Meeting Minutes

Audit Committee

Monday, July 13, 2009 2:00 p.m.

1. Opening Remarks/Roll Call

Chairman Williams called the meeting to order at 2:03 p.m.

Present:

Rick Williams, Chairman Preston Edwards

Barbara Chick

Staff:

Bryan Bradford George Kauffman
Craig Hametner Jed Johnson
Liz Romero Melissa Ewing
Michelle Taylor Kevin Slay
Jeff Janke Mike Betz

Carol Cooper

Absent:

Bill Dollar

GHFC Staff:

Ed Jackson John Jacobs

Delores Elder-Jones

2. Consider approval of the minutes from the meeting of April 13, 2009.

Motion was made to approve the April 13, 2009 minutes by Barbara Chick Motion seconded by Preston Edwards Motion was approved

3. Customer Service Billing & Collections Audit

Jed Johnson presented the Opportunities for Improvement.

There was a question from Chairman Williams as how the City paid the State for sales tax on accounts that had been closed. Kevin Slay, Customer Service

Administrator, explained that the sales tax is collected from the customer and then sent to the state but when the customer does not pay then the sales tax can be requested back from the state. Kevin stated there was some assumption that Finance was performing this duty and found out they were not. There has since been communications between Finance and Customer Service staff and Kevin stated this would not happen again. George Kauffman agreed with Kevin's statement.

Councilmember Chick had a question in regards to the credit card transaction fees currently being absorbed by the City and not the customer. She asked how the customer was going to be notified that this change was going to take place. Mr. Slay stated they were going to post it in their building, make the announcement on the City Press and put it on the website. They might also do a mail insert and customers are also asked before the transaction is made whether online or on the phone if they agree to the \$3.75 fee that will be charged. Mr. Slay also stated that the transaction fee of \$3.75 is paid to Western Union and not the City and the customer is advised of that upfront before they make the payment. Councilmember Chick also asked how many customers pay online and Mr. Slay stated thousands a month. Chairman Williams asked about the percent that the City is charged for credit card transactions and Kevin stated it was 2.5%. Chairman Williams thought that could be collected from the customer and Kevin stated that legally that can not be done and that is the reason why they had to find a third party vendor to collect the fees.

Chairman Williams asked Kevin how helpful a monthly report would be to him in regards to Customer Service not having performance reports on collection and billing. Kevin stated as it relates to collections, he could bill \$1,000 for the month but could not predict when the customer would pay and how they are going to pay. He said some customers pay within a few days, others within a few weeks, others within a few months, while others do not pay at all. With 77,000 customers with different paying habits, he did not know what the report could tell him. He knows what he billed for the month, but he has 20 different cycles with different due dates and with customers paying habits he really did not know how the report could help him but it would allow him to look at some trends and maybe predict less revenue and more bad debt. He did state that they currently have a year end report which is being looked at to be modified to collect the data on a monthly basis instead of on a yearly basis. Councilmember Chick stated she is a strong believer in management having regular reports for anything they are responsible for. Councilmember Edwards agreed with Councilmember Chick.

There were no additional questions from the Audit Committee.

4. P-Card and Expense Reports Audit

Liz Romero presented the P-Card report and Melissa Ewing presented the Expense Reports.

Councilmember Edwards asked why there was one employee with two active accounts. Carol Cooper, Purchasing Director, stated it has been cancelled but have to continually call Chase to fix accounts where the report shows that the card is active when in fact it is not.

Bryan complimented Purchasing, Finance and Internal Audit in the critical role they play in having a successful P-card program.

There were no additional questions from the committee in regards to the P-Card and Expense Reports Audit.

5. Follow-up - P-Card/Expense Report

There were no questions from the committee in regards to the P-Card/Expense Report Follow-up.

6. Garland Housing Finance Corporation Discussion

Craig explained the reason why there was an agreement between the City and GHFC. The reason was because of the exchange of services between the City and GHFC and the agreement was a finding in the audit report and is the reason why an agreement was written up. Craig stated the agreement is still lacking some items, like accounting, payment for services, rent, term, insurance amount, etc.

Comments were made to the rent amount and Craig stated that the specifics had still not been discussed.

George asked if \$1 would relieve the City of the perception that they are providing services for free in terms of breaking the corporate veil.

Mike Betz stated the concern is the perception that it is all one entity. He stated the purpose of the agreement is to show that it is two separate entities.

Ed stated he would have to defer the acceptance of the agreement due to some changes. He believes the board would not sign off on it because there are some provisions that do not apply to them. Chairman Williams stated that the agreement was made up just as it would for any other entity the City does business with. Ed stated their attorney would also have to look at it very closely.

Ed had a question in regards to the question mark by the Planning Department services. Craig stated it was some of the services that are provided by Housing & Neighborhood Services. Ed stated those are not services but requirements. Craig stated that would be something that Ed would have to discuss with Neil Montgomery.

Ed stated the one thing that was a "deal killer" is the fact that the City Council may request the City Auditor to conduct an Internal Audit of GHFC whereas GHFC originally had it to where they would select the Internal Auditor. Ed introduced John Jacobs their new Executive Director who will be working on the audit recommendations. Ed stated there are several firms that do internal audits. He stated the board feels very strongly that they should be able to select the internal auditor.

Councilmember Edwards asked why this was a big subject since according to Brad this does not pierce the corporate veil any more then anything else was being done with the people that are providing services to GHFC and it would save them money because it would cost them nothing if the audit is done by the City Auditor. Ed stated it would not pierce the corporate veil but anytime something is done like this it would weaken it.

Ms. Elder-Jones asked if the City Auditor would be as objective as an outside internal auditor. Councilmember Edwards stated the City Auditor would be because he works for the City Council. Ms. Elder-Jones felt that it would be auditing with their views in mind and they need somebody that would be separate from everything. Councilmember Edwards stated that in that case all services that are provided by the City would then need to be taken away.

Chairman Williams stated the whole issue of who audits is the separation issue and the only entity that would be in danger would be the City.

Councilmember Edwards stated that 6 of the 12 HFC's that were surveyed showed that audits are done by the Internal Audit Department. Ed stated that those are housing authorities and not HFC's. Councilmember Edwards asked Craig what they were and Craig stated as Internal Audit knows them, they were HFC's.

Chairman Williams asked Ed to have his attorney get with the City Attorney to finish the document in final form before it is presented to the full City Council.

Ed stated that their intention is to be completely independent by December 31, 2009.

7. American Recovery and Reinvestment Act Discussion

Craig presented to the committee the American Recovery and Reinvestment Act (ARRA). Craig said the GAO (Governmental Accountability Office) has stated they would like to see state and local government auditors actively involved in monitoring this particular program. Texas is one of sixteen states that will be looked at very closely by the GAO. They have already been at the City of Austin's Audit and Finance Department. The ARRA has a lot to do with accountability and transparency. Craig stated the City has an ARRA Coordinator who is Christine Maguire and an initial meeting was held with her and the Purchasing, Finance, Internal Audit and various departments.

Craig is asking of the committee if Internal Audit can be involved in this.

Chairman Williams asked if a committee had already been created to oversee this and Craig stated it had not. Craig stated one of the recommendations is to create a committee. Bryan stated that Christine is involved on putting this together but does not know what her plan is at this time.

Chairman Williams asked Craig how much of a commitment of the audit staff is going to be necessary. Craig stated 2010 is the big year when most of the funds will be rolled out. He also stated he wants to be proactive and go to departments before hand to see some of the internal controls that have been set up, what risk assessments they have, monitoring of funds and segregation of duties.

Bryan stated it is much better to have Internal Audit's involvement early on in the process rather then trying to clean things up after the fact.

The committee agreed that Internal Audit could work on the ARRA.

8. Testing Effectiveness of Internal Controls for FY10 Discussion

Craig stated that the City has someone in house that is checking Sarbanes-Oxley (SOX) controls and the internal controls that are required by SOX. Her name is Katie George and right now she is looking at about twenty processes. Some of them are dealing with IT Technology, Regulatory, Legal, Organization Governance, Community, Customer Service, Risk Management, Financial Reporting, Economic Development and quite a few more that she will be looking at and looking at the design of internal controls. She asked if whether Internal Audit would be interested in testing the effectiveness of the internal controls. Internal Audit is requesting if they are able to put hours into the FY10 Annual Audit Plan.

George explained how the City is not required to have a SOX review but Auditing Standard 99 as amended by Statement 113 states that external auditors are

required to perform the SOX review and indirectly requires the City to do a SOX type review.

The committee agreed that Internal Audit can help with the testing of the internal controls.

9. Follow-up – Employees as Vendors

There were no questions from the committee in regards to the Employees as Vendors Follow-up.

10. Follow-up Payroll Check-Off Audit

Councilmember Chick had a question on what a stored value card was. George explained it is related to payroll; it's like a debit card but can be used as a credit card and is for those employees who do not have direct deposit. It is an electronic form of payment and the employee's pay would be put into the stored value card for them to use for groceries or any other types of purchases.

George also stated there is a provision in the agreement if a stored value card is lost, neither the City nor the employee would be out any money.

11. Follow-up - Safelight Audit

There were no questions from the committee in regards to the Safelight Audit Follow-up.

12. Follow-up – Water Investigation

There were no questions from the committee in regards to the Water Investigation Follow-up.

13. Follow-up - Construction Contract Audit

There were no questions from the committee in regards to the Construction Contract Audit Follow-up.

14. Follow-up – Insurance Claims Investigation

There were no questions from the committee in regards to the Insurance Claims Investigation Follow-up.

15. Adjournment

The meeting was adjourned at 3:59 p.m.