

**COUNCIL AUDITOR'S OFFICE**

**ANNUAL REPORT 2007/2008**

**December 4, 2008**

**Special Report #657**

# ANNUAL REPORT

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**OFFICE OF THE COUNCIL AUDITOR**  
Suite 200, St. James Building



December 4, 2008

Special Report #657

Honorable Members of the City Council  
Jacksonville, Florida

The annual report of the City Council Auditor's Office of Jacksonville, Florida for the fiscal year ended September 30, 2008 is presented for your review. This report provides a description of the mission and goals of the Council Auditor's Office and an explanation as to the types of work performed.

A very productive year resulted in the issuance of 18 reports, in addition to many special projects and numerous hours reviewing legislation and attending meetings of City Council and its committees. A listing of the reports, along with highlights of significant legislation, is included. The Council Auditor's Office also provided over 750 hours of staff time to assist Ernst & Young, LLP with the annual financial statement audit of the City as required by the City's Ordinance Code. Two Council Auditor's Office staff provided more than 150 total hours to assist Ernst & Young, LLP with the financial audit of JEA.

In addition to issuing reports, performing special projects and reviewing legislation, more than 4,000 staff hours were spent from July through September 2008 reviewing the proposed 2008/2009 budgets for the City and its independent authorities.

## **MISSION AND GOALS**

### **Charter Authority of the City Council Auditor**

The position of the Council Auditor is established by Section 5.10 of the Charter of the Consolidated Government of the City of Jacksonville. The Council Auditor is appointed by the City Council and is the Director of the Council Auditor's Office, a department of the legislative branch of the consolidated government. The Council Auditor is responsible for conducting a continuous internal audit of the fiscal operations of the consolidated government and all independent agencies. Along with internal audits, the Council Auditor's Office is tasked with developing specifications to be included in the request for proposal (RFP) for outside audit services and assisting in the selection of an outside audit firm for the City's annual independent audit. The Council Auditor's Office also performs such other research as the Council President, the Finance Committee or individual Council Members may request. Audits are selected based on risk factors, reported problems in an area, and at the request of City Council or the Administration.

## **Our Mission**

The mission of the Council Auditor's Office is to improve the accountability and effectiveness of local government by actively providing independent and informative services to the City Council and the citizens of Jacksonville. The City Council, Mayor, Independent Agencies and the public need timely, objective, and accurate information regarding the efficiency and effectiveness of the operations of the City and its independent agencies. We seek to accomplish our mission by evaluating department and program performance.

## **Statement of Values**

- We expect excellence in the services we provide: excellence achieved through motivated personnel upon whose abilities, initiative, and creativity we depend.
- We are committed to sustaining a work environment that provides opportunities for personal growth, and supports innovation and change as essential to achieving our vision in a rapidly changing world.
- We expect the development of new ideas and enhancements in our ability to perform and work effectively at all levels of the organization.
- We value our relationship with others.
- We demonstrate integrity and honesty in all facets of our work.

## **Our Work Products**

Our office performs three essential functions which are audits, special projects, and legislative review, including the budget. Audit work is conducted in accordance with Government Auditing Standards. These standards require due professional care in conducting audits, professionally qualified staff, independence, adequate supervision and planning of audit work, reporting of audit results, and periodic review of the office by outside professionals. Our office undergoes a peer review by the Association of Local Government Auditors every three years. Audit work accounted for over 5,200 hours (or 19.9%) of the overall time of our office.

The special project function releases special reports, which are typically in response to a request by a Council Member or is a project substantially less in scope than an audit conducted in accordance with Government Auditing Standards. This area accounts for 8,100 hours (or 31%) of the overall time of our office.

The legislative review function provides an examination of legislation for all of the Council Committees, with the exception of the Land Use and Zoning Committee and attends all City Council meetings. This examination is performed by a group that provides Council Members with information regarding areas of potential improvement, full disclosure of financial impacts, errors requiring correction and other possible outcomes of pending legislation to assist Council Committees in their decision-making process. It is the role of this team to provide transparency and accountability to each piece of legislation that is reviewed. The legislative review accounts for 8,500 hours (or 32.6%) of the overall time of our office, which includes 4,000 hours specifically related to the annual budget. The following more specifically describes the scope of work performed by each group.

## **Audit Selection**

We select areas to audit based on several factors. We consider areas that provide services to the government and community that may have potential for improvement in the areas of economy and efficiency. Areas at risk for the misuse of assets or resources are more likely to be selected as areas for audit. We also consider areas with a high volume of complaints, as well as concerns from the City Council, Mayor, and management. The length of time since the last audit is also considered. Appropriate staff is assigned to the audit based on individual staff qualifications and the number of staff needed to conduct the audit.

## **Performance Audits**

A performance audit is an engagement that provides assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices.<sup>1</sup> This type of auditing may also include steps to determine if the City is in compliance with contracts, laws, regulations and procedures. Performance audits result in recommendations that will improve resource utilization, reduce the risk of loss or abuse of assets, increase productivity, and correct wasteful practices. Audit recommendations can improve services to the public by making programs more effective and efficient. An example of a performance audit is the Procurement Sole Source/Proprietary Purchases Audit.

## **Attestations**

Attestation engagements can cover a broad range of financial or nonfinancial objectives and may provide different levels of assurance about the subject matter or assertion depending on the users' needs. Attestation engagements result in an examination, a review, or an agreed-upon procedures report on a subject matter or on an assertion about a subject matter that is the responsibility of another party.<sup>2</sup> An example of an attestation performed by our office during 2007/08 is the Sheriff's Investigative Fund.

## **Follow-up Reviews**

The Council Auditor's Office conducts follow-up reviews to determine the progress made in addressing findings and recommendations identified in previously issued audit reports. These reviews are performed periodically and are substantially less in scope than an audit conducted in accordance with Government Auditing Standards.

## **External Auditors**

The Council Auditor's Office is tasked with engaging an outside audit firm to perform the City's annual independent audit. Pursuant to Section 102.116 of the Jacksonville Municipal Code, the Council Auditor's Office establishes the specifications to be included in the request for proposal (RFP) for the City's independent audit, assists in the ranking and selection of an outside audit firm, provides staff to assist the outside audit firm in the fieldwork conducted, and negotiates the formal fee and contract terms. The Council Auditor's Office also provides staff to assist in the audit work performed on JEA's annual financial audit. Four of our staff provided approximately

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<sup>1</sup> Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2007), p.17.

<sup>2</sup> Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2007), p.15.

750 hours to assist Ernst & Young, LLP with the annual financial statement audit and the preparation of the Management Letter. In addition, two of our staff members provided over 150 hours to assist Ernst & Young, LLP with the financial audit of JEA.

### **Special Projects and Reports**

The Council Auditor's Office performs other reviews to fulfill the City Charter and Ordinance Code requirements of providing the City Council with reports of financial analysis and information pertaining to the operations of the City and its independent agencies. As a part of this effort, the Council Auditor compiles and reviews quarterly financial reports from the City and its independent agencies and presents reports thereon. In addition, special reports may be issued in lieu of an audit, due to a time constraint, at the request of a Council Member. The majority of our special project work products are not summarized in formal numbered reports.

### **Investigations**

On occasion, the Council Auditor's Office will assist various law enforcement agencies in investigations. During the FY 2007/08, the Council Auditor's Office assisted in the investigation of the Courthouse construction project. At the request of the State Attorney's Office, the staff conducted a performance audit of the City of Jacksonville's county courthouse construction project. This construction project was authorized and funded as part of the City's Better Jacksonville Plan (BJP). Overall, the audit revealed that the new courthouse has not yet been built because the available funding was not enough for a courthouse of the design, size, and location that the City pursued. Rather than stop the project, the City tried to find ways to supplement the funding available and proceed with construction.

### **Public Service Grants**

Per Chapter 118.207 and 118.208 of the Jacksonville Municipal Code, the Council Auditor's Office maintains a role in the City's public service grant process by overseeing the proper submission of annual audits and financial reports by agencies which receive City of Jacksonville public service grant funding. In addition to assuring that the audits and financial reports are submitted by the appropriate deadlines, the Council Auditor's Office also reviews the audits and confirms that City funding is properly disclosed in each report. Per Chapter 118.504, the Council Auditor's Office has the authority to remove entitlement of grant funding from an agency if the agency does not follow the provisions of Chapter 118. In practice, the Council Auditor's Office has maintained a "non-compliance list," which includes all agencies that have committed infractions which have not yet been resolved. The Council Auditor's Office may reinstate entitlement upon the correction of these infractions by the agency.

### **Legislative Review**

The legislative review is performed by a group that provide Council Members with information regarding areas of potential improvement, full disclosure of financial impacts, errors requiring correction and other possible outcomes of pending legislation to assist Council Committees in their decision-making process. Some of the general categories of legislation reviewed are capital project approval and appropriation, grant contract and appropriation of funds, lease agreements, fair share assessments, and redevelopment agreements. The Council Auditor's Office is also responsible for reviewing the proposed budgets for the City and its independent authorities. Approximately 4,000 staff hours were spent from July through September 2008 reviewing the

2008/2009 budget proposals. A report is prepared annually outlining the Mayor’s and independent agencies' proposed budgets and City Council actions regarding those budgets.

**Assistance to Special and Ad Hoc Committees**

The Council Auditor's staff attends special committee meetings to provide background information and aid committee members in their review and deliberations on tasks assigned to the committee (e.g. Ad Hoc Committee on Budget Efficiencies.). Staff also participates in meetings associated with the Better Jacksonville Plan, the Duval County Tourist Development Council, and the Taxation, Revenue, and Utilization of Expenditures (TRUE) Commission.

The Ad Hoc Committee on Budget Efficiencies was created pursuant to Budget Ordinance 2007-813-E, which established the 2007-2008 budget for the City of Jacksonville and mandated that “two percent (2%) of the department budgets within the General Fund/General Services District, excluding police and fire, shall be placed in a designated Special Council Contingency – designated for 2% Operating Lapse (exclusive of public safety).” The same legislation charged the Council Auditor’s Office with “performing efficiency reviews of these departments to determine what changes if any, could be made that would enable the department to provide a higher level of service and/or lower expenses” and formed an ad hoc committee to “convene as necessary to hear and act on recommendations from the Council Auditor’s Office regarding the two percent of non-public safety general fund departmental appropriations placed in a designated Council contingency.” The total amount lapsed from non-public safety departments as a result of Ordinance 2007-813-E equaled \$4,868,598. The total amount that remained after the process was complete was \$760,827. During this analysis a number of vacant positions were identified. These positions were eliminated during the 2008/2009 budget review process as a result of the analysis. Approximately 2,000 staff hours were spent on this project.

**OFFICE OPERATIONS**

**Expenditures**

The Council Auditor's Office had expenditures of approximately \$1.57 million in fiscal year 2007/08.

<u>Category</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>
	<u>Expense</u>	<u>Expense</u>	<u>Budget</u>
Personnel	\$1,541,972	\$1,500,538	\$1,658,539
Operating	106,877	68,337	131,763
Capital	-	-	500
Total	<u>\$1,648,849</u>	<u>\$1,568,875</u>	<u>\$1,790,802</u>

**Staffing**

As part of the FY 2007/2008 budget, the office was authorized to fill 18 full-time positions and 2 part-time positions. Positions include the Council Auditor, an Assistant Council Auditor, and 16 auditors. All auditors have degrees in accounting, including several with graduate degrees. The

audit staff members are all Certified Public Accountants (CPAs) or in the process of preparing for or taking the exam. Audit staff members are encouraged to obtain their CPA license.

## **PROFESSIONAL DEVELOPMENT**

### **Summary**

The work of the Council Auditor's Office requires professionals with high standards of integrity, independence, and conduct. Principles are established as a guide for development and improvement of the employee's professionalism. The Council Auditor's Office emphasizes professional development to improve our skills, effectiveness and efficiency. The office provides required continuing education, encourages professional certification, and supports staff involvement in professional associations.

### **Continuing Education**

Government Auditing Standards require that our staff complete at least 80 hours of continuing education every two years including 24 hours in subjects directly related to the government environment or government auditing. Those auditors who are CPAs must also complete the 80 hours every two years to retain their active status as Florida CPAs. The professional staff is in compliance with these provisions.

### **Professional Associations**

The Council Auditor and other staff members are members of organizations such as the Association of Local Government Auditors, the Florida Government Finance Officers Association, the Government Finance Officers Association, both the Southeast and National Intergovernmental Audit Forums, and the Florida Audit Forum. The office is also a member of the Institute of Internal Auditors. Some staff members are also members of the Florida Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

## **PERFORMANCE**

### **Outputs**

The Council Auditor's Office issued a total of 18 reports, including six performance audits, two attestations and ten special reports. The legislative review team reviewed approximately 820 bills for the Council Committees. The annual budget and related legislation was reviewed and presented at a number of Council and Committee meetings. In addition, many special projects and answers to requests for information were performed that are not summarized in formal numbered reports.

### **Outcomes**

Reduced costs, increased revenues, enhanced services, improved internal controls, and accountability to the public are the primary benefits of the work of the Council Auditor's Office. However, the issuance of our reports alone cannot produce these benefits. These benefits can only come with management's implementation of recommendations. As part of our process, it is

our responsibility to present accurate and convincing information that clearly supports our recommendations.

Recommendations cannot be effective without the support of management. Management agreement is the first step toward implementing recommendations, but is not a guarantee that recommendations will or can be implemented. Through discussion and working with management throughout the process, we are able to achieve the support of management. It is through our follow-up process that we determine the extent to which our recommendations have been implemented.

The legislative review process provides City Council Members with information and research that adds to the resources available for their decision making process.

### **Quality Assurance**

In compliance with Government Auditing Standards, the Council Auditor's Office undergoes an external quality control review once every three years by an organization not affiliated with the Council Auditor's Office. We participate in the peer review program of the Association of Local Government Auditors through which our office had a peer review and was found to be in compliance with the Government Auditing Standards in April 2006. The next external quality control review will be performed on the Council Auditor's Office in 2009.

We appreciate the strong support given to us by the City Council and the cooperation extended to us by the Mayor and the Administration. We look forward to continuing to work on finding ways to improve our City and its independent agencies.

Respectfully submitted,

Kirk A. Sherman, CPA  
Council Auditor

## **EXHIBIT A**

*All reports are public records and are available to the public in our office or on our web site at [www.coj.net/city+council/council+auditor](http://www.coj.net/city+council/council+auditor)*

### **REPORTS RELEASED IN FISCAL YEAR 2007/2008**

#### **Performance Audits**

Report No. 638	Special Events	October 2007
Report No. 644	City Overtime Expenditures	February 2008
Report No. 646	Courthouse Construction Audit	April 2008
Report No. 647	Procurement – Sole Source/Proprietary Purchases	May 2008
Report No. 649	Jacksonville Children’s Commission Revenue Audit	June 2008
Report No. 654	City Accounts Payable	August 2008

#### **Attestations**

Report No. 643	Report on Statement of County Funded Court-Related Functions – FY 06/07	January 2008
Report No. 653	Sheriff’s Investigative Fund 2007	July 2008

#### **Special Reports**

Report No. 639	Teen Court	December 2007
Report No. 640	Council Auditor’s Annual Report	December 2007
Report No. 641	Budget Summary for FY 07/08	December 2007
Report No. 642	Quarterly Financial Report for the Fiscal Year Ending 9/30/07	December 2007
Report No. 645	Quarterly Financial Report for Three Months Ending 12/31/07	February 2008
Report No. 648	Quarterly Financial Report for Six Months Ending 3/31/08	May 2008
Report No. 650	City Inspectors Certification Review	June 2008
Report No. 651	Sunshine Law Compliance Review	June 2008
Report No. 652	Audit Follow-up Report	July 2008
	<ul style="list-style-type: none"><li>• Report No. 593 – Animal Care and Control Revenue Audit</li><li>• Report No. 595 – Public Parking Audit</li><li>• Report No. 597 – Community Services Revenue Audit</li><li>• Report No. 601 – Tax Collector Field Inspector Audit</li><li>• Report No. 610 – City Payroll Audit</li></ul>	
Report No. 655	Quarterly Financial Report for Nine Months Ending 6/30/08	August 2008

## *EXHIBIT B*

### **LEGISLATION REQUIRING SIGNIFICANT REVIEW IN FISCAL YEAR 2007/2008**

- **2007-401:** An ordinance increasing the budget for the new Duval County Courthouse Project by \$86.5 million to \$350 million. This ordinance allowed the additional \$86.5 million to be funded through a future bond issuance when needed for the courthouse.
- **2007-1045:** An ordinance authorizing a license agreement with the Boselli Foundation of California for its use of the Simonds Johnson Park in providing programs to area children and families.
- **2007-1136:** An ordinance allowing employees to join a newly created defined contribution plan in addition to the City's defined benefit plan as an alternative means of retirement.
- **2007-1349:** An ordinance executing a Memorandum of Understanding between the City and the Clerk of Courts solving disputes over funding responsibility and funding sources as it related to county versus court-related functions.
- **2008-71:** An ordinance that approved a settlement agreement with IKON Corp. for \$2.2 million to purchase a list of copying equipment while waiving the competitive procurement procedures. Ordinance 2007-1094-W was a similar agreement for \$3.08 million and was withdrawn after our review of the proposed settlement.
- **2008-134:** An ordinance creating a Neighborhoods Safety Trust Fund to enhance police patrol funding via penalties for camera documented traffic violations regarding red light running and excessive speed. This bill was withdrawn due to the lack of legislative support from the State.
- **2008-302:** A resolution expressing the City's strong encouragement to JTA to use the J-Bill process to amend its legislative charter. This bill was withdrawn after much research and debate.
- **2008-308, 345, 380, & 539:** Ordinances that appropriated portions of the 2% lapse that was placed on several departments for the 2007/2008 Budget. These ordinances brought the subcommittees recommendations above the line for use by the affiliated department.
- **2008-468:** An ordinance authorizing a one-year renewal of the City's group health insurance contract with Aetna Health, Inc. This ordinance waived the City requirement that a request for proposals for the group health contract be issued every five years.
- **2008-538:** An ordinance approving an amended and restated landfill operation and construction contract with Waste Management at the Trail Ridge Landfill. This bill waives the competitive procurement process and is currently before the Council.
- **2008-680:** An ordinance relating to the correction procedures allowed by the Municipal Code in calculating a fair share assessment. This ordinance changed the language to incorporate a broader definition of correctible errors.

*EXHIBIT C*

**CITY COUNCIL AUDITOR'S OFFICE STAFF**

FY 2007/2008

Staff members as of September 30, 2008:

Kirk A. Sherman, CPA, Council Auditor  
Janice Billy, CPA, Assistant Council Auditor  
Kyle Billy, CPA, Principal Auditor

Tutu Adeniran  
Elena Baker  
Robert Campbell  
Sonia Carroll  
Thomas Carter, CPA  
Sean Costigan  
Carmen Martin, CPA  
Heather Norsworthy  
Brian Parks  
Phillip Peterson  
Trista Straits  
Kim Taylor, CPA

Administrative Assistant  
Mary Lundy