

# **FISCAL YEAR 2007 ANNUAL REPORT**



**CITY AUDITOR'S OFFICE  
CITY OF GAINESVILLE, FLORIDA**

# CITY AUDITOR'S OFFICE FISCAL YEAR 2007 ANNUAL REPORT

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## INTRODUCTION

The City Auditor position was first established in 1979 as a Charter Officer of the City of Gainesville, reporting directly to the City Commission. The City Auditor is charged with assisting the City Commission in all its accountability functions and performing audits of City organizations, programs, functions and activities. The City Charter and a subsequent resolution regarding the City Auditor's responsibilities and administrative procedures establish the organizational status and independence of the City Auditor and provide for complete access to all City property, equipment, facilities, records and information. The City Auditor uses this access, independence and authority in performing his responsibility to carry on a continuous appraisal of the work of all City departments. The City Commission and the public need timely, objective, accurate information about what departments and programs are doing and how they could do it better. By providing this information, the City Auditor's Office helps to hold government accountable in its stewardship of the public trust and assists the City Commission and management in using resources to maximize effectiveness and productivity.

The mission of the City Auditor's Office is to promote honest, efficient, effective and fully accountable City government. Our goals include issuing audit reports in accordance with *Government Auditing Standards*, conducting objective studies to assist and improve decision making by the City Commission and management, and promoting efficiency, effectiveness and accountability for the City Commission, management, City employees and the public.

The major objective of the City Auditor's Office is to assist the City Commission and City management in the effective discharge of their responsibilities by furnishing them with analysis, appraisals, recommendations, counsel and information concerning the activities reviewed. Resolution 970187, City Auditor Internal Responsibilities and Administrative Procedures, requires the City Auditor to submit an Annual Audit Plan to the City Commission for approval. The process of preparing the Annual Audit Plan includes obtaining input from City Commissioners and Charter Officers as well as evaluating information gained from previous audits and studies performed by the City Auditor. The scope of audit work carried out by the Office may be concerned with any phase of City activities where service may be rendered to the City Commission or to City management. This involves going beyond the accounting and financial records to obtain a full understanding of the operations under review, and includes the following activities:

- Conducting financial, compliance and operational audits and preparing audit reports of findings and recommendations.
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.
- Reviewing systems established to ensure compliance with those policies, plans, procedures, laws and regulations, which could have a significant impact on operations and reports, and determining whether the organization is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Appraising the economy and efficiency in which City resources are employed.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and carried out as planned.
- Performing other duties as may be assigned by the City Commission.

## **AUDITS COMPLETED DURING FISCAL YEAR 2007**

Audits undertaken by the City Auditor's Office are typically identified in our Annual Audit Plan or result from direct referrals from the City Commission. Our audits are conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, which provide an overall framework for ensuring that auditors have the competence, integrity, objectivity and independence in planning, conducting and reporting on their work. After discussing our reports with management and incorporating their written response to our recommendations for improvement, audit reports are presented to the City's Audit, Finance and Legislative Committee. The Committee submits final audit reports to the City Commission for approval. The following section summarizes the audit reports issued during Fiscal Year 2007.

### **Review of General Fund Forecasted Revenues and Other Sources of Funds for the Fiscal Year Ending September 30, 2007**

City Commission Resolution 970187, which governs the internal responsibilities and administrative practices of the Office of the City Auditor, requires an annual review of the City Manager's General Fund revenue estimates included in the budget. The City Auditor verifies the reasonableness of management's estimates and advises the City Commission of the results. We reviewed the forecasted General Fund Revenues and Other Sources of Funds set forth in the Fiscal Year 2006-2007 Final General Operating and Financial Plan Budget adopted by the City Commission on September 25, 2006. Our objective was to determine whether data, methods and assumptions used by the City Manager in preparing projected General Fund Revenues and Other Sources of Funds provided a reasonable basis for the forecast.

Based on our review, we believe that management's assumptions provided a reasonable basis for presenting projected Fiscal Year 2006-2007 General Fund Revenues and Other Sources of Funds in the amount of \$92,183,664. However, we projected several revenue sources at a different level than the approved General Fund budget. The total estimated difference is approximately \$445,000 or 0.5% less than budgeted. We concluded that management should continue to monitor the City's financial position throughout the fiscal year and make adjustments as necessary.

### **Review of Gainesville Fire Rescue Overtime**

In accordance with our Annual Audit Plan, the City Auditor's Office completed a Review of Gainesville Fire Rescue Overtime. The primary focus of this review was to provide the City Commission with an independent assessment of the adequacy of management controls in effect over overtime pay. Specific audit objectives included evaluating the policies, procedures and internal controls related to overtime and gaining an understanding of the causes for overtime. Our procedures included interviewing staff, reviewing procedures, analyzing overtime usage and testing internal controls as needed to assess compliance with City policies and procedures. The scope of our review was generally for overtime pay experienced within GFR from fiscal years 2000 (when overtime totaled less than \$200,000) through 2005 (when overtime exceeded \$600,000).

Based on the results of our review, we recommended management:

- 1) Complete steps necessary to finalize the improved process of obtaining doctor's statements and begin to actively require the use of physician notes, when appropriate, to control scheduled leaves and ensure sick leave usage is for legitimate purposes;

- 2) Evaluate and consider restructuring the DROP plan to either revise how sick leave hours are earned while in the DROP plan or to provide some form of incentive for DROP participants to retain their sick leave balances until the end of the DROP. Consideration could be given to allowing employees to cash out a portion of the balance at the end of the DROP or consider offering a combined leave concept. This would help management to more effectively control overtime costs. Since the DROP generally works in the same manner for non-GFR employees in the City's pension plans, consideration should be given to amending these DROP plans as well, especially for areas where sick leave results in overtime payments due to operational requirements; and
- 3) Enter into negotiations with Gainesville – Alachua County Regional Airport Authority staff in order to more fully cover the costs of airport rescue and firefighting services. At a minimum, consideration should be given to including a true up factor for overtime, as already established in the contract for police services provided at the airport by GPD officers.

#### Review of the GRU Small Business Enterprise Program

In accordance with our Annual Audit Plan, the City Auditor's Office completed a review of the GRU Small Business Enterprise (SBE) Program. The primary focus of this review was to evaluate and assess management controls over the GRU SBE program and determine the efficiency and effectiveness of program results. Specific audit objectives included evaluating the policies, procedures and internal controls over SBE spending and the SBE vendor database. Our procedures included interviewing staff, reviewing management controls and testing selected samples of transactions and related supporting documentation to assess compliance with City policies and procedures. The scope of our review was generally for fiscal year 2005 GRU SBE expenditures.

Based on the results of our review, we recommended management:

- 1) Establish a more formalized process for initially qualifying businesses applying for SBE status; establish a periodic re-qualification process and improve the accuracy of the SBE directory;
- 2) Revise GRU Purchasing Procedures to be consistent with the Local Preference Ordinance or request the City Commission revise the Local Preference Ordinance to allow for a broadened definition of local preference;
- 3) Enhance the monitoring and reporting process for the SBE program, periodically preparing comparative trend analysis that will help to assess the effectiveness of program activities and comparing benchmarking data with other comparable utilities. Resulting reports should be provided periodically to the Equal Opportunity Office and ultimately to the City Commission. Reports to the City Commission should differentiate local versus non-local SBE and MBE activity; and
- 4) Continue efforts to develop an accurate reporting system that identifies all SBE spending, including VISA procurement card transactions.

#### Review of Youth Sports League Concession Operations

In accordance with our Annual Audit Plan, the City Auditor's Office completed a Review of Youth Sports League Concession Operations. The primary focus of this review was to provide the City Commission with reasonable assurance on the adequacy of the system of management control in effect over youth league concession operations. Specific audit objectives included evaluating the policies, procedures and internal control, determining compliance with applicable policies, procedures and laws and reviewing alternative methods for concession operations. Our procedures included interviewing staff

and parent organizers, reviewing records and other information and testing internal controls as needed. The scope of our review was generally for fiscal years 2005 and 2006.

Based on the results of our review, we recommended management:

- 1) Take actions necessary to ensure that internal controls over concession operations are improved in order to provide reasonable assurance that assets are adequately safeguarded; operations comply with relevant laws, policies and procedures; and financial reporting is accurate and reliable;
- 2) Consider the alternative league structure for youth sports programs practiced by many peer organizations, as discussed in our report, to determine if the City can leverage limited financial and operating resources to more efficiently and effectively provide program services to the public, while maintaining adequate control over program finances; and
- 3) Explore concession revenue alternatives to determine a more effective method of providing an appropriate level of concession services to the public. Consideration should be given to expanding concessions operations to adult sports and non-league activities at City parks. Consideration should also be given to hiring limited staff to run concession operations or contracting out concession operations to private vendors.

#### Review of Performance Measures for Highway and Road Maintenance

In accordance with our Annual Audit Plan, the City Auditor's Office completed a Review of Performance Measures for Highway and Road Maintenance. The primary focus of this review was to provide the City Commission with an independent assessment of the adequacy of management controls in effect over the performance measurement reporting system. Specific audit objectives included evaluating the reliability and validity of performance measurement data submitted for publication in the Annual ICMA Comparative Performance Measurement Report and assessing the comparability of these measures to peer cities. Our procedures included reviewing performance related literature, interviewing staff, reviewing management controls and verifying selected samples of key performance measures. The scope of our review was generally for performance measurement data compiled and reported to the ICMA Center for Performance Measurement by the Public Works Department for fiscal years 2003 through 2005.

Based on the results of our review, we recommended management:

- 1) Develop written procedures for evaluating key departmental performance measures, and for maintaining, collecting, analyzing and reporting performance measurement data; including requirements for supervisory review and supporting documentation;
- 2) Ensure that staff responsible for maintaining, collecting and reporting performance measurement information are familiarized with written guidelines and procedures;
- 3) Make noted adjustments to underlying assumptions and data within the work order management system to improve its accuracy in cost reporting and ensure future adjustments are timely and documented; and
- 4) Develop a plan of action to implement a citizen satisfaction survey program specific to Highway and Road Maintenance performance measures and utilize the data generated to help measure program effectiveness and facilitate decision making.

We also provided written observations regarding General Government's overall performance measurement program indicating that we believe additional attention is needed in the areas of training, coordination and oversight; integrating performance measurement into the decision making process;

achieving benchmarking; and improving reports and providing accessible communications to the City Commission and citizens.

#### Review of Gainesville Police Department Overtime

In accordance with our Annual Audit Plan, the City Auditor's Office completed a Review of Gainesville Police Department Overtime. The primary focus of this review was to evaluate and assess management controls over the assignment and utilization of billable overtime, which totaled almost \$900,000 in fiscal year 2006. Specific audit objectives included determining if the billable overtime process was administered in a cost effective and equitable manner and complied with applicable laws, regulations and procedures. Our procedures included interviewing key staff, observing operations, reviewing management controls and testing selected samples of transactions and supporting documentation. We also conducted a department-wide survey regarding overtime practices and expectations. The scope of our review was generally for GPD overtime assignments during fiscal years 2005 and 2006.

Based on the results of our review, we recommended management take the following actions to improve financial management, controls and compliance related to the billable overtime program:

- 1) Complete a cost analysis to more accurately quantify the overhead costs associated with the billable overtime program. Consideration should also be given to replacing some of the hours spent by sworn personnel with lower paid administrative staff;
- 2) Reevaluate current vendor rates to ensure the City is receiving adequate revenues to cover officer salaries, associated employer fringe benefit contributions (including pension obligation bond costs) and establish an appropriate administrative fee for direct and indirect costs;
- 3) Reevaluate current billable overtime rates for City sponsored special events, making necessary adjustments to cover associated costs;
- 4) Establish a consistent method of collecting revenues from other City departments via interdepartmental billings to ensure that total revenues and expenses are accurately reflected in financial records;
- 5) Review billable overtime services to determine those periodic in nature and to evaluate the possibility of entering into contracts for services exceeding a pre-established amount;
- 6) Ensure that officers do not exceed established overtime hour limitations and that authorized waivers are clearly specified and monitored for compliance. Developing standard reports that identify exceptions to total hours or overtime hours worked would enhance existing monitoring efforts;
- 7) Identify periodic overtime assignments and incorporate into a less time-consuming scheduling method available to all officers;
- 8) Periodically reconcile index cards to assignment rosters, incorporate call dates on assignment rosters for future comparisons, document assignment substitutions and implement formal controls such as maintaining both the initial and final scheduling rosters;
- 9) Develop and implement procedures over record retention and report generation in order to improve overtime administration and compliance efforts;
- 10) Continue efforts to automate the billable overtime scheduling process, ensuring adequate safeguards and sufficient internal controls are incorporated during the software development stage; and
- 11) Review and evaluate the results of our survey of officers related to billable overtime and develop a plan to address the issues and concerns identified.

## Payroll Verification Procedures for Fiscal Year 2007

In accordance with our Annual Audit Plan, the City Auditor's Office completed a review entitled Payroll Verification Procedures for Fiscal Year 2007. The primary focus of this review was to provide the City Commission with reasonable assurance on the adequacy of the system of management control in effect over employee and retiree identification information included in the respective system databases. Specific audit objectives included assessing the accuracy of data maintained for active employees and retirees and evaluating the policies, procedures and internal controls related to properly maintaining this data.

Our procedures were designed to identify inaccurate social security numbers or fraudulent activity. Our procedures included electronically verifying City employee and retiree social security numbers against data maintained by the U.S. Social Security Administration (SSA), interviewing key staff, reviewing management controls and testing selected samples of transactions and supporting documentation. The scope of our review was generally for employee and retiree data maintained during fiscal year 2007. At the time of our review, the City had 2,211 active employees and 1,153 retired and vested future employees.

Based on the results of our review, we recommended management:

- 1) Evaluate further whether relevant data within the employee payroll system can be electronically transferred into the retiree system when an employee's status changes in order to reduce data input errors and save input time;
- 2) Prepare periodic reports to monitor the accuracy of information entered into the retiree system;
- 3) Improve supervisory review of pension valuation reports and pension calculations provided by the City's actuary;
- 4) Implement periodic reconciliation processes, such as using the SSA's Employee Verification Service, to compare employee and retiree social security numbers and associated data to source documents;
- 5) Take action to reduce the backlog of pending items; and
- 6) Take action to improve the existing records management system and file maintenance practices over active employee and retiree records.

## Review of General Government Cash Receipts for Fiscal Year 2007

In accordance with our Annual Audit Plan, the City Auditor's Office completed a Review of General Government Cash Receipts for Fiscal Year 2007. Our review focused on cash handling controls, policies and procedures for selected cash collection areas in General Government. Our procedures included conducting spot checks of cash collections, counting cash on hand, reconciling amounts counted to cash register tapes or other documentation recording actual transactions, and verifying that revenues were properly deposited and recorded. We also interviewed staff, observed operations, reviewed policies and procedures and sampled cash receipts to assess compliance with policies and procedures.

Our procedures were designed to provide reasonable assurance that cash receipts reviewed were adequately safeguarded and accurately processed in a timely manner. For fiscal year 2007, we reviewed selected revenues generated at the Downtown Plaza Ice Skating Rink, the 21st Annual Hoggetowne Medieval Faire and Ironwood Golf Course. Total revenues generated at these locations during fiscal year 2007 were approximately \$105,000, \$271,000 and \$1,200,000, respectively.



## **AUDITS IN PROGRESS AT END OF FISCAL YEAR 2007**

Following is a summary of audit projects initiated but not completed by the end of fiscal year 2007.

### **Review of Property Tax Exemptions**

The fiscal year 2007 budget projects collections of real estate property taxes of over \$23 million. The objective of this review is to evaluate property tax exemptions granted within the City of Gainesville to ensure the City's property tax revenues are optimized. This review was substantially completed during fiscal year 2007; final reporting is pending discussions with the Alachua County Property Appraiser of audit results.

### **Review of Housing Department Performance Measures**

This project involves reviewing the overall process of selecting and preparing performance measures. The primary objectives of this review are to evaluate the methodologies used by General Government departments for identifying, calculating, utilizing and reporting performance measures, comparing the City's methodologies to other cities and exploring "best practices". This review was substantially completed during fiscal year 2007; final reporting is pending discussions with management of audit results.

### **Review of Fleet Fuel Expenses and Charges to Departments**

The General Services Fleet Management Division is responsible for procuring and maintaining all General Government and GRU vehicles and equipment, excluding the Regional Transit System, which has its own facility. Fleet Management provides services for approximately 1,450 City vehicles and charges the cost of fuel and maintenance to other City divisions. The main objective of this review is to evaluate the system of management control over fuel expenses and the allocation of charges to user departments. This review was initiated in fiscal year 2007.

### **Review of Health Insurance Costs**

The Employees Health and Accident Benefits Fund accounts for costs associated with administering a self-insurance plan for employees' health and accident claims. The plan is externally administered for a contracted amount based on the volume of claims. Medical claims and benefits paid during fiscal year 2006 exceeded \$11 million. The objective of this review include evaluating the system of management control over fund administration and assessing third party administrator claims processing and payment systems to determine if claims are paid accurately, timely and in accordance with plan provisions. This review was initiated in fiscal year 2007.

### **Review of GRU Fuel/Coal Contracts**

In fiscal year 2007, GRU was billed approximately \$44 million for coal and other fuels under current vendor contracts. The objectives of this audit are to evaluate the adequacy of management controls over these expenditures and test vendor billings for compliance with contract provisions, rules and regulations. This review was initiated in fiscal year 2007.

## **FOLLOW-UP AUDITS**

Follow-up audits are required by City Commission Resolution 970187 and by Government Auditing Standards and are conducted to determine the status of management's actions on specific City Auditor recommendations previously approved by the City Commission. In accordance with our Annual Audit Plan, we completed a Review on the Status of Outstanding Audit Recommendations. Our procedures were designed to provide reasonable assurance that management had adequately implemented recommendations previously made by the City Auditor's Office and approved by the City Commission. Generally, our procedures consisted of preparing a detailed listing of recommendations outstanding; and obtaining and verifying evidence of corrective actions taken by management for each outstanding recommendation.

### **Summary of Results**

We began the current period with 33 outstanding recommendations from 15 prior audits. The results of our review indicated management adequately implemented 18 of the prior period 33 recommendations. A summary of implementation progress for each audit area is as follows:

#### **Review of Employee Compensation**

Three recommendations originating from a 1991 audit remain open and relevant to City operations. As reported in previous follow-up reports, City Commission-approved Personnel Policies regarding the different types of employee salary increases allowed remain in place even though actual practice has changed considerably. Without appropriate changes to Personnel Policies, there has become greater uncertainty and reduced accountability over the mechanisms for rewarding employees. We believe management should evaluate Personnel Policies related to employee salary increases and make recommendations to the City Commission to address these areas as soon as possible so that all departments are operating under consistent, fiscally responsible, documented parameters. Not implementing these recommendations promotes inconsistent pay increases for employees who are promoted, provided special merit increases or placed into acting positions.

#### **Review of Utility Revenues**

Since the time of our original recommendation, GRU has utilized data from their geographic interface system (GIS) to improve the data accuracy of the customer billing system regarding the coding of GRU accounts inside and outside City limits. The GRU address database was updated extensively in August 2006 with Alachua County parcel numbers and efforts to match tax jurisdictions to addresses have been completed with resulting corrections made. In recent months, GRU has implemented a new billing system utilizing updated GIS information. This audit is now closed.

#### **Review of Neighborhood Housing and Development Corporation (NHDC)**

The final remaining recommendation from this audit has been implemented. The NHDC Director now has a written employment contract with the NHDC board of directors which formalizes the Director's compensation, benefits and performance expectations and provides a basis for future evaluations and terms of employment.

### Review of Housing Division

Management developed and implemented an annual maintenance inspection policy and system to ensure SHIP recipients continue to reside in the home through the life of the loan and that the home continues to comply with City codes. A formalized system is in place to ensure recipient homes are visually inspected and those that appear to be in disrepair are referred to Code Enforcement for a full inspection. This audit is now closed.

### Review of Small Local Business Development Department

Management worked with Sun Trust to ensure that purchases with General Government procurement cards identify qualified local small business activity. This enables General Government to identify all purchases made to qualified local small businesses rather than those only made through purchase orders and contracts.

One recommendation remains open. Management participates in the ICMA performance management program and measures the overall volume of small business expenditures, which is then reported as a percentage of central purchasing volume. We will continue to work with management regarding utilization of the data to evaluate and communicate the overall success of the Small Local Business Procurement Program.

### 2004 Pay Study Review

The final recommendation from our 2004 Pay Study Review was implemented in March 2006 when the City Commission adopted a City of Gainesville Compensation Philosophy submitted by the Charter Officers. The Compensation Philosophy, which provides guiding principles for the establishment and implementation of all aspects of compensation, was utilized during the 2006 Pay Study. As a result, this audit is now closed. Issues generated during our 2006 Pay Study Review will be included in our next follow-up process.

### Review of Equal Opportunity Program

One recommendation remains open. The Office of Equal Opportunity is working with Computer Services to develop an automated Case Management System in order to better track the progress of investigations. Until that is completed, Equal Opportunity is utilizing a less formal interim measure to assist in tracking the status of investigations and ensure timely follow-up on information requests.

### Review of ADA Paratransit Service Rates

Management completed a comprehensive assessment regarding the feasibility of implementing ADA trip-by-trip eligibility and determined that operational constraints and concerns prohibit implementation in the near future. Although we believe potential long term cost savings and improved efficiencies exist, we recognize that many factors are prohibiting full implementation. This audit is now closed.

### Review of GRU Purchasing Bid Process

Management improved efforts to review source justified purchases and provided periodic training and communications to operating departments to ensure an adequate understanding of and compliance with purchasing policies and procedures. Additionally, Purchasing has begun reviewing invoices to help ensure all contracts are signed and dated prior to services being initiated. Management is continuing efforts to implement miscellaneous issues related to travel arrangements for contractors, recommended

minimum numbers of quotes to obtain, right to audit clauses as a standard feature in contracts and conflict of interest communications.

#### Review of General Government Cellular Telephones

Management has taken action to optimize shared minutes and minimize or eliminate overage charges. A comparative analysis of cell phone costs indicates an annual savings of approximately \$12,000 from adjustments implemented. Internal controls over cell phones have been strengthened to improve the timeliness and accuracy of the billing review process. Safety guidelines restricting cell phone use while driving have also been implemented. Two recommendations remain open regarding recommended improvements in the process utilized for supervisory review of cell phone billings and reimbursements for personal use.

#### Review of the Dissolution of United Gainesville Community Development Corporation

Management implemented one of two remaining recommendations by requiring all CDBG subrecipient agreements to include language prohibiting them from mortgaging or encumbering CDBG assisted real property without prior written consent from the City and by establishing a process of recording liens in favor of the City when the amount of CDBG assistance exceeds \$10,000.

Implementation of the final open recommendation was delayed due to turnover and re-organization in the Finance Department. Based on our limited review of the sub-recipient monitoring process, we noted a few agencies with current financial concerns. We met with management and obtained agreement that better coordination and communication will take place between Finance and Block Grant staff. Procedures and checklists will be modified and Finance will conduct a more thorough financial analysis of subrecipients.

#### Review of Internet Access

General Government implemented a new tool that allows inappropriate websites to be blocked and has recently developed a revised monthly activity report with which departmental managers can more efficiently monitor staff usage. GRU continues to provide managers access to a cumbersome reporting tool that includes only the most recent seven days of activity. GRU indicates that they are evaluating the benefits and limitations of General Government's monitoring tools to determine if the tools would benefit their organization. A limited review of several days of GRU internet activity identified a few employees accessing inappropriate websites and extensive internet activity during work hours by some employees on social networking and video sharing sites, such as MySpace and YouTube. We have communicated these issues in more detail to GRU management and will conduct further testing during our next follow-up review.

#### Review of the GRU Procurement Card Program

Management participated in a national benchmark study in 2006 indicating that GRU is at the top of the range for utilization of procurement cards. Management also improved controls over procurement card transactions by implementing a new on-line software program that facilitates transaction monitoring and supervisory approval. In addition, periodic training has been provided to cardholders and approving officials re-emphasizing procurement card policies and procedures, purchase limits, supporting documentation and requirements for performing adequate and timely supervisory reviews. This audit is now closed.

### Review of Arthur J. Gallagher & Company Insurance Brokerage Services

Management implemented three recommendations from this audit. Risk Management is now obtaining and reviewing supporting documentation necessary to ensure that the City is not overpaying for contractual services received and that contract terms are properly followed. Documentation reviewed includes broker disclosure forms and correspondence from the insurance carrier regarding the policy terms, premiums and any commissions involved in placement of the policy. This improved process provides reasonable assurance that the over-retention of commissions occurring with the City's previous broker will not happen again. Additionally, the impact of changing the City's contract from commission based to a flat fee resulted in an estimated annual savings of approximately \$295,000 beginning in fiscal year 2006.

The City's Purchasing Policies were revised effective January 2007 to require City Commission approval of contract extensions to original contracts previously approved by the City Commission. Management took action to address the receipt of gifts identified during this review and conducted training to remind contract administrators of the City's Code of Ethical Standards and its importance in maintaining and enhancing the public's trust of government.

Two recommendations remain open. The first was to ensure competition is encouraged among insurance brokers and adequate time is provided for proposals to be evaluated and presented to the City Commission for review and approval prior to contract expiration. The current contract expires in October 2008 and we will review the competitive process leading up to that date. A second portion of this recommendation was for management to consider pursuing professional designation in risk management to increase knowledge and ensure skills are developed to better administer the City's insurance programs. Although professional conferences have been attended, certification has not been pursued.

The second open recommendation focused on improving communication between Risk Management, the City's insurance broker and the operating departments. Risk Management is developing written procedures focused on ensuring that all communications and invoices are routed through Risk Management so that information provided to our insurance broker and carriers is accurate and invoices conform to the time period and coverage amount required.

### Review of the General Government Purchasing Process

Management implemented two of the five remaining recommendations from this audit. In March 2006, the City Commission approved management's recommendation to remove sunset provisions from the City's Local Preference Ordinance. Effective January 2007, the City Commission amended the City's Purchasing Policies to better address communications between vendors and elected officials during the bidding and award process. The revisions also provide a constructive and controlled appeal process for vendors that desire to protest a bid process, including an opportunity to present the protest to the City Commission after all other avenues of appeal are exhausted. Additional efforts are underway regarding improved compliance with Purchasing Policies and procedures regarding competitive bidding requirements and supplier evaluation reports, improved performance measurement data and other operational and procedural improvements.

### **Future Follow-up Reviews**

The recommendations still outstanding, along with new audit recommendations approved by the City Commission since the start of this follow-up process, will be submitted to the appropriate Charter Officers in fiscal year 2008 in order to determine the current status of remaining recommendations.

## OTHER ACTIVITIES

The City Auditor's Office performs services other than audits throughout the year, such as coordinating external audits, performing investigative work, reviewing agenda items submitted to the City Commission and consulting with management or the City Commission on specific financial or operational questions. The Office also completes administrative activities necessary to maintain and improve the quality of our services and our professional standing in the practice of government auditing. The following section provides a summary of these activities during fiscal year 2007.

### Fiscal Year 2006 Financial Statements, Independent Auditors' Reports and Management Letters

In accordance with Section 6(b) of Resolution 970187, City Auditor Responsibilities and Administrative Procedures, the City Auditor is responsible for coordinating all financial audits of the City conducted by Federal auditors, State auditors or certified public accounting firms. During fiscal year 2007, the City Auditor administered a contract with the City's independent auditors, Davis, Monk and Company and Ernst and Young, Certified Public Accountants, which resulted in the issuance of the auditors' reports and management letters related to the City's financial statements. The auditors' report on the basic financial statements was unqualified, indicating that the City's financial statements were presented fairly, in all material respects, in conformance with generally accepted accounting principles.

### Hotline Processing

One of the goals of the City Auditor's Office is to prevent and detect fraud, waste and abuse in government activities. Among the programs maintained by the Office in these efforts is our "Hotline". Hotline inquiries may be initiated by phone, e-mail, regular mail or personal visit from City officials, employees, employee groups or citizens. Depending on the nature of the inquiry or allegation received, an investigation may be initiated, generally after consultation with the appropriate Charter Officer. During fiscal year 2007, we received and processed several hotline inquiries or allegations.

### City Commission Agenda Review

The City Auditor's Office performs a cursory review of agenda items submitted to the City Commission during the fiscal year, periodically recalculating financial impacts and monitoring compliance with purchasing policies and procedures, to the extent possible. Any questions or concerns are communicated informally to appropriate management staff for further clarification or correction, when necessary.

### City Commission and Management Requests for Assistance

Through the completion of a wide variety of audits over time, the City Auditor's Office develops a broad understanding of the activities and interactions of City operations. This unique perspective allows the Office to assist the City Commission and management by providing consultation on certain key issues which arise during the year. During fiscal year 2007, assistance and counsel was provided to the City Commission and management in a variety of areas, including the following:

- Brownfield Tax Credit Referral – During 2006 and 2007, the City Auditor's Office reviewed a draft agreement on a proposed sale of approximately \$228,000 in Florida Tax Credit Certificates received through incurred Brownfield cleanup expenses. Based on our advice to management, a structured, competitive process was undertaken to identify potential buyers and maximize City revenues. The initial sale, executed in early 2007, resulted in the City receiving approximately

\$70,000 more than originally anticipated. Future voluntary tax credits from this project are expected to exceed \$2 million over the next several years and will be marketed using this established process.

- Lobbyist Registration Referral – During discussions at the Audit, Finance and Legislative Committee related to vendor bid protests and communications between vendors and City officials, members requested additional information on the topic of lobbyist registration. We discussed the issue with the Clerk of the Commission and City Attorney and conducted research regarding lobbyist registration practices in other governments. Our research indicated that the concept of lobbyist registration is common in many state and local governments. Implementation options range from a simple registration card to a formal ordinance that would require a more sophisticated system of registering and tracking. We provided the Committee a brief presentation on this issue, who requested the City Commission refer this issue to the Charter Officers for further development, which is currently in progress.
- Election Auditing Referral – The City Auditor worked with the Clerk of the Commission to facilitate discussions with the Alachua County Supervisor of Elections about a citizen proposal related to “election auditing” procedures. This referral remains in the Audit, Finance and Legislative Committee.
- Vehicles for Hire Ordinance – The City Auditor provided technical advice to the Public Safety Committee regarding a newly established requirement for audited financial statements, resulting in these requirements being removed from the final ordinance.

### Quality Control

Generally accepted governmental auditing standards require the City Auditor’s Office to have an appropriate internal quality control system in place and to undergo an external quality control review at least once every three years.

The Office complies with all applicable auditing standards, has established appropriate policies and procedures to ensure internal quality control and has completed required external quality control reviews every three years since 1996. Each peer review team has reported that audits conducted by the City Auditor’s Office complied with *Government Auditing Standards*. The most recent Quality Control Review report, issued in November 2005, can be found on our website ([www.audigators.org](http://www.audigators.org)) along with our policies and procedures, audit reports issued, staff profiles and other information.

### Audit Survey Results

Upon completion of each audit, the City Auditor’s Office provides an Audit Services Survey to appropriate representatives of the department audited. The survey provides management an opportunity to voice any concerns regarding the manner in which the audit was conducted, the courtesy and professionalism demonstrated during the audit and whether or not conclusions and recommendations resulting from the audit were constructive and practical. The questionnaire also requests information on the “value added” to the operation through the audit process. The City Auditor reviews these completed questionnaires and makes administrative adjustments to audit practices as necessary.

## Professional Development

During fiscal year 2007, the City Auditor's staff consisted of four professional auditors and one half-time Executive Assistant. Staff of the City Auditor's Office possess an array of educational backgrounds including a Masters degree in Public Administration, three Bachelor of Science degrees in Accounting, two Bachelor of Science degrees in Business Administration and a Bachelor of Arts degree in Economics and Management.

Professional certifications include three Certified Public Accountants, three Certified Internal Auditors, one Certified Government Audit Professional, two Certified Fraud Examiners, and one Certified Internal Control Auditor. Generally accepted governmental auditing standards require professional staff to obtain 80 hours of continuing professional education during a two-year period. All professional staff are in compliance with continuing professional educational requirements.

Staff of the City Auditor's Office maintain memberships in several professional associations. Current affiliations include the Association of Local Government Auditors, American and Florida Institutes of Certified Public Accountants, Institute of Internal Auditors, Association of Certified Fraud Examiners, Florida Government Finance Officers Association and the Florida Audit Forum.

The City Auditor maintains a consistent commitment to local government auditing and the professional development of staff. Aside from association committee meetings, workshops and conferences, staff members make it a point to periodically participate in peer reviews of other local government audit agencies. The benefits of involvement in this process are many as participants gain a fresh perspective and the best practices of auditors from across the nation.

The City Auditor currently serves as the Treasurer and as a board member of the Florida Audit Forum, an organization of federal, state and local governmental auditors within the State of Florida. The mission of the Forum is to provide government audit professionals and other interested parties a unique opportunity to identify and address issues of mutual and common concern and to improve the communication links to share experiences, audit approaches and possible solutions to issues addressed. The City Auditor also serves as a board member of the North Central Florida Chapter of the Institute of Internal Auditors. Other staff members serve on the board and on the program committee of the North Central Florida Chapter of the Institute of Internal Auditors and on the Professional Issues Committee of the Association of Local Government Auditors.

## National Recognition for Performance Audit Award

During 2007, the City Auditor's Office was presented a Knighton Award (Honorable Mention) by the Association of Local Government Auditors' for our Review of Arthur J. Gallagher & Company Insurance Brokerage Services. The Knighton Award is a prestigious program designed to recognize the best performance audit reports issued by local government auditors in the United States and Canada. Knighton Awards are judged based on innovation, audit scope and potential for significant impact, persuasiveness of conclusions, focus of audit recommendations on effective and efficient government, and the clarity and conciseness of the auditor's communication style.