

The Audit Board experienced some turnover in its members this fiscal year. At the September 13, 2004 City Council meeting, two new board members were approved and at the Audit Board meeting of September 21, 2004, a new Chairman and Vice-Chairman were elected. Following this meeting, one of the board members resigned due to a possible conflict of interest regarding oversight of the City's external auditors.

At present, the Audit Board includes Stephen Clapp of Morgan Stanley, Richard Chambers of PriceWaterhouseCoopers, Gregory Tate of the American Automobile Association, and Richard Adamczyk of the University of Phoenix. At this time, there is one vacancy on the Audit Board.

Office Budget The Office of Audit and Evaluation FY 2004 budget was \$869,447. The Office's actual expenditures for the year totaled \$779,903, or 10% below budget. This is primarily because payments made to our revenue enhancement consultant were less than expected.

The budget for FY 2005 is \$811,306, a 6.7% decrease from the previous fiscal year. This is also due to a forecasted decrease in contractual payments to our revenue enhancement consultant.

PERFORMANCE RESULTS

Performance Goals and Benchmarking

In order to best gauge our performance and ensure that we are offering economical auditing services to the citizens of Orlando, the Office of Audit and Evaluation tracks several performance measures and “links” these goals to the individual performance goals of our professional staff.

We benchmark four of these performance measures against industry information reported by the National Association of Local Government Auditors (N.A.L.G.A.) in its Benchmarking and Best Practices Survey.

Appendix A shows in a graphic form how our performance compares to both our peers and the goals we established for FY 2004.

Future Performance Goals

We have revised three of our goals for FY 2005 and added an additional goal. Our new and revised goals are noted in **bold**:

- 90% Auditee concurrence with recommendations
- 85% Auditee implementation of recommendations
- **70% of Follow-up projects completed within 12 months of report issuance**
- 70% of Projects completed within established deadlines
- **70% of Projects completed within established budget**
- **3 to 1 ratio of new revenues to Revenue Audit costs**
- **24 Reports Issued**

HIGHLIGHTS OF SELECTED AUDIT AND EVALUATION ACTIVITIES

Audits Complete copies of our reports are available for review by visiting our website:

<http://www.cityoforlando.net/executive/audit/index.html>

18A Permit Process (Report No. 04-03), October 2003 –

We performed a limited review of City Code Chapter 18A Permit (Parks and Outdoor Public Assembly) requests. We emphasized the areas of dissatisfaction of two recent permit holders. We interviewed staff, permittees and other law enforcement agencies and made recommendations to improve guidelines for the 18A permit process, including the provision of cost estimates of all police services to the permittee.

Permitting Field Inspections (Report No. 04-08),

December 2003 – We performed an audit of the Permitting and Code Enforcement Division's Field Inspection and Review section.

We found procedures were generally good; however, we noted some opportunities to enhance controls, effectiveness and efficiency of the current processes. These included scheduling a reasonable number of inspections per day so that citizens and their representatives are not left waiting at the job site, monitoring customer service, and developing a rejection notice for contractors who do not have their work properly readied for inspection.

Fiduciary Risk (Report No. 04-23), April 2004 –

We circulated a survey to all City departments to determine what fiduciary relationships existed between City staff and external organizations. We identified eleven external organizations (principally law enforcement related), of which three are staffed and operated by City employees. We recommended improvements

to protect the interests of the City and City employees as they perform assigned duties for these organizations.

Grants Seeking, Execution and Reporting Processes

(Report No. 04-24), May 2004 – We performed a review into City grants. The purpose of our audit was to identify grants outstanding; evaluate the staff, reporting channels and qualifications; examine City policies and procedures concerning grants activities; and evaluate grants seeking, monitoring and reporting processes. Our review revealed that the City managed and reported \$18 million in grant expenditures for FY 2003. The total amount awarded over the lives of these grants is \$60 million. We made several recommendations to improve these processes. They included the development of strategic grants objectives in keeping with the City’s overall vision and the assignment of grants management duties to a management level position.

Transportation Planning Performance Audit (Report No.

04-26), May 2004 – We performed an audit of Transportation Planning. The purpose of our audit was to assess the function’s effectiveness in meeting its responsibilities and its efficiency in accomplishing its tasks. Our review revealed that the function has effectively interacted and advocated for the City regarding regional transportation issues. We made recommendations to improve the processes managed by the section.

Fire Department Time Reporting Practices (Reports No.

04-28 and 04-30), June 2004 – We performed an audit of the Orlando Fire Department’s time reporting related to the use of a union-negotiated wage bank. The agreement with the Fire unions creates a “wage bank” within the OFD budget to reimburse employees for time off related to union activities. We found that the

Fire Chief underfunded the wage bank and because of an anticipated budget shortfall directed department payroll staff to reclassify some union activity charged to the wage bank. We also noted certain internal control activities that could be enhanced, including converting the wage bank account to a fiscal year basis and identifying the aspects of the Fire Department's current payroll system that would benefit from the elimination of manual processes.

Contract Award for Insurance Broker Services (Report No. 04-33), September 2004 – We conducted an investigation into the contract award for insurance broker services. We performed procedures to determine why City staff did not adhere to the negotiation process specified in the Council Agenda Item and minutes of the Selection Committee meeting. We found no evidence to suggest the Committee Chairman, the Purchasing Agent or anyone else intentionally failed to adhere to the negotiation process approved by Council in order to unfairly influence the procurement of broker services contracts.

Fraud Investigations The Office operates an “Audit Hotline” for employees, citizens or others to anonymously report cases of alleged fraud, waste or abuse. Every communication received is tracked (see Appendix C), the merits of each are reviewed, and a determination whether to investigate is made. Not all hotline calls result in a formal audit report. In the fiscal year, the following report was issued related to a fraud investigation.

Procedures Related to Final Paychecks and Personal Leave Buy Downs (Report No. 04-31), June 2004 – We reviewed the acceptable timing for final paychecks and the approval procedures for personal leave buy down requests. We

recommended that Management, Budget and Accounting amend City policy to tighten controls over the early release of paychecks and required approvals when department directors themselves receive a personal leave buy down.

Follow-up Audits It is our policy to perform follow-up audits to determine the status of the recommendations made in our reports. We instituted a new practice this year to compile and report non-implemented recommendations to City executive management. This memorandum is available upon request and we plan to update it in February 2005. The follow-up audits conducted during FY 2004 are listed in Appendix B.

Revenue Audits and Activities Our revenue audits and activities are designed to review whether City revenue streams are maximized through compliance with City ordinances. The audits and activities performed during the fiscal year resulted in revenue audit collections equaling \$601,349.

Some of these collections were due to the receipt of unpaid taxes or fees, penalties, interest and administrative fees from the following audits conducted during the fiscal year:

Cingular Wireless (Report No. 04-01R), November 2003 -
\$80,951

Peoples Gas System (Report No. 04-02R), May 2004 -
\$18,980

Waste Management, Inc. (Report No. 04-03R), July 2004
- \$5,756

We also collected \$90,335 from an audit of Florida Recycling completed in the previous fiscal year; \$4,972 from Cornerstone

Propane for prepaid taxes taken in error; and \$6,728 in occupational license fees from companies we discovered as being delinquent in their payment of the fee.

In addition to these audits, the revenue audit section continued to utilize the services of a “revenue enhancement” contractor to perform reviews of selected tax revenues. This contractor was assigned two areas to review for possible revenue enhancements, unidentified tangible personal property and unidentified occupational licenses.

The revenue enhancement contractor is paid a discovery fee of 30% for their findings. In the fiscal year, these efforts resulted in the collection of an additional \$165,553 in tangible personal property tax and an additional \$228,074 in occupational license fees, net of the fee paid to the consultant.

Management Studies **Orlando Police Department Performance Measures Review (Report No. 04-01M), January 2004** – We performed a review into the performance measures reported by the Orlando Police Department (OPD). Our review was designed to determine whether the performance measures are linked to the City’s and the department’s mission statements; how the measures are used to manage the police operation; and whether controls exist over the data collection methods to ensure consistent and accurate reporting. Our review revealed that OPD has devised acceptable methods for calculating and compiling performance information, but that this information is not meaningful or useful in managing department operations. We made recommendations to rectify this condition.

**Other
Activities**

The Office of Audit and Evaluation remained active with other duties, including regulating the Cable TV franchises for the City.

We performed a special project collecting information from citizen complaints regarding the performance of the Cable TV franchisees in recovering from the three recent hurricanes that hit the Orlando area. A report is forthcoming on this special project.

We also continued monitoring the financial activities of the Orlando Utilities Commission, leading the M.E.R.I.T.S. program, assisting in the Workplace Giving campaign, and serving on boards for the Orlando Science Center and Ivanhoe Foundation.

Several members of the Office also remain active in professional organizations. The Director serves on the American Institute of CPAs Strategic Planning Committee and the Institute's governing council. She is a Vice President of the Florida Institute of CPAs. The Audit and Evaluation Manager serves as President of the Florida Government Finance Officers Association and Treasurer of the National Association of Local Government Auditors. A Senior Auditor is a board member of the local chapter of the Institute of Internal Auditors. Other professionals in the Office remain active members of these and other organizations.

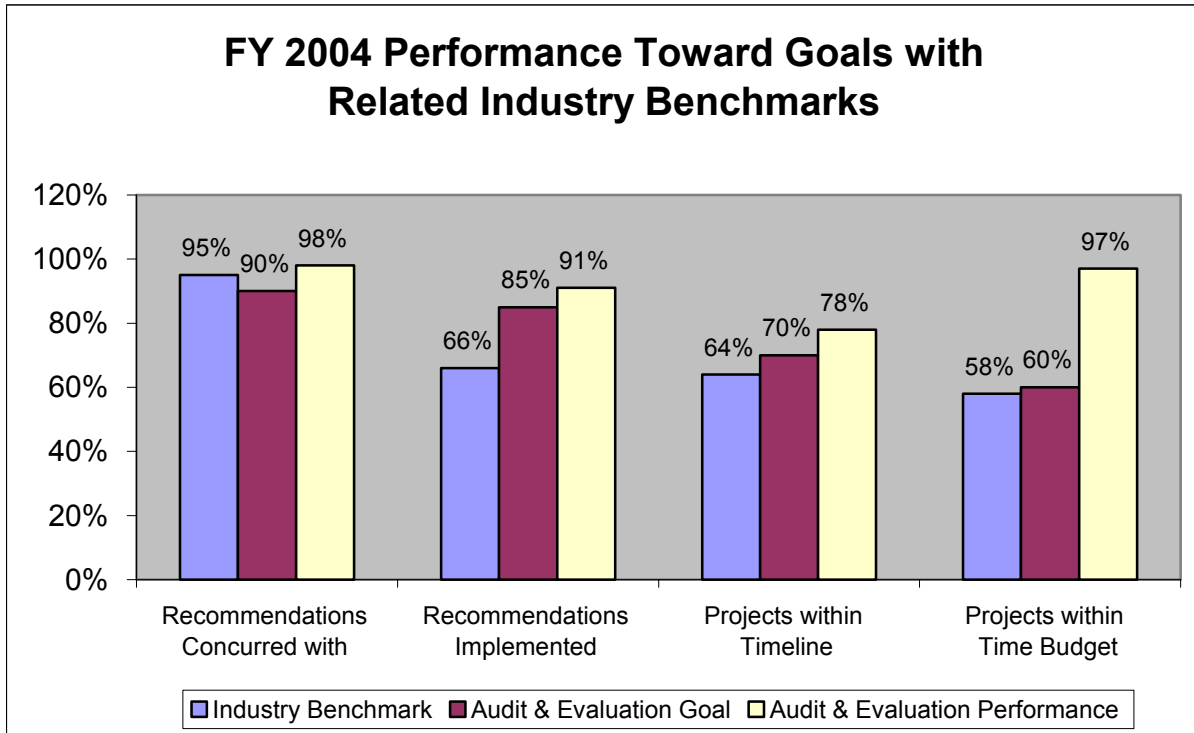
PLAN FOR FY 2005

Future Plan of Operations

Each year the Office of Audit and Evaluation performs a risk assessment process to determine the best way to utilize the resources at its disposal. This risk assessment gathers information on selected risk factors for the sub-sections of the City that the Office has determined to be “auditable areas.” These areas are analyzed and scored with a rating factor. The Audit and Evaluation Director and staff then utilize this information and their professional judgment to propose an Audit and Evaluation Plan of Operations for the year.

The Plan of Operations is presented to the Mayor and to the Audit Board for review and acceptance. The FY 2005 Plan is included as Appendix D.

APPENDIX A – FY 2004 PERFORMANCE STATISTICS



FY 2004 Performance Toward Goals Related Industry Benchmarks	Without	
Performance Measure	Audit & Evaluation Goal	Audit & Evaluation Performance
Follow-up audits and reviews issued within 18 months of initial report issuance	50%	85%
New revenues as a percentage of related Revenue Audit costs	300%	578%

APPENDIX B – FY 2004 REPORTS RELEASED

Audits

04-03	18A Permit Process
04-05	Annual Inventory Report
04-08	Permitting Field Inspections
04-23	Fiduciary Risk
04-24	Grants Seeking, Execution and Reporting Processes
04-26	Transportation Planning Performance Audit
04-28	Fire Department Time Reporting Practices
04-30	Internal Controls Related to Fire Department Time Reporting Practices
04-33	Contract Award for Insurance Broker Services

Fraud Audits

04-31	Procedures Related to Final Paychecks and Personal Leave Buy Downs
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Follow-up Audits or Reviews

04-01	Two Recreation Reports
04-02	GIS Base Mapping
04-06	Property Control Garage Sale
04-07	Fire Museum Capital Overspending
04-09	Permitting Service Fees
04-10	Mennello Museum
04-11	Parking Violations Application System
04-12	Two Wastewater Report
04-13	Facilities Management Procard Controls
04-14	Two Simplex Application Reports
04-15	Code Enforcement Complaint
04-16	Lynx Travel Spending
04-17	Assignment and Use of Cellular Phones
04-18	Centroplex Special Services
04-19	Two Parking Division Audits
04-20	Controls and Monitoring for Street Cuts
04-21	Further Review into GIS Base Mapping
04-22	Dubsdread Golf Course Lease
04-25	Risk Management Claims Administration
04-27	Inventory Observation FY 2003
04-29	Timekeeping at Wastewater Technical Support Program
04-32	18A Permit Process
04-34	After-School All-Stars

Revenue Audits

04-01R	Municipal Public Service Tax Audit – Cingular Wireless
04-02R	Municipal Public Service Tax Audit – Peoples Gas System
04-03R	Franchise Fee Audit – Waste Management, Inc.

Management Studies

04-01M	Orlando Police Department Performance Measures
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Other Reports

04-04	FY 2003 Annual Report
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APPENDIX C – FY 2004 AUDIT HOTLINE CASES

<u>Case No.</u>	<u>Description</u>	<u>Dept./Division/Section</u>	<u>Disposition</u>
041001	Conflict of Interest	GIS	Closed with documentation
041002	Payroll Discrepancies	Recreation	Closed with documentation
041003	Preferential Treatment	City Commissioners	Closed with documentation
041004	Hog Trapping	Wastewater	Closed with documentation and email
041205	Missing Cash	Leu Gardens	Closed with a memo
040306	Personnel Issue #1	Sign/Signal Shop	Closed with documentation
040407	Personnel Issue #2	Sign/Signal Shop	Closed with documentation
040408	Final Paycheck	Management Budget and Accounting	Closed with a report
040609	Ethics Complaint	Families, Parks and Recreation	Closed with documentation
040610	Hours Worked Complaint	Public Works	Closed with documentation
040811	Ethics Violation	Facilities Management	Closed with documentation
040912	Citizen call of Drug dealing	OPD	Closed with documentation and referred to OPD

Details on each case are available by contacting the Office of Audit and Evaluation.

APPENDIX D – FY 2005 PLAN OF OPERATIONS

PERFORMANCE/COMPLIANCE AUDIT SECTION:

Operational/Compliance Audits

- Project Management**
- Facilities Management**
- Permitting Customer Services and Plans Review**
- Recreation Division Cash Collection Software**
- Living Wage - Construction Projects**
- Fire Station Management**

Follow-Up Audits

- Permitting Field Inspections**
- OPD Performance Measures**
- Fiduciary Risk**
- Grants Seeking, Execution and Reporting**
- Transportation Planning**
- Fire Department Payroll (combine 2 reports)**
- Final Paychecks**
- Recreation Control Self Assessment**
- Living Wage**
- Homeland Security**

Special Reviews and Activities

- Year-end Inventory Observations**
- External Auditor Assistance**
- Formalized Risk Assessment / Internal Control Questionnaire**

Other

- Performance/Compliance Audit Section Contingency**

REVENUE AUDIT SECTION:

Utility Tax

- Progress Energy**

Franchise Fee

- Republic Services**
- Onyx Waste Services**
- Sunshine Recycling**

Other Audits and Special Reviews

- CRA/DDB - Financial Management and Administration**
- Occupational Licenses - Past Due Analysis**
- Occupational Licenses - Non Remitters**
- Liens/Accounts Receivable**
- Centroplex Contracts and Concessions**

REVENUE AUDIT SECTION (continued):

Ongoing Activities

Roll-off Franchise Agreement Reviews
Remittance Analyses (Franchise Fees, Utility Taxes, CST)
MBIA Contract Support
Cable TV Complaint Tracking

Other

Revenue Audit Section Contingency

FRAUD AUDIT / INFORMATION SYSTEMS AUDIT SECTION:

Fraud Audits

As received by Audit Hotline and from City management

Other

Fraud / Information Systems Section Contingency

OFFICE-WIDE SPECIAL PROJECTS / ONGOING ACTIVITIES:

Audit Board

M.E.R.I.T.S. Program/Workplace Giving
OUC - Agenda Review; Financial Analyses as needed
Orlando Science Center - Finance Committee
Ivanhoe Foundation - City Trustee
Office-wide Contingency

STAFF TRAINING AND DEVELOPMENT:

Continuing Professional Education
Membership on Professional Boards, Committees and
Task Forces