

COUNCIL AUDITOR'S OFFICE

ANNUAL REPORT 2005/2006

June 14, 2007

Special Report 631

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ANNUAL REPORT LETTER

SPECIAL REPORT #631

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



June 14, 2007

Special Report #631

ANNUAL REPORT LETTER

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, 2006 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 13 reports and three letters, 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 950 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 160 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 3,500 staff hours were spent from July 2006 through September 2006 reviewing the Mayor's proposed 2006/2007 budget. This report is not intended to address the results of performing these responsibilities.

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 with elected officials and the Administration on finding ways to improve our City and its independent agencies.

Respectfully submitted,

Kirk Sherman

Kirk A. Sherman, CPA
Council Auditor

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



June 14, 2007

Special Report #631

Honorable Members of the City Council
City of Jacksonville

CITY COUNCIL AUDITOR'S OFFICE
ANNUAL REPORT – 2005/2006

MISSION AND GOALS

Charter Authority of the City Council Auditor

The position of the Council Auditor is authorized 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 head 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. The Council Auditor's Office renders assistance to the independent auditor appointed by the City Council and 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 about 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, fosters cultural diversity, 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 highly value the importance of 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. 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.

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.

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 in attempts 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 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 objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by the parties with responsibility to oversee or initiate corrective action.¹ This type of auditing may also include steps to determine if the City is in compliance with contracts, laws, regulations and procedures. Examples of performance audits performed by our office during 2005/06 include the Payroll Audit and the Cellular Phones Audit.

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

Financial-related Audits

Financial-related audits include determining whether (1) financial information is presented in accordance with established or stated criteria, (2) the entity has adhered to specific financial compliance requirements, or (3) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve their objectives.² An example of a financial-related audit performed by our office during 2005/06 is the Sheriff's Investigative Fund.

Performance and financial-related 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.

Follow-up Reviews

The Council Auditor's Office conducts follow-up reviews to determine the progress made in addressing findings and recommendations identified in previous audits. Our policy is to issue a follow-up report twice a year which will be a follow-up of reports issued the prior year. It is substantially less in scope than an audit conducted in accordance with Government Auditing Standards.

Assistance Provided to the External Auditors

The Council Auditor's Office provides assistance to the external auditors of the City and JEA. Four of our staff provided 950 hours to assist Ernst & Young, LLP with the annual financial statement audit and the preparation of the Management Letter. Two of our staff members provided 160 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. Also, the Council Auditor's Office is responsible for reviewing the annual Mayor's proposed budget. Approximately 3,500 staff hours were spent from July through September 2006 reviewing the 2006/2007 budget proposals. A report is prepared annually outlining the Mayor and independent agencies' proposed budgets and City Council actions regarding those budgets. 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.

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

² Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2007), p.13.

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.

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. Conducting Jacksonville Business). Staff also participates in the committee meetings associated with the Better Jacksonville Plan and the Duval County Tourist Development Council.

OFFICE OPERATIONS

Expenditures

The Council Auditor's Office had expenditures of approximately \$1.8 million in fiscal year 2005/06.

<u>Category</u>	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>
	<u>Expense</u>	<u>Expense</u>	<u>Budget</u>
Personnel	\$1,557,887	\$1,714,521	\$1,587,269
Operating	129,143	95,407	163,981
Capital	4,018	531	1,000
Total	<u>\$1,691,048</u>	<u>\$1,810,459</u>	<u>\$1,752,250</u>

Staffing

The office was authorized 18 full-time positions and two part-time positions in fiscal year 2005/06. Positions include the Council Auditor, an Assistant Council Auditor, sixteen auditors, and two Administrative Assistants. All auditors have degrees in accounting including several with graduate degrees. The audit staff members are all Certified Public Accountants (CPA) or in the process of preparing for or taking the exam. Audit staff members are encouraged to sit for the CPA examination.

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 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 American Institute of Certified Public Accountants, Florida Institute of Certified Public Accountants and the Association of Certified Fraud Examiners.

PERFORMANCE

Outputs

The Council Auditor's Office issued a total of 13 reports, including five performance audits, two financial-related audits and six special reports. Three audit letters were also issued. The legislative review team reviewed approximately 950 bills for the Council Committees. 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 the implementation of recommendations and it requires management to implement most 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. Through discussion and working with management throughout the process, we are able to achieve 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. 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 must undergo an external quality control review at least 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.

Audit Committee

Effective July 1, 2006, an Audit Committee was established as a standing committee of the City Council. In accordance with Council Rules, items referred to the Audit Committee include matters related to auditing; audits of the City and independent agencies; selection and retention of the auditor to perform the annual independent audit required by Section 5.11 of the Charter and Taxation, Revenue, and Utilization of Expenditures (TRUE) Commission reports. The Council Auditor reports are presented to the Audit Committee to allow committee members to discuss the report and ask questions of the Council Auditor and the auditee.

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

Reports Released / Legislative Bills Reviewed in Fiscal Year 2005/2006

Performance Audits

Report No. 610	Payroll	January 2006
Report No. 613	HDR Contract Compliance	March 2006
Report No. 612	Better Jacksonville Plan – Main Library	May 2006
Report No. 616	Cellular Phones	May 2006
Report No. 617	Shands Indigent Care	July 2006

Financial-Related Reports

Report No. 608	Sheriff's Investigative Fund	November 2005
Report No. 618	Audit Statement of County Funded Court-Related Functions	May 2006
Report No. 618R	Revised Audit Statement of County Funded Court-Related Functions	April 2007

Special Reports

Report No. 611	2005/2006 Budget Summary	October 2005
Report No. 614	Quarterly Summary 9/30/05	December 2005
Report No. 615	Quarterly Summary 12/31/05	February 2006
Report No. 620	Quarterly Summary 3/31/06	May 2006
Report No. 621	Planned Urban Development (PUD) Rezoning	July 2006
Report No. 622	Quarterly Summary 6/30/06	September 2006

Audit Letters

No. 2006-01	Blueprint for Prosperity	January 2006
No. 2006-02	Report Follow-Ups	January 2006
No. 2006-03	Brown Brothers Concrete Inc.	March 2006

Legislative Review

Approximately 950 bills were reviewed. Some of the bills that we considered significant are summarized on page 8.

LEGISLATION REQUIRING SIGNIFICANT REVIEW

- **2006-119:** A resolution approving and authorizing a new Public Investment Policy of the JEDC regarding economic incentives funded by the City.
- **2006-422:** An ordinance pursuant to Resolution 2005-1080-A, that repealed, renumbered and/or amended all of Part 3 (Special Accounts & Funds), Chapter 110, Municipal Code. A new Chapter 111 (Special Revenues & Trust Accounts) was established.
- **2006-786 through 2006-791:** Legislation levying ad valorem taxes, approving the annual budgets of the City and its independent agencies, approving capital improvement programs and making required certifications to the State regarding budget compliance.
- **2006-863:** An ordinance amending the Municipal Code and Council Rules to provide procedures for processing incomplete legislation, bills that propose waivers to the Municipal Code, prescribing an oath of office for Council Members, and procedures for the declaration and disposition of City surplus property. The Special Committee for Conducting Jacksonville's Business is designated to review aforementioned legislation.
- **2006-951:** An ordinance authorizing conveyance to the Police and Fire Pension Fund of the "Haverty's Building" in exchange for a reduction in the unfunded actuarial accrued liability of \$3,000,000 and the City's lease of the property after renovation for use as City offices with a repurchase option for the City.
- **2006-954:** An ordinance authorizing the execution and delivery of a redevelopment agreement between the City, JEDC, and Kuhn 112 West Adams, LLC in connection with the redevelopment of the building located at 112 West Adams, commonly known as the Barnett Bank Building. The legislation appropriates \$900,000 from the historic preservation trust fund for developer on-site infrastructure and building improvements.
- **2006-957:** An ordinance executing the 6th Amendment to Disposition, Development and Lease Agreement between the City, JEDC, and Jacksonville Landing Investments, LLC for land under the Jacksonville Landing, including the sale of the "East Parcel" surface parking lot, and land under the Main Street Bridge ramps on the north bank to Jacksonville Landing Investments for \$4,700,000.
- **2006-1194:** An ordinance amending the Municipal Code for the reorganization of the Administration and Finance Department and the creation of the Human Resources Department and Information Technology Department.

CITY COUNCIL AUDITOR'S OFFICE STAFF

FY 2005/2006

Staff members as of September 30, 2006:

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

Robert Campbell
Sonia Carroll
Thomas Carter, CPA
Fred Forbes, CPA
Najoua Giuma
Cabrina Hartley
Carmen Johnson, CPA
Kristi Kasdorf
Adam Mathews
Heather Norsworthy
Timothy Page
Phillip Peterson
Dina Riddle, CPA
Kim Taylor, CPA

Administrative Assistants to the Council Auditor

Mary Lundy
Melanie Reyes

Staff members leaving during the fiscal year:

Richard Wallace, CPA, Council Auditor (retired January 27, 2006)
Pam Markham, CPA, Assistant Council Auditor (transferred April 14, 2006)
Barbara Paez (resigned August 4, 2006)