

COUNCIL AUDITOR'S OFFICE

ANNUAL REPORT 2006/2007

December 13, 2007

Special Report #640

ANNUAL REPORT LETTER

SPECIAL REPORT #640

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



December 13, 2007

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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, 2007 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 17 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 740 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 240 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 4,700 staff hours were spent from July through September 2007 reviewing the proposed 2007/2008 budgets for the City and its independent authorities. 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 A. Sherman, CPA
Council Auditor

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



December 13, 2007

Special Report #640

Honorable Members of the City Council
City of Jacksonville

CITY COUNCIL AUDITOR'S OFFICE
ANNUAL REPORT – 2006/2007

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. 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 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, 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 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.¹ This type of auditing may also include steps to determine if the City is in compliance with contracts, laws, regulations and procedures. An example of a performance audit is the Medical Examiner 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 provide an independent assessment of and reasonable assurance about whether an entity's reported financial condition, results, and use of resources are presented fairly in accordance with the recognized criteria.² An example of a financial-related audit performed by our office during 2006/07 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 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.

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 approximately 740 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 over 240 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 proposed budgets for the City and its independent authorities. Approximately 4,700 staff hours were spent from July through September 2007 reviewing the 2007/2008 budget proposals. A report is prepared annually outlining the Mayor's 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 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.

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

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. Special Committee for a Safer Jacksonville). 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.

OFFICE OPERATIONS

Expenditures

The Council Auditor's Office had expenditures of approximately \$1.65 million in fiscal year 2006/07.

<u>Category</u>	2005/06 <u>Expense</u>	2006/07 <u>Expense</u>	2007/08 <u>Budget</u>
Personnel	\$1,714,521	\$1,541,972	\$1,700,895
Operating	95,407	106,877	89,567
Capital	531	-	1,000
Total	<u>\$1,810,459</u>	<u>\$1,648,849</u>	<u>\$1,791,462</u>

Staffing

The office is authorized 18 full-time positions and two part-time positions. 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 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 American Institute of Certified Public Accountants.

PERFORMANCE

Outputs

The Council Auditor's Office issued a total of 17 reports, including one performance audit, four financial-related audits and twelve special reports. The legislative review team reviewed approximately 875 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. 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 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.

Investigations

On occasion, the Council Auditor's Office will assist criminal investigations. At the request of the State Attorney's Office, the staff was involved in the investigation of a former City employee suspected of embezzlement. In coordination with the State Attorney's Office, the accusations against the former employee were confirmed. The individual pled guilty in November 2007 to grand theft and was sentenced to ten years probation with restitution of \$95,000 due.

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 2006/2007

Performance Audits

Report No. 635 Audit of the Medical Examiner's Office August 2007

Financial-Related Reports

Report No. 618R Additional Court Costs – Revision of Report 618 FY 04/05 April 2007
Report No. 623 Sheriff's Investigative Fund 2005 December 2006
Report No. 629 Additional Court Costs – FY 05/06 April 2007
Report No 636 Sheriff's Investigative Fund 2006 September 2007

Special Reports

Report No. 619 Jacksonville Public Library Hours of Operation March 2007
Report No. 624 Budget Summary 06/07 December 2006
Report No. 625 JPA Dredging December 2006
Report No. 626 Quarterly Financial Report for the Fiscal Year Ending 9/30/06 December 2006
Report No. 627 Quarterly Financial Report for Three Months Ending
12/31/06 February 2007
Report No. 628 IT Disaster Recovery April 2007
Report No. 630 Quarterly Financial Report for Six Months Ending 3/31/07 May 2007
Report No. 631 Council Auditor's Annual Report June 2007
Report No. 632 Fleet Management-Tire Repair & Preventative Maintenance June 2007
Report No. 633 Cellular Phones July 2007
Report No. 634 Quarterly Financial Report for Nine Months Ending 6/30/07 August 2007
Report No. 637 JEA Valuation September 2007

Legislative Review

Approximately 875 bills were reviewed. Some of the bills that we considered significant are summarized on page 8.

LEGISLATION REQUIRING SIGNIFICANT REVIEW

- **2006-1391:** An ordinance allowing retirees of the General Employees Retirement Plan to be re-employed on a part-time or temporary full-time basis without a cessation in pension benefits.
- **2007-281:** An ordinance approving the transfer and administration of the Northwest Jacksonville Economic Development Fund from the JEDC to the Housing and Neighborhoods Department. The legislation also combined all of the different accounts into one fund and approved new guidelines for the administration of the fund by the Housing and Neighborhoods Department.
- **2007-593:** An ordinance that would have authorized an agreement with ChevronTexaco for an Energy and Water Conservation program. This ordinance was withdrawn after research proved the City could implement the aspects of the program at a significantly lower cost.
- **2007-811 through 2007-815:** Legislation levying ad valorem taxes, approving the annual budgets of the City and its independent agencies, and approving capital improvement programs.
- **2007-830 & 2007-831:** Legislation authorizing and approving two economic development agreements in the Brooklyn area. The developments included the installation of necessary infrastructure for the projects and the construction and maintenance of a regional stormwater pond. The maximum indebtedness of the City under the projects totaled \$24,687,005.
- **2007-832:** An ordinance authorizing a consent decree for the remediation of the Brown's Dump and Jax Ash sites with the U.S. Environmental Protection Agency. This ordinance was amended to remove a waiver of the Procurement Code for an estimated \$94 million at the recommendation of the Council Auditor's Office.
- **2007-834:** A resolution honoring and commemorating the life and career of Renee Beckham, Principal Auditor in the Council Auditor's Office. Renee worked for the office from January 3, 1989 through her untimely passing on July 20, 2007.
- **2007-836 through 2007-838:** Legislation approving new stormwater, garbage, and JEA franchise fees.
- **2007-839:** An ordinance reorganizing the executive branch of government. In coordination with the FY 07/08 Budget proposal, this ordinance rewrote and amended a significant portion of the ordinance code concerning departments, divisions, and qualifications of appointed positions.

CITY COUNCIL AUDITOR'S OFFICE STAFF

FY 2006/2007

Staff members as of September 30, 2007:

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

Tutu Adeniran
Robert Campbell
Sonia Carroll
Thomas Carter, CPA
Sean Costigan
Carmen Martin, 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:

Cabrina Hartley (transferred December 4, 2006)

Najoua Giuma (resigned July 20, 2007)

Renee Beckham, CPA, CFE, Principal Auditor

Renee Beckham worked for the office from January 3, 1989 through her untimely passing on July 20, 2007. During her tenure, honored and commemorated by Council Resolution 2007-834-A, she was involved as a worker or a manager in many of the office's functions. At the time of her passing, she was the Principal Auditor in charge of the audit team, the manager of the general government budget review, office payroll manager and office liaison with our external audit firm.