

FISCAL YEAR 2006 ANNUAL REPORT



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

CITY AUDITOR'S OFFICE FISCAL YEAR 2006 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 2006

Audits undertaken by the City Auditor's Office are typically provided for 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 provides a summary of the audit reports issued during Fiscal Year 2006.

Review of General Fund Forecasted Revenues and Other Sources of Funds for the Fiscal Year Ending September 30, 2006

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 Final General Operating and Financial Plan Budget adopted by the City Commission on September 26, 2005. 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 in the amount of \$85,940,405 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 General Fund Revenues and Other Sources of Funds in the amount of \$85,940,405. However, we projected several revenue sources at a different level than the approved General Fund budget. The total estimated difference was approximately \$337,111 or 0.4% 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. On a quarterly basis, the Audit, Finance and Legislative Committee reviews budget monitoring reports provided by management.

Review of Arthur J. Gallagher & Company Insurance Brokerage Services

In accordance with a City Commission referral, the City Auditor's Office completed a Review of Arthur J. Gallagher & Company (Gallagher) Insurance Brokerage Services. The first objective of this review was to provide the City Commission with an independent assessment of the reliability, validity and relevance of the financial information provided by Gallagher related to the return of \$1.3 million to the City and to determine an appropriate level of interest due from Gallagher. A second objective was to evaluate the system of management control within the City related to the placement and monitoring of insurance coverage. Our procedures included interviewing Gallagher and City staff, reviewing relevant documents maintained by Gallagher and the City related to premiums and commissions paid for insurance brokerage services and assessing compliance with City contracts, policies and procedures. We also interviewed Risk Management Directors from other Florida municipalities and reviewed professional literature on current issues, trends and investigations related to the insurance brokerage industry. The scope of our review generally included records from 1988 through 2005 made available to our office and considered relevant to this audit.

We provided an interim report in December 2005 related to the accuracy of the \$1.3 million previously returned to the City, identifying adjustments to the original amount received and an appropriate level of interest due from Gallagher. Based on our review and the resulting interim report, the City Manager and City Attorney completed negotiations with Gallagher resulting in the City receiving an additional \$514,000 settlement payment from Gallagher.

We then completed the portion of our review focused on the City's system of management control related to the placement and monitoring of insurance coverage and issued our final report in April 2006. Based on the results of our review, we recommended management:

- 1) Obtain and review supporting documentation necessary to ensure that the City is not overpaying for contractual services received and that contract terms are properly followed. Even though the City's current contract for insurance brokerage services is based on a fixed fee and requires the broker to net out any commissions received from the premium charged to the City, management should require the broker to provide documentation, including documentation provided by the insurance carrier to the broker, necessary to ensure compliance.
- 2) Ensure that adequate time is provided for competitive bid/proposal processes in order to effectively encourage competition among contractors and to allow for proposals to be thoroughly evaluated and presented to the City Commission for review and approval prior to contract expirations. We also recommended that management consider pursuing professional designations in risk management to increase knowledge and ensure skills are developed to better administer the City's insurance programs.
- 3) Improve communications with the City's insurance broker and operating departments when providing information to the carrier that has a direct bearing on coverage and rates. Additionally, greater oversight is needed by Risk Management to ensure coverage and premiums cover the time period required.
- 4) Take steps necessary to ensure that contracts executed match the terms authorized by the City Commission and, when a contract requires initial approval by the City Commission, subsequent contract extensions should be forwarded for approval along with a written explanation regarding the reasons for the contract extension.
- 5) Take appropriate action to address the receipt of gifts described and to ensure that all City contract administrators are reminded periodically of the City's Code of Ethical Standards and its importance in maintaining and enhancing the public's trust of government.

Review of the Gainesville Regional Utilities Purchasing Card Program

In accordance with our Fiscal Year 2006 Annual Audit Plan, the City Auditor's Office completed an audit of the Gainesville Regional Utilities (GRU) Purchasing Card (P-Card) Program. 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 GRU's P-Card Program. Specific audit objectives included evaluating the policies, procedures and internal controls related to GRU's P-Card Program and determining whether P-Card purchases were proper and in compliance with City policies and procedures. Our procedures included interviewing staff, reviewing management controls and testing selected samples of P-Card transactions and related supporting documentation to assess compliance with City policies and procedures. The scope of our testing was generally for the period October 2004 through July 2005. As part of our review, we also evaluated GRU's performance measures related to the usage of P-Cards and their comparability to other utilities.

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

- 1) Periodically issue communications to cardholders and approving officials re-emphasizing P-Card policies and procedures, purchase limits, supporting documentation and requirements for performing adequate and timely supervisory reviews. Management should also establish within P-Card procedures a specific timeline in which departments are expected to document supervisory reviews; and
- 2) Develop and implement a formal action plan for using performance benchmarks to measure the success of the GRU P-Card Program and to identify goals and quantifiable objectives for improving the program.

Review of the General Government Purchasing Process

In accordance with our Fiscal Year 2006 Annual Audit Plan, the City Auditor's Office completed an audit of the General Government Purchasing Process. 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 the purchasing processes used in General Government. Specific audit objectives included evaluating the policies, procedures and internal controls related to the General Government Purchasing Process and determining whether purchases were proper and in compliance with City policies and procedures. Our procedures included interviewing staff, reviewing management controls and testing selected samples of purchasing transactions and related supporting documentation to assess compliance with City policies and procedures. The scope of our testing was generally for the period October 2004 through September 2005. As part of our review, we also evaluated the accuracy of operating and financial data supporting performance measures related to the purchasing process.

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

- 1) Further evaluate the purchasing policy documents of other local government agencies and present to the City Commission recommended revisions to existing City Purchasing Policies that will, at a minimum:
 - Address issues related to communications between vendors and elected officials during the bidding and award process, and
 - Provide a constructive and controlled appeal process for vendors that desire to protest a bid process, including an opportunity to present their protest to the City Commission after all other avenues of appeal are exhausted.
- 2) Take steps necessary to ensure that decentralized operating departments improve efforts to comply with City Purchasing Policies and procedures regarding competitive bidding requirements and supplier evaluation reports;
- 3) Provide information to the City Commission regarding the effectiveness of the Local Preference Ordinance, along with a recommendation to either sunset or extend the effective dates of the ordinance;
- 4) Continue efforts in determining a performance benchmarking program that is relevant and meaningful to Purchasing and ensure that adequate controls exist over compiling, utilizing and reporting performance measurement data;

- 5) Consider increasing from two to three the minimum number of responsive bids/quotes needed to satisfy the requirement for competitive bidding in the Purchasing Policies and ensure that reasonable efforts are taken to search for other available vendors when less than three qualified suppliers are available;
- 6) Develop written procedures to ensure that timely and proper communication occurs between General Government and GRU Purchasing Divisions whenever a vendor is debarred or suspended. This will ensure that a vendor found in violation at GRU or GG will not remain eligible to bid or perform services for the other; and
- 7) Implement a procedure requiring staff involved in evaluating any bidding proposal to sign a conflict of interest statement certifying compliance with City of Gainesville Policies and Procedures Number 28 and Purchasing Policies.

Living Wage Review

In accordance with our Fiscal Year 2006 Annual Audit Plan, the City Auditor's Office completed a living wage review. The primary focus of this review was to provide the City Commission with reasonable assurance on the adequacy of management control in effect over implementation of the Living Wage Ordinance (LWO). Specific audit objectives included evaluating the policies, procedures and internal controls related to reporting the incremental cost of the LWO. Our procedures included interviewing staff, reviewing all contracts that met the definition of covered services provided in the LWO and reviewing data collected and reported by management to ensure that it was accurate and adequately documented. The scope of our review was generally for the period October 2004 through March 2006.

Based on the results of our review, we recommended:

- 1) The City Commission authorize management to reduce the frequency of the LWO fiscal impact reports from once every six months to an annual report at the end of each fiscal year; and
- 2) Management require all bidders claiming an exemption to the LWO to document the category of exemption that applies to their organization.

Review of Travel Expenses

In accordance with our Fiscal Year 2006 Annual Audit Plan, the City Auditor's Office completed an audit of General Government and GRU travel expenses. The primary focus of this review was to provide the City Commission with reasonable assurance on the adequacy of management control in effect over travel expenses. Specific audit objectives included evaluating the policies, procedures and internal controls over travel expenses and determining whether travel expenses were proper and in compliance with City policies and procedures. Our procedures included interviewing staff, reviewing management controls and testing selected samples of travel transactions and related supporting documentation to assess compliance with City policies and procedures. The scope of our testing was generally for the period October 2004 through September 2005.

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

- 1) Take steps necessary to improve internal controls over travel expenses, such as issuing internal communications to re-emphasize travel policies and procedures including time limits, expense guidelines, supporting documentation and requirements for supervisory reviews; and
- 2) Continue efforts to maintain the General Government pending travel report file to ensure that outstanding travel reports are timely reconciled.

Review of 2006 Pay Study

During 2006, the City contracted with Wachovia Employer Solutions Group (Wachovia) to review the City's pay plans for MAP and CWA positions and compare them to the market. Although not part of our Fiscal Year 2006 Annual Audit Plan, the City Auditor agreed to conduct an audit of the Wachovia analysis and recommendations, with a resulting report presented to the City Commission in an October workshop.

The primary objective of this audit was to provide reasonable assurance to the City Commission that the methodologies and processes used by the consultant and management to generate pay structure recommendations were reasonable, adequately documented and supported, and consistently and accurately applied to data collected. Our procedures included conducting interviews with management and Wachovia representatives involved with the pay study and reviewing documentation of the process followed during the pay study. We reviewed documentation of internal hierarchies and salary surveys conducted for benchmark positions and evaluated documentation for accuracy, completeness, consistency and reasonableness. We selected representative samples of salary surveys and compared resulting market data to the pay grade structures developed. We also reviewed Wachovia's cost estimates for accuracy, completeness, consistency and reasonableness. The primary focus of our review was on the MAP portion of the pay study since the placement of positions into the CWA pay plan could not be effectively reviewed due to the nature of the collective bargaining process. The scope of our review was for the work developed to support the 2006 pay study.

Based on the results of our review, we recommended:

- 1) Wachovia and management provide adequate supporting documentation for benchmark positions not placed in the proposed pay structure based on market data. We also recommended quality control measures be implemented in future pay studies to ensure that the extent of such adjustments to the placement of benchmark positions is more formally evaluated, with any resulting adjustments supported and documented;
- 2) Future contracts for compensation consulting services include a "right to audit" clause within the RFP or contract to ensure that all information requested by authorized City representatives will be accessible and provided in a timely manner. We also recommend future pay studies better document when public and private sector data will be used for matches and how these results will be weighted to properly identify the City's relevant compensation market;
- 3) Future pay studies establish in the planning stages how cost of labor differentials will be calculated so that the adjustment factor appropriately represents the salary ranges that encompass the CWA and MAP pay plans; and
- 4) Management develop a mechanism for measuring the rate of change in actual payroll costs and report this information to the City Commission at least annually, before the budget is established. Quantifying the actual costs and the reasons for change in the normally experienced rate of growth in these costs will help management and the City Commission to more effectively monitor cost trends and manage City government.

Review of Performance Measures for Parks and Recreation

In accordance with our Fiscal Year 2006 Annual Audit Plan, the City Auditor's Office completed a Review of Performance Measures for Parks and Recreation. 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 for Fiscal Years 2003 through 2005.

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

- 1) Take the following steps to improve internal controls over the performance measurement program in the Parks, Recreation and Cultural Affairs Department:
 - Evaluate key departmental performance measures to ensure their usefulness in decision making, setting strategic priorities, assessing program results and identifying areas needing improvement;
 - Establish systematic and consistent methods for maintaining, collecting, analyzing and reporting performance measurement data;
 - Document written guidelines and procedures for maintaining, collecting and reporting performance measurement data, including requirements for supervisory review and maintaining adequate supporting documentation; and
 - Ensure that staff responsible for maintaining, collecting and reporting performance measurement information are familiarized with written guidelines and procedures and adequately supported in fulfilling their responsibilities in ensuring that performance measurement data is consistently maintained and reported.
- 2) Develop and implement a citizen satisfaction survey program and utilize the data generated to more fully participate in the ICMA performance measurement program. The data obtained can then be used to measure the effectiveness of City Parks and Recreation programs and facilitate decision making.

Petty Cash and Change Fund Counts for Fiscal Year 2006

Various City departments maintain petty cash and change funds ranging in amounts from \$25 to \$2,200. The City Auditor's Office performed surprise test counts of selected funds to ensure that adequate policies and control procedures over petty cash and change funds were in place and observed. We provided a year-end report to the Audit, Finance and Legislative Committee and the City Commission summarizing the results of our review.

AUDITS IN PROGRESS AT END OF FISCAL YEAR 2006

Following is a summary of audit projects initiated during Fiscal Year 2006 that were not yet completed by the end of the fiscal year.

Review of Gainesville Fire Rescue Department Overtime

In Fiscal Year 1997, the City Auditor's Office undertook a review of the use, demand and need for overtime. We initially reviewed the city-wide utilization of overtime to identify high utilization areas, which was then used to focus audit efforts on specific departments with the highest overtime costs. We subsequently completed reviews of the overtime costs at the Gainesville Police Department, the Regional Transit System and within Gainesville Regional Utilities and issued recommendations for improvement. For Fiscal Year 2006, we initiated an evaluation of the system of management controls currently in effect over the utilization of overtime in the Gainesville Fire Rescue Department. This audit was substantially complete at the end of Fiscal Year 2006 and is expected to be presented to the Audit, Finance and Legislative Committee in February 2007, after further discussion and receipt of a written management response regarding our recommendations.

Review of Recreation Department Miscellaneous Revenues

The main objective of this review is to evaluate the system of management control over certain miscellaneous revenues related to recreation programs, such as the sports program concessions. This review was requested by the City Manager and initiated in FY 2006. This audit was substantially complete at the end of Fiscal Year 2006 and is expected to be presented to the Audit, Finance and Legislative Committee in February 2007, after further discussion and receipt of a written management response regarding our recommendations.

Review of the GRU Small Business Enterprise Program

The City of Gainesville's Charter requires the City Auditor to periodically complete audits of the City's various human relations and equal opportunity ordinances, policies and programs. For FY 2006, we evaluated the operational efficiency and effectiveness of the GRU Small Business Enterprise Program. This audit was substantially complete at the end of Fiscal Year 2006 and is expected to be presented to the Audit, Finance and Legislative Committee in February 2007, after further discussion and receipt of a written management response regarding our recommendations.

Review of Performance Measures for Highway and Road Maintenance

During FY 2003, the City of Gainesville began participating in the ICMA Center for Performance Measurement (CPM) program that provides comparative data on selected aspects of service performance for cities and counties. The CPM helps cities and counties assess the quality and efficiency of service delivery to citizens through the collection, analysis and application of standardized performance data. The data must be accurate, fair and reliable for the program to be meaningful.

In the initial phase, the City Auditor's Office worked with the Office of Management and Budget during FY 2003 to review the overall process of selecting and preparing General Government performance measures. Departments have now completed and submitted performance data to the CPM for several years. In order to assist the City Commission in assessing public services, the City Auditor's Office has initiated an evaluation of the reliability and validity of management's key performance measures for Highway and Road Maintenance and Parks and Recreation. The Parks and Recreation review was presented to the November 2006 Audit, Finance and Legislative Committee. Our review of performance

measures for Highway and Road Maintenance was substantially complete at the end of Fiscal Year 2006 and is expected to be presented to the Audit, Finance and Legislative Committee in February 2007, after further discussion and receipt of a written management response regarding our recommendations.

Payroll Payoffs

This project is designed to determine that payroll checks are prepared only for valid employees of the City of Gainesville. This review was initiated in FY 2006 and is currently focused on electronically verifying City employee and retiree social security numbers with the U.S. Social Security Administration.

Review of Gainesville Police Department Overtime

This review focuses on evaluating the system of management control currently in effect over the assignment of billable police security overtime in the Gainesville Police Department. This review was requested by the City Manager and initiated in FY 2006.

Review of General Government Cash Receipts

The objective of this review is to evaluate the system of management control in effect over cash receipting processes throughout General Government. This review was initiated in FY 2006.

Review of Property Tax Exemptions

The FY 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 initiated in FY 2006.

FOLLOW-UP AUDITS

Follow-up audits are required by City Commission Resolution 970187 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 Fiscal Year 2006 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.

We began the current period with 33 outstanding recommendations from 11 prior audits. The results of our review indicated management adequately implemented 15 of the prior period 33 recommendations. A summary of implementation progress is as follows:

Highlighted Implemented Recommendations

This section highlights recommendations confirmed as implemented during this follow-up process that resulted in improvements in efficiency, effectiveness and accountability.

Review of Housing Division

Management has developed a reporting tool that includes information necessary to assist in determining if foreclosures are resulting from predatory lending practices and in quantifying the length of time in which mortgage foreclosure assistance is provided prior to actual foreclosure, if applicable. This report allows management to more effectively review and assess future risks for those who are seeking mortgage foreclosure intervention assistance.

Review of Equal Opportunity Program

Seven of the eight original recommendations from our audit of the Equal Opportunity Program have been implemented. The Equal Opportunity Office (EOO) has ensured that management has complied with City policy regarding the Equal Opportunity Director's authority to conduct investigations related to equal opportunity complaints. EOO has also provided training to new employees on their role in the investigative process and published internal investigative procedures within the City's intranet. EOO has developed a written investigative and interview plan to guide investigations, which should help to ensure adequate quality control over investigations.

EOO has established standards of consistency and uniformity for all investigative files. A standardized report format was developed, which includes the methodology, findings, rebuttals, conclusions, remedies and any significant highlights of the investigation process. This helps to ensure that EOO has included all pertinent reporting information and enables those requesting reports to understand the components of the investigation and conclusions drawn. EOO has also secured GPD investigative reports with the same degree of diligence as EOO investigative files.

EOO completed a written annual report of the accomplishments and activities performed during Fiscal Year 2005, which was presented to the City Commission's Equal Opportunity Committee in November 2005 and made available to the public. EOO also utilized the City's website to ensure it provides citizens, businesses and landlords with the ability to access and obtain information regarding EOO services. The website provides citizens and employees with an educational and prescreening tool, includes a copy of the

City's anti-discrimination ordinance and provides answers to frequently asked questions to assist users in determining whether discrimination may have taken place.

Review of General Government Procurement Card Program

The Finance Department has established performance measures for the procurement card program utilizing the ICMA benchmarking program. Management continues to work to establish and meet quantifiable goals and objectives, resulting in improvements in the effectiveness of the program. Management has also implemented a web-based procurement card application, which automates previous manual processes and results in improved card control and administration. Significant cost savings, enhanced oversight and improvements in efficiency and accountability have been realized through automating the reconciliation, approval and accounting distribution process for procurement card transactions.

Review of the GRU Purchasing Bid Process

Management has increased efforts to ensure that invoices provide sufficient information to ensure payment amounts can be reconciled to specific contractual terms. Management has also worked with user departments to ensure quantities provided in bid documents accurately reflect historical usage or some other reasonable forecasting methodology.

Review of ADA Paratransit Service Rates

Management renegotiated the fixed route contracts with Alachua County for Route 75 and increased the rates the County pays to the City of Gainesville for other routes extended into the county. With the renegotiated contracts, the City receives a total of \$591,510 in additional revenues over the three years covered by the contracts, Fiscal Years 2005 through 2007.

Management also plans to calculate ADA costs associated with each route using GIS technology to determine the number of ADA clients living outside City limits but within the RTS service area. This information will be discussed with the County during the next contract negotiation and ADA costs associated with the addition of the routes will be included in future cost analysis when RTS develops new routes.

Highlighted Outstanding Recommendations

Review of Housing Division

Management has developed and implemented a new annual maintenance inspection policy and system. However, this recommendation will remain open since at the time of our follow-up, the current fiscal year inspections were not yet finalized.

Review of General Government Small Local Business Development Department

Management has taken steps to capture data identifying procurement card spending by vendor, upgraded procurement card software and is working to better automate the process. Management indicates the final phases of downloading procurement card data into the general ledger will be completed during the current fiscal year. 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.

Review of Utility Revenues

Management has mapped a high percentage of electric customer facilities using their Geographic Interface System (GIS). During our next follow-up process, we will perform limited testing of data within the GIS system to obtain reasonable assurance of customer billing accuracy regarding the coding of GRU accounts inside and outside City limits.

Employee Compensation

Our review of Employee Compensation goes back many years with recommendations outstanding since 1991. Management needs to prepare revisions to personnel policies for City Commission approval on the following three issues:

- pay increases related to promotions,
- special merit increases for management employees, and
- acting out of classification policy.

Pay Study Review

In March 2006, the City Commission adopted a City of Gainesville Compensation Philosophy submitted by the Charter Officers, which provides guiding principles for the establishment and implementation of all aspects of compensation. The document indicates that policies will be presented to and approved by the City Commission to implement the compensation objectives set forth. These policies are yet to be developed.

Review of Neighborhood Housing and Development Corporation (NHDC)

The NHDC Board of Directors has instructed their attorney to prepare an employment agreement. At the time of our review the agreement had not been adopted and signed. It is anticipated this will be confirmed during our next follow-up cycle.

Review of ADA Paratransit Service Rates

Management will continue to study the issue of trip-by-trip eligibility because MV Transit, the organization coordinating all paratransit services in the County, does not currently have the operational ability to schedule these types of trips. In addition, fixed route bus stop accessibility also remains an issue. Management is aware that MV Transit is having difficulty operating efficiently and will not be able to handle trip-by-trip eligibility until other basic operational needs are met. Since the MTPO and its advisory committee, the Transportation Disadvantaged Local Coordinating Board (LCB), are monitoring MV Transit, we will leave this item open and observe conditions during the coming months.

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 2007 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 2006.

Fiscal Year 2005 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 2006, 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, office or personal visit, or regular mail 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 2006, 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 2006, assistance and counsel was provided to the City Commission and management in a variety of areas, including the following:

- United Gainesville Community Development Corporation (UGCDC) Loan Update – In November 2005, the City Auditor's Office provided additional information to the Audit and Finance Committee summarizing our research regarding the success or failure rate of the UGCDC loan program and the status of the loans assigned to the City resulting from UGCDC's dissolution in the previous fiscal year. The discussions that resulted from this item led to increased management actions to collect outstanding loans assigned to the City by UGCDC.

- Brownfield Tax Credit – In May 2006, 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, resulting in additional increased revenues anticipated for the City.
- Airport Financial Statements – During Fiscal Year 2006, the City Auditor met with the Chief Executive Officer and the Chief Financial Officer for the Gainesville-Alachua County Regional Airport Authority (GACRAA) regarding previous delays in their issuance of audited financial statements. The City Auditor also obtained copies of GACRAA financial statements, auditors’ reports and management letters in order to provide information to the City committees discussing GACRAA’s request for legislative amendments.
- Purchasing Policies Update – Based on our previous audits of General Government and GRU purchasing processes, the City Auditor’s Office reviewed and provided input to management and the Personnel and Organizational Structure Committee on proposed revisions to the City’s Purchasing Policies.
- Regional Transit System – The City Auditor’s Office continued to provide management advice and counsel related to the provision of paratransit services and served as an unofficial liaison to the paratransit community based on our previous involvement with audits in this area.
- Hilton Hotel and Conference Center Property Taxes – Based on previous involvement in this issue, the City Auditor continued to provide input to the City Attorney’s Office regarding ad valorem taxes assessed on the Hilton Hotel and Conference Center on SW 34th Street.

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) 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

The Office of the City Auditor consists of a staff of five professional auditors and one half-time Executive Assistant possessing 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, two Certified Government Financial Managers 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 Government Accountants, 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 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.