

The Audit Board of the City of Orlando met on Friday, June 19, 2009 in Conference Room R on the second floor of Orlando City Hall.

BOARD MEMBERS:

Judith K. Welch, Chair	Present	[3/1]
Lynda M. Dennis, Vice Chair	Present	[3/0]
Kenneth Scearce	Present	[3/0]
W. Neal Carris	Present	[3/1]

OTHERS PRESENT:

Deborah D. Girard, Deputy Chief Administrative Officer
Rebecca W. Sutton, Chief Financial Officer
John T. Sirak, Director, Office of Audit Services & Management Support
William C. Mummert, Controller
Michael Stieber, Budget Manager
Michael Pattillo, Audit Partner, Ernst & Young
Michelle McCrimmon, Senior Manager, Ernst & Young
Annette Madden, Recording Secretary

1. OPENING REMARKS

Ms. Welch, Audit Board Chair, called the meeting to order at approximately 1:00 p.m. In response to Ms. Welch's question, Mr. Sirak stated that a new member has not yet been appointed to the Board, however, the Board's new liaison, Nancy Jacobson, is in the process of reviewing applications. **Motion was made by Ms. Dennis and seconded by Mr. Scearce to approve the minutes of the January 21, 2009 meeting. The motion was approved unanimously.**

Ms. Madden, Board Secretary, stated she learned at a seminar for Board secretaries, that minutes for Board meetings should be submitted to the City Council only after they are formally approved by the Board at its next meeting.

2. OFFICE OF AUDIT SERVICES AND MANAGEMENT SUPPORT MANAGEMENT AND TASK UPDATE – MAYANNE DOWNS, CITY ATTORNEY

The item was tabled.

3. BUDGET UPDATE – MIKE STIEBER, BUDGET MANAGER

Mr. Stieber distributed copies of the FY 2009 Fund Status Report as of May 31, 2009. He reported that the overall expenditure level for the General Fund is at 62% as opposed to the 66 2/3% projected for the end of May. He stated that the City is in good shape in that regard. Mr. Stieber stated that the Police and Fire Departments are both projecting to be extremely close to budgeted levels and that those departments continue to be monitored on an ongoing basis. Mr. Stieber stated that the revenue reported represents 75% of the budget, above the 66 2/3% projected and 72% achieved by the City in the prior year.

Mr. Stieber stated that the State Revenue Sharing and Sales Tax totals are presently at budgeted levels. He explained that a second budget reduction amendment was presented to the City Council in April wherein the City reduced budgeted revenue sharing by \$95,000 and sales tax revenue by \$900,000 as a result of revised State revenue estimates. Mr. Stieber also noted that parking fee increases approved by City Council this year reduced the Parking Fund shortfall to slightly over \$100,000 in FY 2009 versus the \$2.1 million shortfall in the prior year.

Ms. Dennis posed several questions related to the parking fund, contingencies, and investment income which were answered by staff.

4. OVERVIEW OF COMPREHENSIVE ANNUAL FINANCIAL REPORT – BILL MUMMERT, CONTROLLER

Mr. Mummert stated that the Comprehensive Annual Financial Report (CAFR) was sent to the Board previously and he hoped they had an opportunity to review the document, including the MD&A which provides a summary of the relevant changes. Mr. Mummert mentioned the City has again received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the FY 2008 CAFR. Mr. Mummert stated that the City requested a 30-day extension, to April 30, for filing this year's CAFR. He also stated that the City received an unqualified opinion from Ernst & Young, the City's external auditor.

Mr. Mummert reported that the schedule of expenditures of Federal Awards and State Financial Assistance was added to the CAFR as a compliance section and is no longer a separate document. He stated that the General Fund recorded a minimal decrease of \$325,000 in the fund balance and, for the most part, essentially broke even for the year.

Mr. Mummert noted the City implemented GASB 45 and established an irrevocable Other Post Employment Benefits (OPEB) trust. He continued that the City fully funded the FY 2008 Annual Required Contribution (ARC) of \$19.9 million and is planning to fully fund the FY 2009 ARC. Mr. Mummert also noted the Mayor's public safety initiative, including the hiring of 25 police officers and 30 firefighters, contributed to increases in General Fund expenditures. He also reported on other project expenditures and borrowings, including spending related to the Orlando venues projects.

Ms. Dennis noted that the Transportation Fund, which is a governmental fund, made money while the Venues, Solid Waste and Wastewater Funds, which are business type activities, reflected continued losses. In the ensuing discussion, Ms. Dennis noted the new going concern opinion for governments and the City's bond ratings could be negatively impacted by the continuing operating losses. Mr. Mummert mentioned that a Wastewater rate study has been underway and that management was aware of the need to bring it forward.

Additional comments were made and questions asked by Ms. Dennis regarding cash flows and budget comparisons. Mr. Mummert responded and discussion ensued.

Ms. Welch asked why the Orlando Housing Authority is not reported as a component unit and whether this relates to the audit issues that arose. Mr. Pattillo stated that the audit issues related to the City's internal Housing Department which is separate from the Orlando Housing Authority. Ms. Welch then asked for clarification why the Housing Authority is not a component unit, referencing the footnote on page 39 of the CAFR. Mr. Pattillo stated that the financial benefit burden test and control is prescribed by GASB 14. After further discussion, Mr. Mummert stated he would forward additional information to the Board.

Ms. Dennis inquired whether the actuaries modified their assumptions due to significant losses to the portfolio. During the ensuing discussion, Mr. Pattillo stated that E&Y's own internal actuaries closely review the assumptions during all of its audits and that he would expect the FY 2010 reports to reflect the lower rates of the past two to three years. Additional questions were posed by the Board and answered by staff. Discussion ensued.

Ms. Girard and Ms. Jacobson entered the meeting at 1:55 p.m.

5. FINANCIAL STATEMENT AUDIT RESULTS – MIKE PATTILLO, AUDIT PARTNER, ERNST & YOUNG

Mr. Pattillo reported on the Ernst & Young (E&Y) 2008 Financial Statement Audit Results and Communications, which had previously been distributed to the Board members. He explained that E&Y previously discussed with the Board the risks related to the precarious environment with respect to investments and debt. As a result, E&Y modified its audit plan, spending additional time with City management and involving E&Y specialists as well.

Mr. Pattillo stated that appropriate firm resources were consulted during the review of securities and investments in the pension portfolios and in the City's debt. E&Y was very concerned with classification, coverage, and compliance with debt covenants and liquidity related to the City's variable rate obligations. Mr. Pattillo stated that one of the items that delayed issuance of the financial statements was the City's need to amend legal documents ensuring it had appropriate liquidity support for one of its variable rate programs. He noted the City obtained the documentation.

Mr. Pattillo went on to note that E&Y received excellent cooperation from City management. Mr. Pattillo mentioned that E&Y spent a good deal of time speaking with third-party custodians and money managers and that City staff facilitated those discussions.

Mr. Pattillo stated that E&Y found the City's controls had been enhanced, particularly in the area of grants. He reported that a position was created to work solely on the City's grants, which is very timely since the City will be receiving and spending government stimulus money. He affirmed that the noted errors related to grants were detected by City staff, who reported them to E&Y. He also stated that E&Y and the City's staff worked together to find the solution and in all instances of financial restatement, E&Y consulted within the firm on the appropriate presentation. Mr. Pattillo stated that E&Y will continue to work with the City on submitting amendments to the appropriate regulatory authorities regarding the previously filed Schedules of Expenditures of Federal Awards.

Mr. Pattillo reported that E&Y expressed unqualified opinions on the basic financial statements and each of the general employees, Police and Fire pension fund reports. Mr. Pattillo stated that E&Y also expressed an opinion on compliance with major Federal programs. He stated that although the opinion was unqualified, the report notes that there were instances of noncompliance, which are reported in the Schedule of Findings and Questioned Costs. He explained that, in terms of internal controls and other compliance matters, a significant deficiency has been reported for the financial statement close process as it relates to grants. Mr. Pattillo continued that E&Y will not know until this year's audit is performed whether the matter has been fully corrected. He noted that another significant deficiency with regard to the reporting on the schedule of expenditures of financial assistance is reported in the Federal and State Single Audit section.

Mr. Pattillo stated that the compliance reports relating to the various debt indentures covered under SAS 62 have been issued. He also said that a number of items required to be reported by the Rules of the Auditor General are included in the Management Letter.

Ms. Sutton entered the meeting at 2:00 p.m.

Mr. Pattillo began discussing the Management Letter before Ms. Welch noted that the Board had not yet received the Letter. After a brief discussion, Mr. Pattillo stated he would revisit the Management Letter at the Board's next meeting. Copies of the Management Letter were distributed to the Board later during the meeting.

Ms. McCrimmon stated that E&Y is not aware of any matters that require communication to the Audit Board regarding fraud, errors or illegal acts. She reported that there are no material weaknesses. Ms. McCrimmon said that significant audit adjustments, including audit differences, are detailed further in the audit report along with judgments about the quality of the City's accounting principles, and sensitive accounting estimates. Ms. McCrimmon went on to note that the City adopted three new accounting principles during the year: GASB 45, GASB 48 and GASB 50.

Ms. McCrimmon reported that E&Y is not aware of any relationships with the City that would bear upon E&Y's independence and E&Y has not performed any non-audit services for the City. She stated that E&Y utilized the services of L.F. Harris and Associates and Linda M. Elerick & Co. as third-party service providers, who, along with the Audit Services staff, provided direct audit assistance on the audit.

Ms. McCrimmon summarized key accounts and risk areas and provided details on the procedures and findings as a result of those processes noting that E&Y is satisfied with the results of its testing and the related reporting and disclosure of these accounts. Ms. McCrimmon went on to mention several other items, including significant accounting policies, the summary of audit differences and new GASB pronouncements effective in FY 2009.

Ms. Welch asked what impact GASB 51, Accounting and Financial Reporting for Intangible Assets, would have on the City. Mr. Pattillo explained the impact and stated that implementation for this statement is effective in FY 2010. Ms. McCrimmon stated that the stimulus money will impact the FY 2009 audit in terms of the amount of reporting necessary and the amount of testing to be performed.

Ms. Welch referenced a newspaper article about the Expressway Authority's debt and exposure and asked if Orlando has similar exposure. Ms. Sutton responded to the query that the City does have debt exposure, but noted that the City does not invest in the types of hedging products mentioned in the article. Ms. Sutton stated her view that the most important consideration is the level of variable rate debt versus the amount of variable rate investments. Consequently, the City "hedges" by ensuring there is a relative alignment between the amount of variable rate debt exposure and the amount of liquid investment to draw down any unbudgeted investment revenue as an offset to unbudgeted debt expenditures. Ms. Sutton indicated that the City currently has about \$175M of variable rate debt that is being offset by about \$200M of variable rate investment.

Ms. Welch inquired whether the City plans to early implement GASB 54 and Ms. Sutton stated that she believes it would be beneficial because it would assist the readers to better understand the financial statements. She stated that she had not yet discussed this with staff, but did not believe it would be difficult to implement because no additional information gathering or development would need to be done. The City, working with E&Y, would have to develop a method to interpret and present the information.

The Board posed further questions and staff responded.

Ms. McCrimmon and Mr. Stieber left the meeting at 2:35 p.m.

The Board took a break at 2:35 p.m. and reconvened at 2:45 p.m.

6. AUDIT SERVICES & MANAGEMENT SUPPORT UPDATE – JACK SIRAK, DIRECTOR, OFFICE OF AUDIT SERVICES & MANAGEMENT SUPPORT

Mr. Sirak updated the Board on the activities of the Office of Audit Services and Management Support. He reported on the Summary of Past Due Recommendations, noting that the summary reflects 40 outstanding recommendations, down slightly from the January meeting. Mr. Sirak stated that many of the outstanding recommendations relate to Policies and Procedures which have not been updated and/or approved, but it is expected that these would be resolved in August.

Mr. Sirak highlighted details of the open recommendations for the FY 2008 reports, including the OPD and OFD management studies performed by the Office's former management support staff. He explained that two of the recommendations relate to employee surveys which were postponed until planned new communications systems are in place. Mr. Sirak stated that the 13 open recommendations for Technology Management relate to new software and security enhancements. He noted that implementation may have been delayed because of funding issues, however, it does not appear there is cause for concern with regard to the City's security.

Mr. Sirak provided background about the Office, noting that staff was reduced and that for the most part, the recent reports were performed by himself and one other individual. He provided details on the Risk Management report noting the bulk of the work was performed by former staff members. He stated that recommendations were made to develop an operating manual, to strengthen internal controls over the payment of vehicle repairs, to add new vendors to the software, to share claim information with more departments in order for managers to be more proactive in training and/or other actions to reduce claims, and to increase oversight of the Third Party Administrator to ensure compliance with the contract terms.

Mr. Sirak reported that six follow-up reports were performed within the allotted 12-month time period. There were a total of 67 recommendations in those reports, of which 48 were implemented before the Office followed up. He stated that the Office target is that 70% be implemented and this target was exceeded.

Mr. Sirak reported that the Office exceeded its \$300,000 goal for revenue auditing activities, noting that the Office anticipates generating additional money from a couple of pending reviews. Ms. Dennis asked whether the City tracks the costs, i.e., staff/Legal expenses, in pursuing an audit and Mr. Sirak explained that the \$300,000 Office goal helps offset the cost of running the Office. Ms. Sutton shared further details, noting that very little management staff or Legal time is involved in the revenue audits.

Mr. Sirak reported on a special review of the Housing Department requested by the City Attorney's Office as a result of an allegation of improper contractor selection. He stated that the Office determined that the Department had very good procedures in place which were being followed. The Office reported to the City Attorney that it could find no basis to substantiate the allegation.

Mr. Sirak stated that the listing of Projects in Progress or Not Started reflects the status of the Office's Plan. He noted that the Full Pull and Hedges projects were cancelled because the firms terminated their franchise agreements with the City. Mr. Sirak explained that these are roll off companies and that the roll off business has declined. He stated that due to limited staffing, the Office also pushed back several projects. He informed the Board that the Office posted a position for an auditor and hopes to hire at least one additional auditor in the near future.

Ms. Welch posed questions about the plan and the status of using outside firms for audit work. Mr. Sirak stated that the Office has funding in the budget to hire outside firms and that the Office will co-source areas where expertise is necessary, similar to the IT audit that was

performed last year. Ms. Sutton stated funding would also be available for the management reviews discussed earlier. These reviews would be budgeted within departments and likely be supervised by Audit Services. She explained that the model is changing and that she is in discussion to determine what the new process will be.

Mr. Carris left the meeting at 3:00 p.m.

7. REVIEW AUDIT BOARD "CHARTER" – JUDITH WELCH, AUDIT BOARD CHAIR

Ms. Welch stated that the schedule calls for the Board to review its Charter. Ms. Dennis commented she believes this is part of the Board's quality control system. Ms. Welch stated she believes it is a good practice to review the Charter each year and asked whether the Board members would like to comment on the Charter. Ms. Welch noted that the Board has made revisions in the past with regard to how it communicates its calendar, the items it accomplishes and when its responsibilities were last completed. She stated that at this time she is comfortable with the Charter and the Board agreed that no changes were necessary.

The next meeting of the Audit Board is scheduled as follows:

Friday, August 21, 2009 1:00 p.m. Conference Room R

Mr. Sirak introduced Nancy Jacobson, the Audit Board Liaison to the City's Nominating Committee, to the Board.

Ms. Girard asked Mr. Sirak to email the Self-Assessment Questionnaire to the Board for compilation and discussion at the August meeting.

There being no other business, the meeting adjourned at approximately 3:10 p.m.

Respectfully submitted,

Judith Welch
Chair

Annette Madden
Recording Secretary