



OFFICE OF AUDIT SERVICES AND
MANAGEMENT SUPPORT
FY 2006-07 ANNUAL REPORT

Date: October 15, 2007

Report No. 08-01

CITY OF ORLANDO

OFFICE OF AUDIT SERVICES AND MANAGEMENT SUPPORT

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Director

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CITY OF ORLANDO

MEMORANDUM

To: The Honorable Buddy Dyer, Mayor

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

Date: October 15, 2007

Subject: Office of Audit Services and Management Support FY 2006-07 Annual Report (Report No. 08-01)

The Annual Report of the Office of Audit Services and Management Support for the fiscal year ended September 30, 2007 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 27 reports. These included 7 performance audit reports, 2 fraud audit reports, 9 follow-up audits or reviews, 6 revenue audit reports, 1 management study report, and 2 other reports. A listing of the reports is included as Appendix B.

Our revenue audits and revenue tracking activities resulted in \$667,617 in additional revenue to the City.

The Office also:

- assisted the Audit Board in its oversight responsibilities
- acted on 9 items received through the Office's "Audit Hotline"
- monitored the City's performance measurement system
- coordinated City management's completion of the City's Strategic Plan
- served as a team member on the National League of Cities' "Cities Helping Families Build Assets" project
- continued to co-chair the City's employee recognition program, M.E.R.I.T.S.
- collaborated with other City staff to create a new Mayor's City Academy

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 2007-08.

c: City Commissioners
Audit Board Members
Joseph M. Robinson, Chief of Staff
Byron W. Brooks, Chief Administrative Officer
Rebecca W. Sutton, Chief Financial Officer
Mayanne Downs, City Attorney
Brie N. Turek, Deputy Chief of Staff

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 promoting maximum accountability, efficiency and effectiveness through audits, management studies and other support services.

Core Businesses Our efforts are focused on several important areas: Performance Audits, Revenue Audits, Fraud Investigations, Compliance Audits and Management Services. Such services include management studies and monitoring City-wide performance measures. 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. The next peer review is scheduled for early 2008.

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 four times. These meetings included discussions of the City's annual financial report, the City's annual budget and the audit reports issued.

During this fiscal year, the Audit Board members were Greg Tate of the American Automobile Association as Chairman, Judith Welch of the University of Central Florida as Vice-Chairman, Richard Adameczyk of the University of Phoenix, Stephen Clapp of Morgan Stanley, and David Allen Richards of the Institute of Internal Auditors. Kenneth Scearce of Scearce, Satcher and Jung, CPAs was appointed to begin serving in FY 2008 and one board position is vacant at this time.

Office Budget The Audit Services and Management Support FY 2007 budget was \$1,067,233. Actual expenditures for the year totaled \$972,916, a figure approximately 10% under budget. This is due to turnover in two positions and the salary cost saved during the period when the positions were unfilled.

The FY 2008 budget is \$1,084,929, a 1.7% increase from the previous fiscal year. (At the time of this report, the budget does not reflect scheduled salary increases). The Office has 8 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 assignments to professional consultants.

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 2007. We exceeded our goals in all benchmarks except the number of reports issued. Our goal was 28 reports and we issued 27 reports. This was due to the following factors: lower than expected number of fraud calls resulting in reports and delays in completion of some projects at year end.

Future Performance Goals

Our goals for FY 2008 are:

- 90% Auditee concurrence with recommendations
- 85% Auditee implementation of recommendations
- 80% 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
- 26 Reports Issued

HIGHLIGHTS OF SELECTED AUDIT SERVICES & MANAGEMENT SUPPORT ACTIVITIES

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

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

CLASS Application System (Report No. 07-07), February 2007 – In accordance with our annual plan, and through a co-sourcing arrangement, we performed an audit of the CLASS Application System. CLASS is an automated cash collection, program and facilities registration application used by the Recreation Division. A consultant reviewed application controls, determined and evaluated application capabilities, reviewed application configuration and administration, and determined whether appropriate general controls over the application are in effect. We recommended that Families, Parks and Recreation, in some cases with the assistance of Technology Management, change password requirements to make passwords more secure, consider utilizing modules that have not been implemented to enhance online functionality and cash management controls; and investigate the duplicate customer accounts identified.

Procurement Card Administration and Procedures (Report No. 07-08), February 2007 – At the request of the Chief Financial Officer, we reviewed the adequacy of City and internal policies and procedures regarding Procurement Card (Procard) administration and compared current processes with prior year audit recommendations. We determined that the Procard program is meeting its objectives and there are numerous effective controls over the processes. We recommended that the Accounting and Control Division adopt and periodically update City Policies and Procedures to document and codify additional controls; assist Purchasing to retrieve Procard vendor and spending data for periodic review; ensure proper approval is granted and maintained for any current and future Procards that exceed policy purchase limits; and automatically summarize monthly and cumulative Procard data for review by department managers.

Contract Compliance – Paramount Project (Report No. 07-09), February 2007 – In accordance with our annual plan, we performed a review of compliance with the living wage and prevailing wage requirements of the economic development incentive agreement with the developer of the Paramount project.

We concluded that the subcontractors we reviewed paid their employees the living wage/prevailing wage required. We also recommended that Economic Development institute a certified payroll submission process on future projects to further enhance compliance and require developers receiving incentive payments to post a notice on the development site that informs workers of the living wage/prevailing wage requirements.

Recreation Cash Accounts (Report No. 07-10), March 2007 – In accordance with our annual plan, we performed a review of the cash accounts (change funds and petty cash) in existence in the Recreation Division. We recommended that Families, Parks and Recreation complete the change fund verification process and create a tracking document that identifies each change fund and the person responsible. We also recommended that the Accounting Operations Division keep a record of the amount and responsible party or parties for the change funds and petty cash funds in use at the Recreation Division and ensure that the totals of such funds equal the associated General Ledger accounts.

Accounts Payable and Cash Disbursements (Report No. 07-11), March 2007 – In accordance with our annual plan, we conducted an audit to determine the adequacy of the extent of compliance with Accounts Payable (A/P) policies and procedures. We found that A/P is meeting its objectives; there are numerous effective controls; and personnel are, in general, complying with these policies and procedures. We recommended that Accounting adopt additional controls such as review procedures for the supervisors and managers; conduct a thorough review of the existing controls over access to the system; monitor all transactions of individuals authorized to both input and approve A/P transactions; and monitor compliance with the Florida Prompt Payment Act.

Street Maintenance and Construction (Report No. 07-14), July 2007 – In accordance with our annual plan, we conducted an audit to determine how personnel identify what repairs and maintenance need to be done; if the work is done timely; and if repairs and maintenance are cost-effective. We concluded that Streets Maintenance and Construction (SMC) is meeting its objectives. We recommended that SMC complete the data fields of work orders to monitor and evaluate progress; use work order data to provide summary reports; and evaluate the need for brick street repair and report available options, feasibility and funding opportunities; and, ensure liens are properly executed when property owners are responsible for damages.

Payments to Law Firms (Report No. 07-20), September 2007 – In accordance with our annual plan, we conducted an audit of City-wide payments to law firms. We determined that the controls over these payments are adequate and recommended that the Office of Legal Affairs further enhance these controls by creating an overarching policy indicating departmental roles in engaging, utilizing and monitoring law firms; establishing requirements for written agreements for all law firm engagements; and establishing a policy and a method to ensure that written agreements are in force when the services are performed.

**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 reports were issued related to fraud investigations.

Facilities Management Work Assignment Practices (Report No. 07-04), January 2007 – After receiving an anonymous “hotline” call, we conducted an inquiry into the assignment of overtime and call back work to employees. We recommended that Facilities Management adopt a method to ensure that overtime work is “distributed equitably” and properly documented; end the practice of employees who are relatives of other employees working in prohibited capacities; and, consult with Human Resources to determine whether transfer or termination of a related employee is necessary under the current circumstances.

Parking Division – Centroplex Event Parking (Report No. 07-15), July 2007 – In response to an anonymous email alleging irregularities, we conducted an audit of the Parking Division’s responsibilities over event parking at the Centroplex. We recommended that Parking compare expected revenue to actual revenue for each event and investigate any significant variations; meet with the contractor to enforce background checks and develop a process to monitor those checks; and follow-up with Centroplex management on the status of barcode scanner equipment or consider other alternatives if the current equipment is not functional.

Revenue Audits and Activities

Our revenue audits and activities are designed to review whether the City is receiving the revenues to which it is entitled and receiving such revenues on a timely basis. The audits and activities performed during the fiscal year resulted in revenue audit collections equaling \$667,617. This amount is a 7 to 1 return on the cost of the salaries and benefits dedicated to our revenue audit activities.

The revenue audit results are as follows :

<u>Source</u>	<u>Amount</u>
Utility Tax/Franchise Fee Audits	\$72,799
Roll-Off Audits	\$65,252
Revenue Enhancement Contractor (net of fee)	\$283,102
Unpaid Business Taxes – New	\$108,633
Unpaid Business Taxes – Renewals	\$115,277
Delinquent Business Taxes	<u>\$22,554</u>
TOTAL	<u>\$667,617</u>

The Office continued to utilize the services of a “revenue enhancement” contractor to identify unpaid business taxes. The revenue enhancement contractor is paid a fee of 30% for its findings.

Management Studies

In FY 2006-07, the Office began offering City managers the opportunity to request specific reviews of areas of operation that need detailed study. These projects are not audits as their objectives are chiefly determined by the management of the area under review. Management studies do not focus on control weaknesses, but rather on improving processes.

Housing Rehabilitation Management Study (Report No. 07-01M), August 2007 – At the request of Housing Department management, we performed a review of the Housing Rehabilitation (Rehab) program. The objectives of this study were to: analyze the Housing Rehab work process in terms of efficiency and productivity; and review the bid, contractor selection and liens recording processes for any control weaknesses. We recommended developing operational procedures for all critical steps of the Housing Rehab process; evaluating the performance of the contractors at the close of each project; developing a system to prevent backlogs and re-qualifying applicants; revising the application process to include a priority system that sorts applicants according to the urgency of the rehab problem; and increasing the time dedicated to fieldwork by assigning administrative tasks handled by those working in the field to their supervisors.

Other Reports We issued a special project report, using a unique methodology to study the Purchasing process.

Purchasing Division Process Improvements Review (Report No. 07-01), October 2006 - We conducted joint interviews of City managers with representatives of the Purchasing Division to allow Purchasing management to address issues of concern immediately. We also reviewed the Purchasing process used by Orange County and analyzed the time taken to conduct City Purchasing process steps. The report includes a section entitled “Enhancing Purchasing Division Authority” where we presented potential enhancements, including increasing the approval authority of the Purchasing Director.

In addition, the Office distributed the **FY 2006-06 Annual Report (Report No. 07-03), November 2006**.

Follow-up Audits The Office performed follow-up audits to determine the status of the recommendations made in our reports. Also, we continued our practice to report to City executive management on a quarterly basis recommendations not fully implemented. The follow-up audits conducted during FY 2006 are listed in Appendix B.

**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 and Audit Committee of the Orlando-Orange County Expressway Authority. The Office was also instrumental in organizing the new Mayor’s City Academy program and participated in the National League of Cities’ “Cities Helping Families Build Assets” Project. The Office contributed 450 staff hours of assistance to Ernst and Young in the annual external financial statement audit of the City.

Most significantly, the Office assisted City departments in the creation of a **Strategic Plan** for City government. In addition, the Performance Optimization Manager maintained the City’s current performance measurement system and will be directly involved in the implementation of the Strategic Plan and its related performance management system.

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 Advisory Council on Government Auditing Standards. The Manager serves as President of the Association of Local Government Auditors. Other professionals in the Office remain active members of these and other organizations.

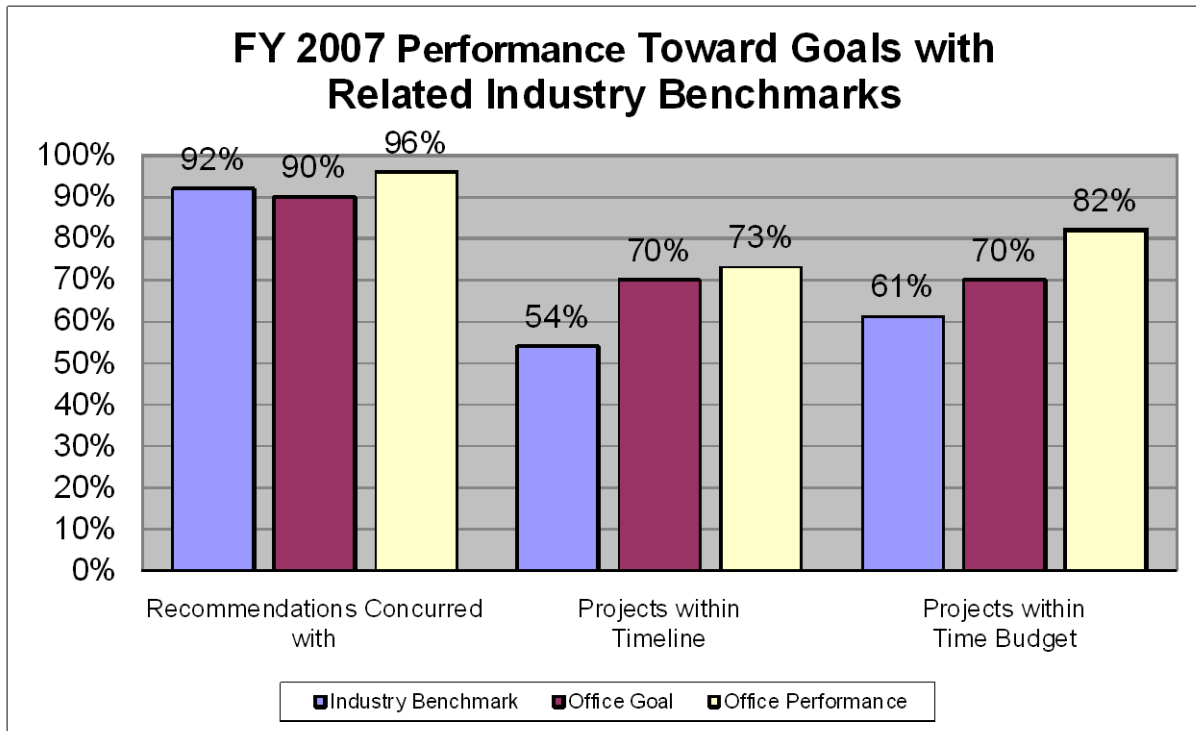
PLAN FOR FY 2008

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 a 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 2008 Plan is included as Appendix D.

APPENDIX A – FY 2007 PERFORMANCE STATISTICS



FY 2007 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%	100%
Annual benefits from Revenue Audits (in thousands)	\$272K	\$667K
Number of Reports	28	27
Recommendations in various phases of implementation	85%	96%

APPENDIX B – FY 2007 REPORTS RELEASED

Performance Audits

07-07	CLASS Application System
07-08	Procurement Card Administration and Procedures
07-09	Contract Compliance – Paramount Project
07-10	Recreation Cash Accounts
07-11	Accounts Payable and Cash Disbursements
07-14	Street Maintenance and Construction
07-20	Payments to Law Firms

Fraud Audits

07-04	Facilities Management Work Assignment Practices
07-15	Parking Division – Centroplex Event Parking

Revenue Audits

07-01R	Jurisdictional Review of OUC Customer Database
07-02R	Waste Pro, Inc.
07-03R	Pece of Mind
07-04R	Container Rental Company
07-05R	Randy Suggs Landscaping
07-06R	Republic Services

Management Studies

07-01M	Housing Rehabilitation
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Other Reports

07-01	Purchasing Process Improvements Review
07-03	FY 2006 Annual Report

Follow-up Audits or Reviews

07-02	Facilities Management Work Order Processes
07-05	OFD Equipment and Supplies
07-06	Permitting Services Special Project
07-12	Fleet Management Division
07-13	Payment Card Personal Information Security
07-16	Smith Center Facility Rentals
07-17	Purchasing Process Improvements Review
07-18	Facilities Management Work Assignment Practices
07-19	Homeland Security Practices, Policies and Fiscal Matters

APPENDIX C – FY 2007 AUDIT HOTLINE CASES

<u>Case No.</u>	<u>Description</u>	<u>Dept./Division</u>	<u>Disposition</u>
060707	Employee Not Performing Regular Duties	Code Enforcement	Closed with documentation
060908	Various Personnel Issues	Facilities Management	Closed with a report
071001	Possible Bid Rigging	Parking Division	Closed with documentation
071102	Cash Handling Concerns	Leu Gardens	Closed with documentation
071103	Employee Complaint	Parking Division	Closed with documentation
070404	Several Irregularities	Parking Division	Closed with a report
070505	Conflict of Interest	Fire Department	Closed with documentation
070706	Malfeasance	Parking Division	Closed with documentation
070707	Possible Stolen Receipts	Parking Division	Closed with documentation

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

APPENDIX D – FY 2008 PLAN OF OPERATIONS

PERFORMANCE/COMPLIANCE AUDIT SECTION:

Operational/Compliance Audits

- Permitting Customer Services and Plans Review
- Community Venues
- City Contracts
- Risk Management
- Neighborhood Grant Programs
- Solid Waste
- GOAA Agreements (Police, Fire, Other)
- Dubsdread Golf Course

Follow-Up Audits

- CLASS Application
- Procard Administration and Procedures
- Contract Compliance – Paramount Project
- Recreation Cash Accounts
- Accounts Payable
- Street Maintenance
- Event Parking
- Police Evidence Room

Special Reviews and Activities

- Annual Report
- External Auditor Assistance
- Risk Assessment / Program Interviews

Other

- Performance/Compliance Audit Section Contingency

REVENUE AUDIT SECTION:

Utility Tax

- Progress Energy
- People's Gas

Roll Off Audits (Franchise Fee)

- Onyx Waste
- Disposal
- Coniglio Construction
- Keller Outdoor
- Maddox Waste Services
- Metro Waste

REVENUE AUDIT SECTION (continued):

Other Audits and Special Reviews

Local Business Taxes - New

Local Business Taxes - Delinquencies

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

General Controls Review

Other

Fraud / Information Systems Section Contingency

MANAGEMENT SUPPORT SECTION:

Management Studies

Police and Fire Communications

Code Enforcement

Office of Communications

Employee Benefits

Ongoing Activities

City-wide Performance Measurement

Strategic Planning

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
Mayor's City Academy
Cities Helping Families Build Assets Project
Office-wide Contingency

STAFF TRAINING AND DEVELOPMENT:

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