

City of
Gainesville

Inter-Office Communication

February 5, 2009

TO: Honorable Mayor and Members of the City Commission
FROM: Brent Godshalk, City Auditor
SUBJECT: Annual Performance Evaluation

I am submitting the attached City Auditor's Office Fiscal Year 2008 Annual Report to assist each of you in reviewing my performance and to initiate any resulting changes in my salary and benefits, as required by my employment agreement with the City. I will also be meeting with each of you to provide an opportunity to discuss my performance during the past year ending November 8, 2008.

The attached Annual Report provides a summary of audits and special projects performed during fiscal year 2008, presents our service efforts and accomplishments and provides a basis for the City Commission, management, City employees and the public to assess the quality of service provided by the City Auditor's Office. This Annual Report will also be made available to the public on our website, www.audigators.org, along with our policies and procedures, audit reports issued, staff profiles and other information.

This past year has been a very busy and productive time within the City Auditor's Office. Our efforts focused on issues ranging from audits of the City's fleet fuel expenses to performance measures for the Housing Department, reviews of property tax exemptions, GRU coal contracts and local business tax revenues. We also performed scheduled and annually recurring audits, such as our review of General Fund Revenue Estimates, and we continue to review and track management's progress regarding the implementation of outstanding audit recommendations.

It is my sincere hope that this Fiscal Year 2008 Annual Report has provided helpful information to those interested in gaining an understanding or evaluating the performance of the City Auditor's Office. Thank you for the support you have provided to me and to the City Auditor's Office as we continually seek creative ways to improve City government and to effectively serve you, the City Commission, in the discharge of your oversight responsibilities to the citizens of Gainesville. Please call me if you have any comments or questions regarding this report.

FISCAL YEAR 2008 ANNUAL REPORT



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

CITY AUDITOR'S OFFICE FISCAL YEAR 2008 ANNUAL REPORT

TABLE OF CONTENTS

| | |
|--|-------|
| INTRODUCTION | 1 |
| AUDITS COMPLETED DURING FISCAL YEAR 2008 | |
| Review of General Fund Forecasted Revenues and Other Sources of Funds for the Fiscal Year Ending September 30, 2008 | 2 |
| Review of Housing Performance Measures..... | 2-3 |
| Review of Property Tax Exemptions | 3-4 |
| Review of Fleet Fuel Expenses and Charges to Departments..... | 4-6 |
| Review of GRU Fuel/Coal Contracts..... | 6 |
| AUDITS IN PROGRESS AT END OF FISCAL YEAR 2008 | |
| Review of Local Business Tax Revenues | 7 |
| Review of Payroll Verification Procedures | 7 |
| Review of Health Insurance Costs..... | 7 |
| Review of Florida Building Code Enforcement Fund Revenues..... | 7 |
| Review of Gainesville Fire Rescue Inspection Fees..... | 7 |
| Review of GRU Investments..... | 7 |
| FOLLOW-UP AUDITS | |
| Summary of Results..... | 8-11 |
| Future Follow-up Reviews..... | 11 |
| OTHER ACTIVITIES | |
| Fiscal Year 2007 Financial Statements, Independent Auditors' Reports and Management Letters..... | 12 |
| Issuance of Request for Proposals (RFP) for External Auditing Services..... | 12 |
| City Commission and Management Requests for Assistance..... | 13 |
| Hotline Processing | 14 |
| City Commission Agenda Review | 14 |
| Quality Control | 14 |
| Audit Survey Results | 14 |
| Professional Development | 14-15 |

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 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 2008

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 2008.

Review of General Fund Forecasted Revenues and Other Sources of Funds for the Fiscal Year Ending September 30, 2008

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 2007-2008 Final General Operating and Financial Plan Budget adopted by the City Commission on September 24, 2007. 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 reported that management's assumptions provided a reasonable basis for presenting projected Fiscal Year 2007-2008 General Fund Revenues and Other Sources of Funds in the amount of \$94,933,930. However, we projected several revenue sources at a different level than the approved General Fund budget. The total estimated difference was approximately \$58,000 or 0.1% more than budgeted. We concluded that management should continue to monitor the City's financial position throughout the fiscal year and make adjustments as necessary.

Management provides quarterly reports regarding the City's financial position to the Audit, Finance and Legislative Committee.

Review of Housing Performance Measures

In accordance with our Annual Audit Plan, the City Auditor's Office completed a Review of Housing Performance Measures. 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. 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 Housing Division during fiscal years 2004 through 2007.

Based on the results of our review, we recommended management take the following steps to improve the effectiveness of the performance measurement program and reporting systems related to the Housing Division:

- 1) Evaluate key departmental performance measures and report on those measures which focus on management's strategic priorities, assess program results and identify areas needing improvement. Key measures should focus on attainment of department goals and City priorities and provide a basis for comparing performance with peer cities, assisting the City in meeting its goal to become a top ten mid-sized city;
- 2) Develop written procedures for collecting and reporting performance measurement data, including requirements for supervisory review, maintaining supporting documents and preparing and incorporating a trend analysis over the previous years' reported data to note potential reporting anomalies or significant changes from previous data; and
- 3) Ensure staff responsible for maintaining, collecting and reporting performance measurement information are familiarized with written guidelines and procedures, are adequately supported in fulfilling their responsibilities and reporting is consistently maintained.

The City Manager agreed with our recommendations for improvement and provided the Audit, Finance and Legislative Committee with a detailed response identifying specific departmental performance measures focused on management's strategic priorities. Management indicated that these efforts will assist the City in better assessing program results and identifying areas needing performance improvement.

Management also indicated that beginning in fiscal year 2009, a customer service survey will be implemented to obtain customer input about the overall effectiveness of the Housing Division's operations and level of service to consumers. The results of the survey are expected to be used as a baseline to establish on-going measurements of customer satisfaction levels and to help ensure that all customers are treated in an equitable way, customer opinion and beliefs are valued, service delivery is measured against expectations, problem areas are identified and corrective action is taken.

Management also indicated that the Housing Division will prepare an annual report of performance measures beginning in fiscal year 2009. These performance measures will focus on the attainment of departmental and City priorities; and will be compared annually to the performance measures of Florida cities that receive comparable amounts of funds from the SHIP program.

Review of Property Tax Exemptions

In accordance with our Annual Audit Plan, the City Auditor's Office initiated a review of property tax exemptions. This review was selected because property taxes are one of the City's largest revenue sources, exceeding \$23 million in fiscal year 2007, and because homestead exemptions, and associated Save Our Homes valuation restrictions, are a key element in determining the amount of property taxes received.

The primary focus of this review was to evaluate the system of management control used to ensure that homestead exemptions claimed in the City of Gainesville are valid and to provide reasonable assurance that the City's property tax revenues are optimized. Specific audit objectives included evaluating the policies, procedures, internal controls and methods practiced by the Alachua County Property Appraiser's Office to ensure that homestead exemptions are valid and properly documented. As are all of our audits, this review was planned to be conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require auditors to obtain sufficient, appropriate evidence to provide a reasonable basis for any findings, conclusions and resulting recommendations for improvement.

Completed audit procedures included reviewing Florida Statute sections related to homestead exemptions, obtaining and reviewing databases of City of Gainesville and Alachua County real property owners, developing listings of possible exceptions to homestead exemption requirements based on our database analysis and interviewing staff of the Alachua County Property Appraiser's Office involved with evaluating the reasonableness of homestead exemptions. Ultimately, the completion of our review was limited by our inability to obtain and review sufficient, appropriate evidence necessary to draw conclusions on the adequacy of the processes instituted within the Alachua County Property Appraiser's Office to ensure that homestead exemptions are valid and properly documented.

The Alachua County Property Appraiser met with us and allowed us to interview staff involved with evaluating the reasonableness of homestead exemptions. Staff indicated that there are no written procedures for reviewing homestead exemptions, but indicated that they continually conduct reviews, checks and cross-checks to determine whether property owners are eligible for homestead exemptions. They indicated that their review process includes doing several mailings each year with no forward address permitted, reviewing death certificate rolls, utilities' records, landlord licensing data, etc. In addition, they receive information from the Florida Department of Revenue identifying property owners with homestead exemptions in other Florida counties. They also indicated that they sometimes receive information from neighbors and former tenants of possible violations of the homestead exemption requirements.

The Property Appraiser and his staff reviewed a listing of properties developed through our database analysis which identified possible exceptions to homestead exemption requirements. They then provided us brief commentaries on the status of each property owner's homestead exemption. These commentaries and our analysis of later removals of homestead exemptions and back-billed property taxes indicated that our listing of properties did identify some properties ineligible for the homestead exemption they were receiving.

However, when we asked to review the files maintained by the Property Appraiser's Office regarding these questioned exemptions, we were denied access to relevant supporting documentation. The Property Appraiser and his staff indicated that portions of the data we asked to review were confidential and not subject to public records laws. The Property Appraiser also provided a previous Florida Attorney General opinion indicating that constitutional officers are not subject to audits initiated by other local government bodies, such as county or city commissions. In our opinion, access to this data is necessary for us to complete our audit objectives in accordance with *Government Auditing Standards*. Accordingly, we closed this audit and provided a summary of our activities in this area to the City Commission.

We also provided the summary of our activities to the Alachua County Property Appraiser, along with two operational suggestions identified early in our review regarding developing written procedures for staff reviewing homestead exemptions and providing additional web-based information and encouragement to citizens regarding reporting suspected homestead exemption fraud to the Property Appraiser's Office.

Review of Fleet Fuel Expenses and Charges to Departments

In accordance with our Annual Audit Plan, the City Auditor's Office completed a Review of Fleet Fuel Expenses and Charges to Departments. The primary focus of this review was to evaluate the system of management control over fuel expenses and the allocation of charges to user departments. Specific audit objectives included determining if fuel expenses and charges were appropriate, authorized and accurate. Our procedures included interviewing key staff, observing operations, reviewing management controls and testing selected samples of transactions and supporting documentation. The scope of our review was

generally for fleet fuel expenses incurred during fiscal years 2007 and 2008, excluding Regional Transit System costs.

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

- 1) Improve controls over the utilization of vehicular fuel at GPD in order to provide greater assurance that fuel utilization is appropriate and reasonable. We recommended management enhance current controls over fleet fuel processes by:
 - Discontinuing issuance of fuel cards to individuals who are not GPD employees.
 - Requiring GPD staff to remove the PIN label from their fuel card upon receipt.
 - Periodically reminding supervisors and staff performing exit interviews to retrieve fuel cards from exiting employees and to return them to appropriate GPD staff in a timely manner.
 - Maintaining an accurate record of fuel cards in circulation and periodically comparing this log to payroll listings and actual fuel usage in order to help detect any unauthorized usage.
 - Periodically reviewing fuel transactions for unusually high usage and evaluating reasonableness and appropriateness based on the officers' assignments.
- 2) Evaluate and consider changing from the current fuel key system to a fuel card system, similar to that in use by GPD for fueling transactions. This change, along with specific control enhancements set forth in recommendation #1, would help to increase accountability over fuel transactions by assigning a card to each city employee requiring fueling privileges, along with a personal identification number.
- 3) Review take-home vehicle assignments annually in order to maximize efficiencies and minimize costs where possible. GRU management should further evaluate their current assignments of authorized take-home vehicles to ensure that they are appropriate and result in the most efficient utilization of these vehicles. During our review, GRU management significantly reduced take-home vehicles in one division, resulting in an estimated annual savings of \$62,000.
- 4) Work to decrease delays in updating weekly fuel rates and to minimize variances between departmental billings and actual fuel costs, including the designated 15% markup. Also, in the future, management should conduct annual comparisons of fuel expenditures and fuel revenues to assure that the 15% administrative fee is applied accurately.
- 5) Implement additional oversight controls within Fleet Management's fuel operations to compensate for the lack of segregated duties, including improving controls over the ability of employees to delete transactions within FASTER. Management should also consider assigning some of the responsibilities of the General Services Department Analyst to other staff, if possible, in order to more properly segregate key duties.
- 6) Increase their emphasis to employees on the importance of the requirement to properly and accurately enter vehicle odometer readings. Management should consider implementing disciplinary actions for employees who consistently enter inaccurate odometer readings.
- 7) Ensure that City employees utilizing City take-home vehicles and their timekeepers receive periodic training and reminders in order to provide greater assurance that required forms are properly completed, submitted and recorded. In discussions with the Human Resources Department, staff indicated that they will implement procedures requiring employees with personal mileage use

associated with take-home vehicles to claim the use as a fringe benefit by completing and submitting required forms consistently.

The City Manager and General Manager for Utilities agreed with our recommendations for improvement and provided the Audit, Finance and Legislative Committee with detailed responses identifying specific departmental actions that would be taken to address our recommendations.

Review of GRU Fuel/Coal Contracts

In accordance with our Annual Audit Plan, the City Auditor's Office completed a Review of GRU Fuel/Coal Contracts. The primary focus of this review was to evaluate the adequacy of management controls over Energy Supply fuel expenditures and to test vendor billings for compliance with contract provisions, rules and regulations. Specific audit objectives included evaluating the policies, procedures and internal controls related to the fuels contract process. Our procedures included reviewing contracts, laboratory test results, vendor and shipping invoices, interviewing staff, reviewing professional literature and interviewing other utilities for common practices. The scope of our review was generally for coal purchased by GRU during 2006 through 2008.

We presented extensive information to the Audit, Finance and Legislative Committee on GRU's coal procurement process, comparisons of GRU coal contract prices to spot market prices and future trends in the coal market related to price re-openers, coal futures and coal price trends and reported finding no significant weakness in management controls in effect over the GRU fuel/coal contracts process. We noted that the Fuels Management Division has strong management controls in place to ensure that coal contracts are properly administered.

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

- 1) Consider extensions for short-term contracts as is GRU's current practice with long-term contracts. This would provide additional staff savings preparing requests for proposals and potentially minimize the impact of rising fuel costs to customers.
- 2) Ensure all scale certificates are received annually by suppliers, reviewed and maintained in the suppliers file. Each year, the primary contractor should be contacted to provide a copy of the most recent scale certification to ensure suppliers' scales can be relied upon to accurately reflect quantities purchased and invoiced.

The General Manager for Utilities agreed with our recommendations for improvement and provided the Audit, Finance and Legislative Committee with a detailed response identifying specific departmental actions that would be implemented to address our recommendations.

The General Manager also indicated his appreciation for the approach used by the City Auditor's Office to learn the basics of the industry, identify relevant industry performance data, review extensive documentation of policies and procedures, and test results relative to the procedures.

AUDITS IN PROGRESS AT END OF FISCAL YEAR 2008

Following is a summary of audit projects initiated but not completed by the end of fiscal year 2008.

Review of Local Business Tax Revenues

In fiscal year 2007, total revenue for Local Business Tax Revenues, formerly Occupational Licenses, exceeded \$800,000. The main objective of this review will be to evaluate the system of management control over the collection of local business tax revenue. This review was substantially completed during fiscal year 2008; final reporting is pending discussions with management of audit results.

Review of Payroll Verification Procedures

The objective of this review is to provide reasonable assurance to the City Commission that the processes established to calculate retirees' and DROP participants' pension annuity payments are operating effectively. This review was substantially completed during fiscal year 2008; final reporting is pending discussions with management of audit results.

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 2007 exceeded \$16 million. The objective of this review will generally 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.

Review of Florida Building Code Enforcement Fund Revenues

The Florida Building Code Enforcement Enterprise Fund was established by the City of Gainesville in fiscal year 2007 to account for revenues and expenses related to enforcing the Florida Building Code, as defined in Florida Statue §553.80. Revenues collected during fiscal year 2007 exceeded \$5 million. This review is generally focused on evaluating the system of management control currently in effect over revenues collected through this fund.

Review of Gainesville Fire Rescue (GFR) Inspection Fees

This review is focused on GFR inspection fee revenues, which were budgeted at approximately \$220,000 for fiscal year 2008. The objectives of this audit are generally to evaluate the current fee structure for inspection and re-inspection fees, as well as how other municipalities assess these fees. This review was previously requested by the City Manager and was initiated in fiscal year 2008.

Review of GRU Investments

The GRU Finance Department oversees the investment process for cash balances of GRU's Capital Projects Funds, Debt Service Funds, Proprietary Funds and some Fiduciary Funds. This project generally includes reviewing laws, policies, procedures and records necessary to determine that GRU is properly administering investment programs. Additionally, we are reviewing the security over banking transactions associated with these funds.

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 36 outstanding recommendations from 16 prior audits. The results of our review indicate management adequately implemented 18 of the prior period 36 recommendations, leaving 18 recommendations outstanding. An audit by audit summary of implementation progress 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 is 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.

Human Resources is currently working with the Charter Officers to develop new Human Resources Policies and Administrative Guidelines.

Review of Small Local Business Development Department

One recommendation remains open. The Small & Minority Business Coordinator was transferred from the Purchasing Department to the Economic Development Department and needs additional time to fully implement the recommendation. In addition, General Government and GRU staff are working together to develop a consistent report format for reporting SBE program activity to the City Commission.

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 GRU Purchasing Bid Process

GRU implemented a portion of the final outstanding recommendation. Significant efforts have been made to reduce lodging and meal expenses incurred by contractors providing services to GRU. Previously, contractors traveling to Gainesville would typically make their own lodging arrangements and receive reimbursements for lodging and the costs of meals. Contracts usually allowed a 10% to 15% mark-up on these expenses. Contracts now generally provide a flat per-diem rate for meals and allow GRU to directly pay local lodging arrangements. As a result, GRU is able to generate savings through reduced lodging rates, reduced reimbursements to contractors for sales and resort taxes paid, and by avoiding contractual mark-ups. We estimate cost savings of approximately \$50,000 with this approach on the current contract for consulting services related to the implementation of the GRU financial system.

Further efforts are needed by GRU management regarding revising purchasing procedures to direct operating departments to attempt to obtain three or more quotes from prospective vendors and implementing right to audit clauses in purchasing contracts.

Review of General Government Cellular Telephones

Management completed the implementation of online access to Alltel's billing system. This has resulted in increased efficiencies of administration of the contract, as well as improved monitoring and processing of departmental cell phone bills. We estimate the recurring cost savings associated with reductions in staff time to be approximately \$55,000 annually.

Review of the Dissolution of United Gainesville Community Development Corporation

Management developed procedures that should result in better coordination and communication between Finance and Block Grant staff and provide for improvements in financial analysis of subrecipients. Implementation of the final recommendation is pending the receipt of financial documents from several subrecipients. We will assess the results of the changes after the financial data is received and the staff analysis completed. We believe the improved monitoring efforts will enhance the City's ability to detect financial instability of outside agencies earlier and reduce the risk of a loss in City funds.

Review of Internet Access

General Government implemented a new tool that allows inappropriate websites to be blocked and revised monthly activity reports with which departmental managers can more efficiently monitor staff usage. This has been useful for management to track employee usage and determine the appropriateness of website activity. GRU is currently developing an enhanced internet reporting model and internet usage policy that is anticipated to be completed at the end of the fiscal year.

Review of the General Government Purchasing Process

Management implemented the final three recommendations regarding improved compliance with purchasing policies and procedures, performance measurement data and other operational and procedural improvements such as competitive bidding requirements, supplier evaluation reports and vendor debarment. Management continues to provide training to operating departments and has developed a process for periodically reviewing decentralized purchasing transactions.

Review of Arthur J. Gallagher & Company Insurance Brokerage Services

Management implemented one recommendation by establishing a process in which all communications and invoices related to insurance policies are routed through the Risk Management Department. This information is reviewed to ensure all invoices for renewals are for the proper period and based on quotes received.

One recommendation remains open regarding the City's current contract for insurance brokerage services, which expires at the end of fiscal year 2008. We will hold open this recommendation in order to evaluate the timing and implementation of the competitive process for selecting the next insurance broker and to evaluate management's consideration of pursuing professional designations and continuing professional education in risk management.

Living Wage Review

GRU and General Government clarified standard bid forms to include a list of exempt categories in which a vendor may be exempt from the Living Wage Ordinance. The vendors must now indicate the category of exemption for which they qualify. GRU and General Government also now report annually the total fiscal impact of the Living Wage Ordinance to the City Commission.

Review of Travel Expenses

The General Government and GRU Finance Departments have sufficiently strengthened internal controls over the processing of travel, including appropriate communication, training and monitoring methods, to improve compliance with travel policies and procedures.

Review of Performance Measures for Parks and Recreation

Management fully implemented our recommendation related to citizen surveys. The Parks, Recreation and Cultural Affairs Department conducted two web-based citizen surveys designed to gather information on parks, programs and facilities. In addition, the Strategic Planning Department issued the "National Citizen Survey" that included Parks and Recreation information, which can also be used to measure the effectiveness of City Parks and Recreational programs and facilitate decision making. The City Commission reviewed the citizen survey results in April 2008. Management indicates that program level surveys will be conducted periodically and the National Citizen Survey will be conducted again in approximately 18 months. Continued use of these surveys should provide management and the City Commission with useful information regarding the effectiveness of City services.

Our recommendation on performance measure data collection, documentation and reporting is partially implemented. The City recently opted out of the ICMA Performance Measurement Program and will begin reporting performance measures with the Florida Benchmarking Consortium (FBC). Parks, Recreation and Cultural Affairs is working with Strategic Planning in finalizing key measures and data collection methodologies. We will hold this recommendation open until we can assess finalized FBC performance data along with supporting documentation.

2006 Pay Study Review

Implementation of the four previously issued audit recommendations will be evaluated during the initiation and completion of the next pay study. At that time, management will have an opportunity to implement recommendations regarding slotting benchmark positions and adjusting for internal equity

considerations, right to audit clauses and review of salary survey data, cost of labor differentials used and the long term cost and equity considerations presented during this review.

Review of Gainesville Fire Rescue Overtime

Two recommendations remain partially open. Management continues to monitor elevated sick leave usage by DROP Plan participants and resulting financial implications to the City. Management will discuss options for improvements with applicable bargaining unit representatives.

As a result of our initial audit report and a review of services, the City Commission approved canceling the contract for fire protection services with the Gainesville Alachua County Regional Airport Authority (GACRAA) effective October 1, 2008. As part of this cancellation deadline, staff was instructed to begin renegotiations with GACRAA in order to identify a more appropriate reimbursement rate. Negotiations between City and GACRAA management were successful and a proposal was approved by the City Commission in January 2008. The proposal more clearly delineates expense allocations between the City and GACRAA, including staffing costs and support functions related to the operation of the airport fire station. The proposal also includes an annual escalation rate for salary increases not to exceed 5.5%. When the contract is completed and final approval is received from the GACRAA board, the new agreement should result in approximately \$60,000 in additional cost reimbursement to the City annually.

Review of GRU Small Business Enterprise (SBE) Program

Two recommendations were adequately implemented. GRU Purchasing clarified the local preference definition in the procedures manual and implemented a system for capturing SBE purchases on VISA cards.

Two recommendations remain open. One recommendation relates to controls over SBE database maintenance regarding the qualification process. The second recommendation relates to improving program monitoring and reporting. GRU Purchasing continues to review the issues of maintaining an accurate SBE list and developing a process for certifying/updating SBE status. GRU is also pursuing methods to capture SBE spending with local SBE vendors, as prior system constraints could not capture SBE data by geographic location. GRU expects implementation of these recommendations once the transition to the new SAP (Systems, Applications, Processes) Production System is complete. General Government and GRU staff are also working together to develop a consistent format for reporting SBE program activity to the City Commission.

Review of Youth Sports League Concession Operations

Management adequately implemented our two recommendations related to internal controls over concession operations and concession revenue alternatives. City staff will advise parent groups involved with concession operations regarding proper cash procedures and reporting responsibilities, such as sales tax collection, but will not be involved in concession operations. Management also explored the idea of using private vendors, however it was determined that it would not provide a reasonable rate of return to the City at this time.

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 2009 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 2008.

Fiscal Year 2007 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 2008, 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. The auditors' management letter related to General Government indicated that there were no recommendations in the current year. The auditors' management letter and internal control report over financial reporting related to GRU included recommendations related to improvements in liability accruals and cash and other system and account reconciliations. The auditors also provided a report on the status of their prior year's recommendations. Management's written response to these comments indicates agreement with the auditors' recommendations and provides planned corrective action on each issue.

Issuance of Request for Proposals (RFP) for External Auditing Services

The procurement of professional auditing services is an important step in achieving government accountability. Florida Statutes section 218.39 and Gainesville Code of Ordinances section 2-433 require the City Commission to employ an independent certified public accountant, not connected with the government of the City, to audit the accounts maintained and the financial statements prepared by the City for each fiscal year. The City's current contract for external auditing services expires after completion of all reports associated with the financial audit for the fiscal year ending September 30, 2008.

Accordingly, the City Auditor Office worked with the General Government and GRU Finance Departments during fiscal year 2008 to establish an RFP process meeting the auditor selection guidelines for the State of Florida, the American Institute of Certified Public Accountants (AICPA) and the Government Finance Officers Association (GFOA).

To encourage participation, the process provided interested firms an opportunity to submit proposals for the General Government segment of the audit, the GRU segment, and/or both combined. In order to help maintain the current bond rating held by GRU, the RFP established that the City will only award a contract for the GRU segment to an auditing firm of nationally-recognized standing and with experience auditing comparable multi-utility municipally-owned utility systems.

The RFP was publicly issued and provided to interested firms during September 2008 and proposals were scheduled for evaluation and final ranking during fiscal year 2009.

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 2008, assistance and counsel was provided to the City Commission and management in a variety of areas, including the following:

- **Lobbyist Registration Referral** – Based on a City Commission referral to the Charter Officers, the City Auditor's Office conducted research regarding lobbyist registration practices in other governments and facilitated discussions among City staff. The City Auditor and the other Charter Officers reviewed lobbyist registration requirements at the state and local government level in Florida and presented several options to the Audit, Finance and Legislative Committee. This resulted in the City Commission adopting an ordinance establishing registration requirements and rules for lobbyists engaging in efforts to influence City Commissioners or CRA members. All lobbyists must now annually register with the Clerk of the Commission to disclose each employer on whose behalf they lobby.
- **Retiree Health Insurance** – The City Auditor participated in an advisory role on an ad hoc committee made up of stakeholders in the Retiree Health Insurance Plan. The City Commission evaluated numerous options generated by the committee and ultimately directed the City Attorney to draft ordinance revisions that resulted in significant reductions to the actuarial liability in the City's Retiree Health Insurance Trust Fund.
- **GPD Overtime Investigation** – Based on our previous audit of GPD overtime, the City Auditor's Office assisted investigators of the Gainesville Police Department in their investigation of the utilization of overtime by GPD personnel.
- **Personnel Policies** – The City Auditor continues to serve on an ad hoc committee of the Charter Officers providing technical advice to the Human Resources Department regarding development of updated personnel policies and procedures.
- **Purchasing Policies** – Based on our previous audits of General Government and GRU purchasing processes, the City Auditor's Office provided technical advice to management on implementation of the City's Purchasing Policies. Questions addressed related to interpretation regarding the intent of recent policy revisions related to City Commission approval requirements for contracts or purchase orders for construction projects and related professional services exceeding \$300,000.
- **GRU Wholesale Sales of Electricity** – The City Auditor participated in discussions with the Regional Utilities Committee regarding appropriate methodologies for analyzing production costs and resulting prices for GRU's wholesale sales of electric power.
- **Safety Awards** – The City Auditor's Office provided technical advice to management related to federal income tax requirements regarding a newly established safety awards program.
- **Auditor General Performance Audit of the Local Government Financial Reporting System** – The City Auditor coordinated a performance audit conducted by the State of Florida's Auditor General designed to evaluate the effectiveness of the City's internal controls in complying with a recently enacted state law regarding external auditor selection procedures.
- **General Manager for Utilities Selection Process** – The City Auditor participated in the interview process for the General Manager position, along with the other Charter Officers, providing input and general observations to the Mayor and members of the City Commission.

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 2008, 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.

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 December 2008, can be found on our website (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 2008, the City Auditor's staff consisted of five 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, one Bachelor of Business Administration degree in Marketing, one Bachelor of Arts degree in Economics and Management and one Bachelor of Arts degree in Criminal Justice.

Professional certifications include two Certified Public Accountants, one Certified Internal Auditor, 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 as the Chair of the Academic/Certification Scholarship Committee and on the Program Committee for this organization and on the Professional Issues Committee of the Association of Local Government Auditors.