

The Audit Board of the City of Orlando met on Wednesday, August 23, 2006 in Conference Room R on the second floor of Orlando City Hall.

BOARD MEMBERS:

Gregory A. Tate, Chair	Present	[5/0]
Stephen Clapp, Vice Chair	Present	[5/1]
Richard D. Adamczyk (arrived @ 1:30 p.m.)	Present	[5/0]
David A. Richards	Present	[5/0]
Judith K. Welch	Present	[5/0]

OTHERS PRESENT:

Beryl H. Davis, Director, Office of Audit Services & Management Support
Raymond M. Elwell, Deputy Chief Financial Officer and Acting Controller
Lee Brown, Human Resources Division Manager
Deborah J. Howe, Manager, Health & Safety Section
Michael Pattillo, Audit Partner, Ernst & Young
Paul Manry, Audit Manager, Ernst & Young
Lauren Kitain, Audit Senior, Ernst & Young
Annette Madden, Recording Secretary

1. OPENING REMARKS

Chairman Greg Tate called the meeting to order at approximately 1:00 p.m.

2. APPROVAL OF MINUTES

Chairman Tate requested comments or questions on the minutes of the June 30, 2006 meeting. Motion was made by Mr. Clapp and seconded by Ms. Welch to approve the minutes as written. The motion was approved.

3. STATUS OF CITY OF ORLANDO'S DISASTER PLAN RE: PANDEMIC FLU – LEE BROWN, HUMAN RESOURCES DIVISION MANAGER AND DEBORAH HOWE, MANAGER, HEALTH AND SAFETY SECTION

Mr. Brown introduced Deborah Howe. She is a Registered Nurse with a Master of Science in Healthcare Administration, a Certified Occupational Health Nurse Specialist and has worked in occupational medicine in private industry. Mr. Brown said that Ms. Howe is the City's point person for planning for a possible outbreak of Pandemic Flu.

Ms. Howe reported that the Mayor tasked the General Administration Department to form a committee to provide training with regard to preparation for a Pandemic. She stated that the training is comprised of the following: a checklist developed partially from information from the CDC, but tailored to meet the needs of a governmental agency; a fact sheet describing the H5N1 virus (Avian Flu virus); and a handout outlining the Emergency Plan, or Continuity of Operations Plan (COOP). Ms. Howe stated that she has been training Public Works Department staff and non-sworn employees for the past three years.

Ms. Howe explained that the H5N1 virus still has not made the human-to-human "jump." She explained where the virus is most prevalent, how it is communicated and how it can be contained. Ms. Howe emphasized the importance of thorough hand washing with regular soap and water, stating that this is the first line of defense for prevention of any disease, in particular all viruses, and also the need to keep your hands away from your nose and mouth.

Mr. Brown stated that a Pandemic Flu outbreak could affect 40 – 50% of the workforce for a six – twelve week period of time in one wave. The planning in process involves how the City would sustain its operations in the event of a Pandemic. He stated that plans are being developed, with each department addressing how it would meet critical needs with fewer people.

Staff responded to questions posed by the Board.

Mr. Brown and Ms. Howe left the meeting at 1:20 p.m.

4. REVIEW OF ACTUAL EXPENDITURES VS. BUDGET – RAYMOND M. ELWELL, DEPUTY CHIEF FINANCIAL OFFICER

Mr. Elwell stated that Ms. Sutton planned to attend the meeting, however, she was called upon to attend an important press conference. He distributed copies of Budget to Actual Comparisons as of July 31, 2006. Mr. Elwell stated that based upon feedback from the Audit Board, comparative data was added to the last column of the report in order to clarify where the City currently stands on a percentage basis as compared to FY04/05.

Mr. Elwell provided highlights to the Board and explained any discrepancies. He stated that the City has collected 100% of property tax revenues. Mr. Elwell reported that the City is over its budgeted revenue estimate for occupational licenses, franchise fees, licenses, permits and other fees. Mr. Elwell stated that the City is receiving good returns on its investments. He stated that overall the City's revenue picture is very solid.

Mr. Elwell reported on expenditures, noting that as of the end of this month, nothing of concern stands out. He explained that some departments have actual expenditures below budget because they have vacant positions that they are unable to fill. Some of this is offset by overtime charges. Mr. Elwell noted that one area of concern is the cost of street lighting and that this is being closely monitored. Mr. Elwell summarized that the City has spent approximately 75% of its budget for the current fiscal year, about 8% below where it should be at this time.

Mr. Elwell stated that based upon feedback provided by the Board, the graphs depicting departments' monthly expenditures were adapted to communicate more detailed information. Mr. Elwell stated that the table is a snapshot of the numbers representing where the City stands in each Fund. He explained that the current approved budget for the General Fund is \$318 million, and to date, the City has spent about 75% of its General Fund budget.

Mr. Adamczyk commented that the data presented was excellent. He asked if monthly budgets could be prepared in the future. Mr. Elwell stated he would explore the possibility. He stated that since preparing this more detailed report, he is more open to that possibility than previously. He stated that he would check the system capabilities.

Mr. Elwell answered questions posed by the Board.

Board members positively commented on the enhanced reports and the graphical presentation. Mr. Elwell stated he appreciated the Board's feedback. Mr. Tate asked if

the Board could receive the data in advance of its meetings and Mr. Elwell said that he could provide the information in advance if the meetings were timed later in the month.

5. PRESENTATION OF ERNST & YOUNG'S 2006-07 AUDIT PLAN – MICHAEL PATTILLO, AUDIT PARTNER, ERNST & YOUNG

Mr. Pattillo, coordinating Partner, introduced Paul Manry, Audit Manager, and Lauren Kitain, Audit Senior, who are performing the work on the City's audit. He reported that Michelle McCrimmon would return as the Engagement Senior Manager. Mr. Pattillo stated that since the Audit Plan was published, a change was made to the engagement team. He reported that Linda Elerick, owner of a women-owned firm, is replacing Taylor and Ziegenbein.

Mr. Pattillo reported on the Audit Plan. He referred to the Timetable, noting the planned completion dates for the CAFR, management letter, single audit and bond compliance letters is February 2007 and the pension CAFRs is March 2007. He stated the timeline is a little accelerated from the prior year. Mr. Pattillo said that interim work is completed, including the testing of controls over routine processes. He stated that this work has not been completely reviewed, however, he is not aware of any issues of concern. He stated that fieldwork for the substantive portion of the audit is planned to begin in December through January.

Mr. Richards asked if the risk assessment and test of controls has been completed. Mr. Pattillo stated that the risk assessments are preliminary at this point. He stated by year-end the risk assessments, which affect the final audit program, will be completed.

Mr. Richards stated that it would be helpful for the Board to determine what Audit Services focuses on versus what the external auditor focuses on. If the Board has this knowledge, it could make the determination whether or not to ask for additional resources, when necessary. Mr. Pattillo stated that he is happy to share whatever might be helpful to the City's Office of Audit Services and Management Support.

Mr. Pattillo stated that the scope of the audit is the same as last year, with the exception of Friends of Leu Gardens and the Fire Academy. He stated that all the standards to be followed and the reports to be issued are the same as in the prior year. Mr. Pattillo stated that the items discussed at the meeting between the external auditor and the City's management team are included to provide background information to the Board on their discussions.

Mr. Richards inquired whether the Board can be informed when anything unusual surfaces during the discussions between E&Y and City management. Mr. Pattillo stated that he or Ms. Davis would report to the Board if there were any concerns. Mr. Richards stated the Audit Board should understand which are the top potential fraud risk areas to the City. Mr. Pattillo stated that he could discuss this with the Board during executive session. Mr. Richards stated that E&Y and Ms. Davis could discuss this and give the Board some assurance that if a particular risk were present, it would be addressed.

Ms. Davis stated that in the future she will seek input from E&Y, noting that the longer they continue to work for the City the more knowledge they will have of City operations. Mr. Richards stated that this would be an excellent beginning and that this would assist the Board in fulfilling its obligation to ensure the City's resources are utilized to cover key areas on a periodic basis.

Mr. Pattillo stated the areas of emphasis for the audit of financial statements. He reported on E&Y's communication protocols and shared other required information to the Audit Board. He stated that he would like to have open lines of communication with the members of the Audit Board.

Mr. Pattillo distributed an E&Y Audit Committee Publication to the Board. He stated it is geared toward SEC, but finds it is helpful information for the public sector.

6. BOARD APPROVAL OF REVISED AUDIT BOARD PROCEDURES AND MATRIX OF RESPONSIBILITIES, GREGORY A. TATE, AUDIT BOARD CHAIRMAN

Mr. Tate stated that the Board has discussed the Procedures and Matrix at prior meetings and asked for comments. Mr. Richards stated that the Procedures state that the Board shall periodically conduct a self-assessment and evaluation. He said that this is not listed on the Board's calendar and asked how and when the Board would perform the self-assessment. Ms. Davis stated her Office would develop the self-assessment to meet the Board's needs based upon the AICPA's Tool Kit. Mr. Tate requested that the item be added to the Board calendar and Board members agreed to add the item to the calendar for the January meeting.

Mr. Richards moved and Mr. Adamczyk seconded the motion to approve the Audit Board Procedures as written. The motion was approved.

Mr. Tate asked the Board to consider whether or not to codify the Procedures. Ms. Davis explained that the Procedures are an internal document. She stated that there is another higher level of policy and procedure, and this level requires approval by City Council. Ms. Davis explained the advantages and disadvantages of both methods and stated it is a matter of the Board's preference. She stated that a number of Boards do have codified policies and procedures, and many do not.

After further discussion, Mr. Tate stated that the Board should accept the Audit Board Procedures as amended, see how the incorporated changes work over the next few meetings, and revisit codification at a later time such as the next Board Charter review date. Mr. Clapp moved to accept the Procedures as modified and Mr. Adamczyk seconded the motion. The motion was approved.

Break at 3:15 – meeting reconvened at 3:30 p.m.

Mr. Pattillo, Mr. Manry, Ms. Kitain and Mr. Elwell left the meeting at 3:15 p.m.

7. COMPLETED PROJECTS, ADDITIONAL REVENUES AND STATUS OF AUDIT SERVICES AND MANAGEMENT SUPPORT PLAN – BERRI DAVIS

Ms. Davis thanked the Board for their insights and assistance in improving City operations. She stated that as a result of the Board's insight the Office of Audit Services and Management Support has improved its operations. She stated that one example is the follow-up report of Recommendations Not Implemented, which is a result of the suggestion of the Board.

Ms. Davis commented on the Audit of Payment Card Personal Information Security, noting that this report was the result of the Audit Board encouraging the Office to review control issues related to personal information security when using payment cards. Ms.

Davis stated that Technology Management has strong internal controls, and completed a Payment Card Industry Self-Assessment Questionnaire for the systems they support. Ms. Davis stated the Office suggested that vendors for the Parking Division systems complete the questionnaire as well.

Ms. Davis stated that the Audit of the Smith Neighborhood Center determined that approximately \$3,400 in funds related to facility rentals were misappropriated. She stated that at the conclusion of its work, the Office made recommendations for Department management to enforce appropriate control procedures. She stated that one of the recommendations related to requiring passwords to access the CLASS system. Ms. Davis stated that the Orlando Police Department is considering a criminal investigation of the Smith Center staff.

Ms. Davis answered Board members questions on this engagement.

Ms. Davis stated that the Office hired a consultant to perform a technology audit of the CLASS System that should be completed by calendar year-end. She stated that the Chief Administrative Officer requested that the Office also perform a review of the cash controls at Recreation locations over the next fiscal year.

Ms. Davis reported that as of July of this year the Office collected total additional revenues of \$251,000 and that she anticipates meeting or exceeding the revenue goal of \$270,000.

Ms. Davis reported on the Fiscal Year 2006 Audit Services and Management Support Plan. She stated that projects not completed or in process that will be carried over to next year include: Legal Affairs – Use of Outside Counsel; Street Maintenance/Right of Way Maintenance; Progress Energy; Waste Services of Florida; and Liens/Accounts Receivable.

Ms. Davis referred to the report on Recommendations Not Implemented and distributed copies to the Board members. She stated that the two outstanding recommendations from 2004 and 2005 relate to Permitting and that they are planned for implementation. Mr. Tate asked if there is anything the Board can do to assist the Office. Ms. Davis stated that the Board has already been of assistance and that as a result of their guidance, she reports to the Chief Administrative Officer and Chief of Staff on the recommendations. She stated that the Chief Administrative Officer also monitors the Department Directors in this area.

Mr. Richards stated that after a certain period of time has passed, if a recommendation is still not acted upon, the Audit Board should request a department representative to come before the Board to explain. The Audit Board discussed and Ms. Welch moved that the Audit Board receive a written or verbal explanation of recommendations not implemented, which pose risk and require the Board's attention, based upon the discretion of the Audit Services and Management Support Director. The motion was seconded by Mr. Clapp and all Board members approved.

Mr. Adamczyk requested that this item be moved to the first item of the Audit Board's agenda for each meeting.

8. PRESENTATION OF DRAFT AUDIT SERVICES & MANAGEMENT SUPPORT WORK PLAN FOR FY 2006-07 – BERRI DAVIS

Ms. Davis stated that the Office performed a formal risk assessment last year, and utilizing this same risk assessment, performed an analysis using judgment to determine which areas to review this year. Mr. Richards stated he does not know which areas were considered and not selected. He stated that the Board has a responsibility to know what the risks for the City are, who is covering those risks, and what risks are not being covered in order to evaluate the audit plan. Based on the information provided, Mr. Richards stated that an explanation of the subject areas and why the Office chose to audit each area would be helpful to the Board.

Ms. Davis stated that at a previous meeting, she explained the risk assessment process and that there are approximately 200 program areas to consider. She explained that last year's assessment was reevaluated and that any high-risk areas not audited were placed on this list for 2007.

Discussion ensued on the different perspectives of risk by the external and internal audit functions. Mr. Clapp stated that Mr. Pattillo said he would share information with the City about E&Y's risk assessment. Mr. Richards stated he suspects that there are IT risks that are not being mitigated since the City does not have the resources to audit this area.

Ms. Davis stated that the City does not have an IT auditor. E&Y is tasked to review general controls over the City's financial systems, while the Office of Audit Services and Management Support can review systems on a program unit basis. Ms. Davis stated she has more detailed information of areas the Office intends to review, which she will share with the Board. Mr. Tate stated that the Board is not questioning the process and it is a good plan. Ms. Davis stated she would postpone asking for the Board's approval of the Audit Plan.

Ms. Davis asked the Board to let her know prior to the next meeting if the documents she sends them are helpful in their evaluation of the plan and whether additional information is needed. She stated that in conjunction with that, she would contact Mr. Pattillo to discuss E&Y's risk assessment process.

The Board members requested that Ms. Davis's presentation be moved up to the early part of the agenda for the next meeting.

9. REPORT ON STATUS OF THE PROCESS FOR EDUCATING EMPLOYEES ON THE CITY OF ORLANDO ETHICS POLICY – BERRI DAVIS

Ms. Davis stated that she would present a more detailed report to the Board regarding the process for educating employees on the City of Orlando Ethics Policy at its next meeting.

10. REVIEW OF FRAUD, WASTE, AND ABUSE COMPLAINTS – BERRI DAVIS

Ms. Davis stated that there are two items in the *Fraud Hotline Update*. She stated that one relates to the Smith Center. Ms. Davis explained the second item regarding the investigation of the Code Enforcement Division. She stated that someone complained about an individual who is being paid at a higher-level salary than the position warrants. Ms. Davis explained the outcome of the investigation.

Board members asked a question regarding a recent newspaper article concerning a City executive. Discussion ensued.

Ms. Davis stated that the City Attorney is on the Audit Board's schedule for the next meeting and the Board can be briefed on this issue more completely. Mr. Richards stated that his concern is that the attorneys would look at this from a legal standpoint and not from a control standpoint. He stated that if it is a control issue for the City, the Auditor needs to be informed because there may be something that can be done to change the control structure because of the incident. Ms. Davis agreed and stated it would be helpful if the Board shared its suggestion with the City Attorney when she reports to the Board later in the year.

11. ELECTION OF AUDIT BOARD CHAIRMAN AND VICE CHAIRMAN

Motion was made by Mr. Adamczyk to nominate the current administration, Mr. Tate as Chair and Mr. Clapp as Vice Chair. Mr. Clapp stated that next August he would have to step down from the Board and he nominated Ms. Welch as Vice Chair. Mr. Richards seconded the nomination and all Board members agreed. Mr. Tate was elected Chair and Ms. Welch was elected Vice Chair.

Mr. Tate requested that the Audit Board's Annual Report include the following topics:

- The Board is concerned that technology is not being audited
- The Board clarified its role in revised Procedures
- The Board supports Audit Services' attempts to attain implementation of recommendations

12. CONSIDERATION OF AUDIT BOARD ANNUAL AGENDA; ESTABLISHMENT OF "TARGET" NUMBER OF MEETINGS FOR FY 2006; AND DETERMINATION OF MEETING DATES

Mr. Tate requested that the Audit Board's Fiscal Year calendar be amended to include the Board Self Assessment. The Board determined that it would target 5 meetings for the upcoming fiscal year. Mr. Tate noted that in order to receive the financial statements in advance the meetings should be scheduled as close to the end of the month as possible. Meetings were scheduled as follows:

Friday, November 3	1:00 p.m.	Agenda Conference Room
Friday, January 26	1:00 p.m.	Conference Room "R"
Friday, March 30	1:00 p.m.	Conference Room "R"
Friday, June 29	1:00 p.m.	Conference Room "R"
Friday, August 24	1:00 p.m.	Conference Room "R"

13. OTHER BUSINESS

Mr. Clapp stated that Mr. Tate did a marvelous job as Chair of the Board and the entire team worked well together.

There being no other business, the meeting adjourned at 4:35 p.m.

Respectfully submitted,

Gregory A. Tate
Chairman

Annette Madden
Recording Secretary