



OFFICE OF AUDIT SERVICES AND  
MANAGEMENT SUPPORT  
FY 2005-06 ANNUAL REPORT

Date: November 9, 2006

Report No. 07-03

CITY OF ORLANDO

OFFICE OF AUDIT SERVICES AND MANAGEMENT SUPPORT

Beryl H Davis, CPA, CGFM  
Director

George J. McGowan, CPA  
Manager

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# CITY OF ORLANDO

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## MEMORANDUM

To: The Honorable Buddy Dyer, Mayor

From: Beryl H. Davis, CPA, CGFM  
Director, Audit Services and Management Support

Date: November 9, 2006

Subject: Office of Audit Services and Management Support FY 2005-06 Annual Report (Report No. 07-03)

The Annual Report of the Office of Audit Services and Management Support for the fiscal year ended September 30, 2006 is presented for your review. This report provides a description of the mission and goals of the Office, an explanation of the types of work performed, and performance results.

In this year, the Office issued a total of 22 reports. These included 5 performance audit reports, 1 fraud audit report, 10 follow-up audits or reviews, 3 revenue audit reports, and 3 other reports. A listing of the reports is included as Appendix B.

Our revenue audits and revenue tracking activities resulted in \$351,536 in additional revenue to the City.

In addition to the above, the Office assisted the Audit Board in its oversight responsibilities; acted upon 8 items received through the Office's "Audit Hotline"; consulted with City executive management on several key issues, initiated the City's Strategic Planning process and continued to co-chair the City's employee recognition program, M.E.R.I.T.S.

The Office of Audit Services and Management Support is 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 2006-07.

BHD/gjm

c: City Commissioners  
Audit Board Members  
Cheryl J. Henry, Chief of Staff  
Byron W. Brooks, Chief Administrative Officer  
Rebecca W. Sutton, Chief Financial Officer  
Jody M. Litchford, Acting City Attorney

## OFFICE OVERVIEW

**Mission** To provide meaningful, independent and objective audit services and management support 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, Compliance Audits and Management Services. Our activities provide management with practical and innovative recommendations that add value, enhance revenues and result in cost savings.

**Government Auditing Standards** Our Office performs audits in accordance with generally accepted government auditing standards. The standards are promulgated by the Comptroller General of the United States in a document referred to as the “Yellow Book.” They 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”) once every three years.

The Office received its latest peer review in January 2005. The review was conducted in accordance with the standards and guidelines published by the Association of Local Government Auditors. The Office received a “clean opinion” on its system of internal quality control and received commendations for its professional and competent staff and comprehensive audit manual.

**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 annual financial report, the City's annual budget and the audit reports issued.

At the Audit Board meeting of August 23, 2006, the Chairman was re-elected and a new Vice-Chairman was elected.

At present, the Audit Board includes Greg Tate of the American Automobile Association as Chairman, Judith Welch of the University of Central Florida as Vice-Chairman, Richard Adamczyk of the University of Phoenix, Stephen Clapp of Morgan Stanley, and David Allen Richards of the Institute of Internal Auditors.

**Office Budget** The Office of Audit Services and Management Support FY 2006 budget was \$933,175. The Office's actual expenditures for the year totaled \$938,075, a figure approximately 1% over budget. This is due to Citywide adjustments in employee salaries, which affected year-end accruals of salary expenses.

The budget for FY 2006 is \$1,014,463, an 8.7% increase from the previous fiscal year. This is due to the addition of a new Management Analyst position to assist in the Strategic Planning effort and support the City's performance management function. The Office has eight full-time professional staff, 1 full-time support staff, 1 part-time support staff and 2 part-time student interns. The Office also co-sources some analysis and review assignments to professional consultants or experts.

## PERFORMANCE MEASUREMENT AND 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 Services and Management Support tracks several performance measures and “links” these goals to the individual performance goals of our professional staff.

We benchmark four of these measures against industry information reported by the Association of Local Government Auditors in its Benchmarking and Best Practices Survey.

Appendix A shows in graphic form how our performance compares to both our peers and the goals established for FY 2006. We exceeded our goals in all benchmarks except the number of reports issued. Our goal was 28 reports and we issued 22 reports. This was due to several factors: lower than expected number of fraud calls resulting in reports; lower than expected number of revenue audit projects resulting in reports, delays in the start date for co-sourced projects, and delays in completion of several projects at year end.

### **Future Performance Goals**

Our goals for FY 2007 are:

- 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
- 28 Reports Issued

## HIGHLIGHTS OF SELECTED AUDIT SERVICES & MANAGEMENT SUPPORT ACTIVITIES

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

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

**Orlando Fire Department Equipment and Supplies (Report No. 06-07), January 2006** – In accordance with our annual plan, we performed an audit of the equipment and supplies management of the Orlando Fire Department (OFD). We assessed the effectiveness and efficiency of the systems in place to acquire, use, control and replace the equipment and supplies of the City’s fire stations. We recommended that OFD update and maintain an equipment replacement schedule that can be accessed to make decisions regarding future equipment purchases and determine a dedicated funding mechanism for the timely and regular replacement of equipment that has been determined to be past its useful life, obsolete or replaced by a more reliable and technologically advanced model.

**Facilities Management Work Order Processing (Report No. 06-09), March 2006** – In accordance with our annual plan, we performed an audit of the work order processing of the Facilities Management Division. Our objectives were to evaluate the work order system for timeliness, efficiency, and prioritization of work and the adequacy and timeliness of preventive maintenance. We recommended that Facilities extract reports of “backlogged” work orders from the database and develop plans to clear these backlogs and revise the standards for the “Priority” and “Problem Type” noted on the work orders to more effectively document the urgency and specificity of problems.

**Permitting Services Division Special Project (Report No. 06-10), April 2006** – At the request of the Economic Development Director, we performed a review to assess the workload of the Permitting Services Division inspectors to determine whether the number of inspectors needed to be increased. We concluded that historical activity and production, current customer service demand and expected future economic activity indicated a need to increase the number of inspectors. We also recommended that Permitting analyze economic development activity to forecast future customer demand for permitting services and determine performance standards for the average number of inspections that should be performed each day by its inspectors.

**Fleet Management Division (Report No. 06-13), May 2006** – In accordance with our annual plan, we performed an audit of the Fleet Management Division. Our objectives were to examine Fleet’s vehicle replacement program, repair and maintenance data, and selected policies, procedures and controls. We determined that, overall, Fleet’s vehicle and equipment acquisition, repairs and maintenance are being performed systematically and adequately, there are numerous controls over these processes, and certain innovations are in progress. We recommended that Fleet develop a procedure to annually project long-term cash needs for vehicle and equipment replacement and determine and document policies for a suitable Vehicle Replacement Fund cash balance, among other recommendations.

**Payment Card Personal Information Security (Report No. 06-17), July 2006** – We performed a review of payment card personal information security to determine whether procedures and controls to protect customer debit/credit card information are operating effectively. The City’s Technology Management Division

assisted by completing the Payment Card Industry Self-Assessment Questionnaire for the systems they support. We found that the City has procedures in place to secure this information, and we made several recommendations to enhance these controls, including recommending that the Parking Division contact their system vendors to have them complete the Questionnaire.

**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 evaluated, and a determination is made whether or not to investigate. Not all hotline calls result in a formal audit report. In the fiscal year, the following report was issued related to fraud investigations.

**Dr. James R. Smith Neighborhood Center Facility Rental Contracts (Report No. 06-18), August 2006** – At the request of the Families, Parks and Recreation Department Director, we initiated a review into allegations of fraud at the Smith Center and determined whether any misappropriation had occurred, the amount of the loss, the individuals involved and the whether internal controls were adequate to prevent or detect the misappropriation. The inquiry identified approximately \$3,400 in misappropriated funds and \$500 of possible additional losses related to facility rentals. The Orlando Police Department is considering a possible criminal investigation of Smith Center staff. In addition, Recreation Division Center and Area management did not employ or enforce appropriate control procedures. We made several recommendations to improve operations and controls.

**Follow-up Audits** It is our policy to perform follow-up audits to determine the status of the recommendations made in our reports. Also, we continued our practice to compile and report recommendations not fully implemented to City executive management. This memorandum is available on our website. The follow-up audits conducted during FY 2006 are listed in Appendix B.

**Revenue Audits and Activities** Our revenue audits and activities are designed to review whether City revenue streams are enhanced through compliance with City ordinances. The audits and activities performed during the fiscal year resulted in revenue audit collections equaling \$351,536. This amount is a 4 to 1 return on the cost of the salaries dedicated to our revenue audit activities.

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:

**Metro Waste Services (Report No. 06-01R), November 2005**  
- \$17,832

**Peoples' Gas (Report No. 06-02R), December 2005** - \$16,616

**Sunshine Recycling (Report No. 06-03R), January 2006** -  
\$17,332

We also collected \$197,837 in occupational license fees from companies we discovered were either unlicensed or delinquent in paying their fees.

An ongoing audit of the Orlando Utilities Commission's (OUC) municipal public service tax jurisdictional coding resulted in a payment of \$76,996. OUC is in the process of reviewing our findings

for determination of the adjustments that will be needed in any additional payments made by the utility to the City. The OUC analysis is expected in December 2006 and a final audit report on this subject will be issued soon after this analysis is received.

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 its findings. In the fiscal year, these efforts resulted in the collection of an additional \$10,708 in tangible personal property tax and an additional \$14,215 in occupational license fees, net of the fee paid to the consultant.

**Other Reports** The Office distributed an Annual Report for FY 2004-05 during the year. In addition, the Office issued two other reports from projects that were not considered audits. One report concerned the **Housing Department Proposal Review Process – Possible Orange Center Boulevard Project**. At the request of the Chief Administrative Officer, we reviewed the processes performed by staff and found that they followed appropriate and established practices in discussions of this possible project with City elected officials and interested parties.

The second was a report of **Recommendations Not Fully Implemented**. This report included a matrix listing the 27 recommendations that remain open (i.e., are not fully implemented) and provided management with updated information on the status of these open items.

**Other Activities** The Office of Audit Services and Management Support remained active with other duties, including assisting in the regulation of the Cable TV franchises for the City. 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 the board of the Ivanhoe Foundation. The Office also contributed 450 staff hours to the annual external financial statement audit of the City.

Most significantly, the Office added a new staff member, the Performance Optimization Manager, who was transferred from the General Administration Department. This position was added to assist with the effort to create a Strategic Plan for City government. The Performance Optimization Manager prepared the Request for Quotes for the Strategic Plan Consultant and participated on the selection committee for this effort. In addition, the Performance Optimization Manager maintained the City's current performance measurement system, assisted in the Permitting Services Division Special Project and will be directly involved in the implementation of the Strategic Plan and its related performance management system improvements.

Several members of the Office also remain active in professional organizations. The Director serves on the American Institute of CPAs governing council and the U.S. Comptroller General's Domestic Working Group. She is the President of the Florida Institute of CPAs. The Manager serves as President-Elect of the Association of Local Government Auditors. A Senior Auditor is the President of the Central Florida Chapter of the Institute of Internal Auditors. Other professionals in the Office remain active members of these and other organizations.

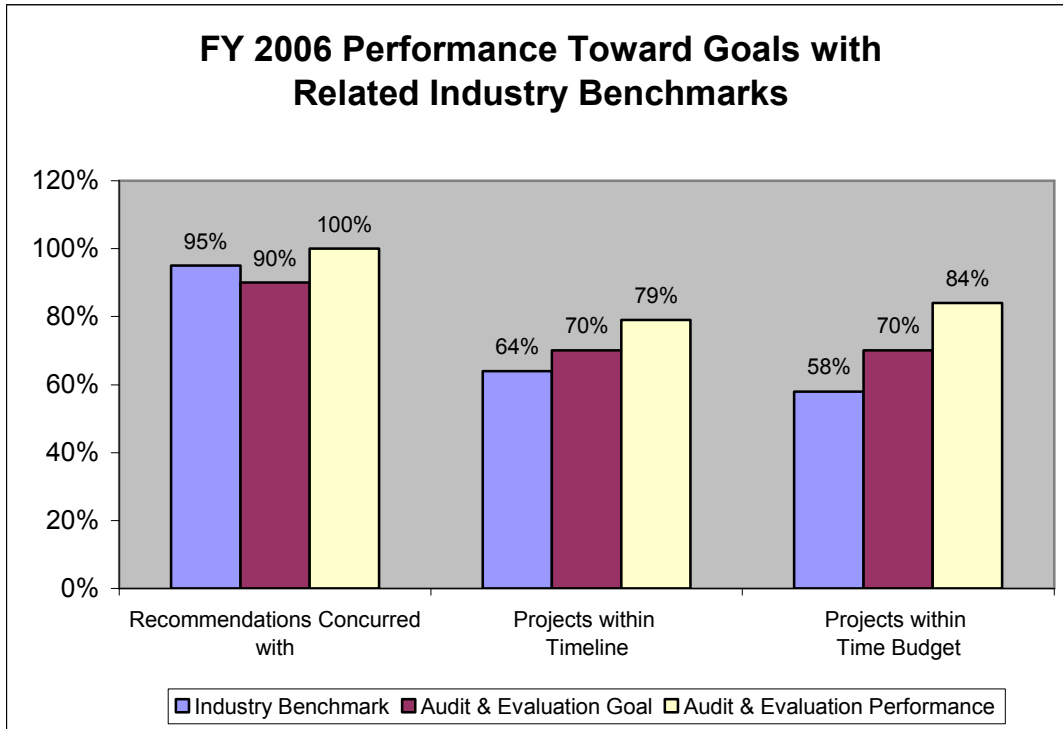
## **PLAN FOR FY 2007**

### **Future Plan of Operations**

Each year the Office of Audit Services and Management Support 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 Director and staff then utilize this information and use their professional judgment to propose an Audit Services and Management Support 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 draft FY 2007 Plan is included as Appendix D.

## APPENDIX A – FY 2006 PERFORMANCE STATISTICS



FY 2006 Performance Toward Goals With No Available Industry Benchmarks		
Performance Measure	Goal	Performance
Follow-up audits and reviews issued within 12 months of initial report issuance	70%	90%
Annual benefits from Revenue Audits (in thousands)	\$270K	\$352K
Number of Reports	28	22
Recommendations in various phases of implementation	85%	100%

## APPENDIX B – FY 2006 REPORTS RELEASED

### Audits

06-07 Orlando Fire Department Equipment and Supplies  
06-09 Facilities Management Work Order Processing  
06-10 Permitting Services Division Special Project  
06-13 Fleet Management Division  
06-17 Payment Card Personal Information Security

### Fraud Audits

06-18 Dr. James R. Smith Neighborhood Center Facility Rental Contracts

### Follow-up Audits

06-02 Homeland Security Practices, Policies and Fiscal Matters  
06-03 Cable Service Complaints – Hurricanes Charley, Frances and Jeanne  
06-04 Housing Department Fiscal Responsibilities  
06-05 Wastewater Division – Two Recent Hotline Calls  
06-06 Economic Incentives Agreement Process  
06-08 Project Management  
06-11 Beardall Senior Center Dances  
06-12 After-School All-Stars, Inc. Administrative Practices  
06-14 Vehicle Damage and Private Property Repairs  
06-16 CRA and DDB Revenue

### Revenue Audits

06-01R Metro Waste Services  
06-02R Peoples' Gas  
06-03R Sunshine Recycling

### Other Reports

06-01 FY 2005 Annual Report  
--- Housing Dept. Proposal Review Process – Possible Orange Center Blvd. Project  
06-15 Recommendations Not Fully Implemented

## APPENDIX C – FY 2006 AUDIT HOTLINE CASES

<u>Case No.</u>	<u>Description</u>	<u>Dept./Division/Section</u>	<u>Disposition</u>
061010	Painting Contract	Facilities Management	Closed with documentation
060202	Complaint	Housing Authority	Closed with documentation
060203	Possible Theft	Wastewater	Closed with documentation
060204	Employee Hours	Code Enforcement	Closed with documentation
060305	Possible Conflict of Interest	Purchasing	Closed with documentation
060406	Cash Collections and Room Rentals	Recreation	Closed with a report
060707	Employee Not Performing Regular Duties	Code Enforcement	In progress
060908	Various Personnel Issues	Facilities Management	In progress

Details on each case are available by contacting the Office of Audit Services and Management Support.

## **APPENDIX D – FY 2007 PLAN OF OPERATIONS (DRAFT)**

### **PERFORMANCE/COMPLIANCE AUDIT SECTION:**

#### Operational/Compliance Audits

- Accounts Payable
- Legal Affairs
- Street Maintenance / Right of Way Maintenance
- Living Wage – Economic Incentive Agreements
- Police/Fire/Traffic Communications
- Code Enforcement
- Permitting Customer Services and Plans Review
- Police Evidence Room
- Accounts Receivable
- Families, Parks and Recreation Cash Accounts

#### Follow-Up Audits

- Fire Equipment and Supplies
- Facilities Management Work Order Processing
- Permitting Services Special Report
- Fleet Management
- Payment Cards
- Procurement Cards
- Smith Center
- Purchasing

#### Special Reviews and Activities

- External Auditor Assistance
- Risk Assessment / Program Interviews

#### Other

- Performance/Compliance Audit Section Contingency

### **REVENUE AUDIT SECTION:**

#### Utility Tax

- OUC
- Progress Energy

#### Franchise Fee

- Waste Pro of Florida
- Container Rental Company
- Republic Services of Florida
- Waste Management
- Waste Services
- Randy Suggs
- Pece of Mind Disposal

**REVENUE AUDIT SECTION (continued):**

Other Audits and Special Reviews

- Occupational Licenses - Past Due Analysis
- Occupational Licenses - Non Remitters
- Liens/Accounts Receivable
- Permitting Fees

Ongoing Activities

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

Other

- Revenue Audit Section Contingency

**FRAUD AUDIT / INFORMATION SYSTEMS AUDIT SECTION:**

Fraud Audits

- As received by Audit Hotline and from City management

Information Systems Audits

- CLASS System (by consultant)

Other

- Fraud / Information Systems Section Contingency

**MANAGEMENT SUPPORT SECTION:**

- Performance Optimization
- Strategic Planning
- Assistance to Audit Projects
- Management Support 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
- Ivanhoe Foundation - City Trustee
- Office-wide Contingency

**STAFF TRAINING AND DEVELOPMENT:**

Continuing Professional Education  
Professional Development (Leadership and Assistance to Boards,  
Committees and Task Forces)