Meeting Minutes

Audit Committee

Monday, September 20, 2010 3:00 p.m.

1. Opening Remarks/Roll Call

Chairman Williams called the meeting to order at 3:04p.m.

Present:

Rick Williams, Chairman Preston Edwards

Barbara Chick

Staff:

Bill Dollar
George Kauffman
Craig Hametner
Jed Johnson
Jeff Janke
Bryan Bradford
Elizabeth Morales
Michelle Taylor
Christian Thony
Phillip Burke

John Jacobs

2. Consider approval of the minutes from the meeting of March 1, 2010.

Motion was made to approve the April 19, 2010 minutes by Preston Edwards Motion seconded by Barbara Chick Motion was approved

3. Customer Service Follow-up Audit

Craig presented the Customer Service Follow-up. He brought to their attention Finding #3, "Customer Service is not sending accounts to the Collection Agency in a timely manner and in accordance to policy." He stated this item was Partially Implemented and that there has been improvement made but currently it takes them 126 days to send write-off accounts to MSB.

The other finding was #6, "Absence of Statement on Auditing Standards (SAS) No. 70." This was Partially Implemented because they are getting an ISO 27002 certification which is very specific in information systems security but does not address other internal control issues. It is not as extensive as the SAS 70.

All the other findings were Fully Implemented.

The Audit Committee did not have any questions on the Customer Service Follow-up.

4. Garland Housing Finance Corporation (GHFC) Follow-up Audit

Craig presented the GHFC Follow-up Audit and stated the audit looked a lot better from the last time. Finding #2, "IRS Rules and Regulation" was Partially Implemented due to a W-9 and 1099 form not filed for a non-employee contractor.

Finding #7, "Using City Resources to Conduct Business," was Not Implemented because an agreement was developed between GHFC and the City; however, the document was never signed by the City and has since expired.

Councilmember Chick questioned why the agreement was not signed and where the City stood on that.

Bill asked when the document was prepared. John stated it was around September/October 2009.

Chairman Williams instructed staff to look into handling this matter and getting an agreement signed.

All the other findings were Fully Implemented.

The Audit Committee did not have any other questions.

5. Firewheel P-card Audit

Craig presented the Firewheel P-card Audit. The only finding presented on this report was that Monthly Transaction Detail Reports were not being generated and reviewed in a timely manner.

The Audit Committee did not have any questions.

6. American Recovery and Reinvestment Act Audit

Craig presented the American Recovery and Reinvestment Act (ARRA) audit. Craig stated the objective was to be proactive and look into this before Deloitte looks into it which will be in the next 2-3 months. Craig stated that with this audit, it only checks the existence of controls and no testing of effectiveness of controls were done.

Chairman Williams asked what the red and green in each control meant. Craig stated the red and green did not mean that there was a problem it was just a way to suggest improvements to the internal controls that are already in place.

George asked who the owner was for this audit on the recommendations made. Craig stated the people he would classify as owners were Christine McGuire and Nancy Guerra since they are the two individuals that have the most knowledge.

Bryan asked if someone on the Control Committee had a copy of the audit. Craig stated the report was given to them at the time of the Exit Conference.

The Audit Committee did not have any other questions.

7. Wastehaulers Franchise Fee Audit

Craig presented the Wastehaulers Franchise Fee Audit.

Chairman Williams asked who was in charge of the wastehaulers franchise fee. George stated that from a practical point, he was the owner. Chairman Williams also asked how Internal Audit found the wastehaulers who were operating without a franchise agreement. Craig stated that he and Liz drove around for 4 hours in commercial areas of the City and identified the containers by the name on the container and compared the list with the wastehaulers that the City does have agreements with.

Craig stated that it comes down to a monitoring issue and that there is revenue out there. He stated it is not only the revenue issue but also an equity issue because we have some wastehaulers who are operating with a franchise agreement and paying fees while others do not. Craig stated in the standards the Comptroller General has stated we need to audit for the five E's, they are Efficiency, Economy, Effectiveness, Ethics, and Equity.

Craig went over the findings.

Chairman Williams had a question in regards to finding #2, "Wastehauler franchise fees have not been audited for over 8 years." He asked if the national accounting firm in the contract was because of the direct competition with the City. Bill stated that Waste Management thought it was only fair if the City hired an independent accounting firm do the audit. Bill stated at the time the Council agreed to it but it is not cost effective and maybe sounded good at the time but it is not practical. Craig stated he is independent and could do the audit because he reports to Council. George then stated that they need to sit down and talk with the City Attorney's office and the wastehauler who had the objection before and discuss the issue. Chairman Williams stated that the City holds the cards because if the wastehaulers do not comply, the City can not let them operate in the City. George then also stated that in recent discussions with Mark Dempsey

from the City Attorney's Office they were advised that the City can cite up to a maximum fine of \$2,000 a day for not complying and would be a big incentive for wastehaulers to comply.

There were no additional questions from the Audit Committee.

8. Deloitte

Scope Letter Discussion on Internal Audit's hours provided to Deloitte

Craig presented the scoping and timing letter. It announces the audit that Deloitte is going to do. In planning and interim work, they look at the City's operations and come up with the significant risks. The significant risks are GASB Statement No. 53, *Accounting and Reporting for Derivative Instruments*, Password Controls, HOME Investment Partnership program and ARRA.

Craig talked about the Internal Audit's hours provided to Deloitte. For the first time, Deloitte's IT Auditor contacted the Internal Audit's IT Auditor to see if any follow-up was done on Deloitte's report to management that was provided last year. Internal Audit had never done a follow-up on Deloitte's report. The Internal Audit IT Auditor provided follow-up but only from an IT stand point and none of the other findings in the report were followed up. At this point, Craig thought that he would be able to add value to the City by following up on Deloitte's findings to make sure that something was done about it. Craig's request to the Audit Committee is to allow Internal Audit to do the follow-up on Deloitte's report to Management. The other request that he has is that instead of giving Deloitte the 300 hours that they do, Internal Audit just give Deloitte the follow-up to the Report to Management. His reason for that is that his staff is skilled in doing performance audits which is where their knowledge and skills are at and Craig believes they can do greater good by doing performance audits rather then by assisting Deloitte. Craig also mentioned that in the engagement letter it states that if Internal Audit does not provide assistance then Deloitte will up the fees. Craig is requesting that Internal Audit concentrate more on the follow-up rather then providing them with the external audit assistance that they had before.

Chairman Williams had a question as to how much it would cost if Internal Audit only assisted with the follow-up instead of the 300 hours. Craig stated it might take 150 hours to do the Deloitte follow-up but is not sure that it would even take that much time and would give Deloitte 150 hours. So it would cost the City about \$18,750. Councilmember Chick asked how this would be better. The concern was as to why it would still cost \$18,750 if Internal Audit still gave 300 hours of assistance even if 150 of them were towards the follow-up. George then asked Craig if he was aware if the IT Auditor had been in communication with the Deloitte Financial Reporting Audit group. The reason he asked that was because in conversations with the Financial Reporting Audit group, they were not aware that Internal Audit had provided follow-up assistance to Deloitte report in regards

to IT. George just wants to make sure if the decision is made, would the Financial Reporting Audit group be fully aware that this will be done and how they would react to that. Craig stated that when they met with Terry and Blake from Deloitte he indicated to them that the follow-up audit was done and it was because their IT Auditor called Internal Audit. As for the 300 hours, Craig stated he has not discussed that with Deloitte.

Councilmember Edwards then questioned who would determine which follow-ups would be done, would that be something that Internal Audit would determine or Deloitte? Craig stated the way it would work is that Deloitte will provide a Report to Management and a Single Audit which spells out all their findings and management would respond. Internal Audit would then follow-up on what Deloitte had a finding on and how the management team responded.

Councilmember Chick then asked if this was a one time expenditure or would it be an annual increase of \$18,000 or \$37,000 a year? Bill then stated the question is what is the best way to use your Internal Audit Department?

Councilmember Edwards asked why it would still cost \$18,000 when Internal Audit would still provide 300 hours of assistance even if 150 hours were toward a follow-up. The Audit Committee is not in agreement of spending any more money especially during these tough economic times.

Brian then asked if the P-card audit could be reduced by 150 hours.

Decision was made that Craig ensure that Deloitte will not charge anymore money if Internal Audit gives Deloitte 300 hours of assistance with 150 of those being the follow-up audit. George asked Craig if he was sure that Deloitte would accept any assistance that Internal Audit would give. Craig said he would only do what Deloitte would give him. George said that Steve Anderson had told him that he did not think that just providing follow-up audits would satisfy the 300 hour requirement. Craig said that is why it would be split up with 150 hours of follow-up with 150 hours of whatever else they wanted him to do.

Councilmember Edwards instructed Craig to make sure with Deloitte before the audit is started.

9. FY11 Annual Audit Plan

Craig presented the FY11 Annual Audit Plan. He stated he has:

- Revenue Management audit, Wastewater
- Compliance audit, Police Seizure Fund
- Program Audit, Safelight, this audit was requested by management
- Disbursement Management audit, Accounts Payable

 Four IT Risk audits, Backup and Recovery Audit, Security of Hard Drive Data in Copiers/Printers, Change Management Audit, and Cayenta Interfaces

Total Audit Hours – 3,350 Hours

He covered the **Nonaudit Services**, **Investigations**, **Special Projects or Requests**, **Advisements**, and **Risk Assessment/Annual Audit Plan**.

For Nonaudit Services – Firewheel this is a management requested audit.

Total Nonaudit Services, Investigations, Special Projects or Requests, Advisements, Risk Assessment/Annual Audit Plan = 700 Hours

External Audit Assist – Deloitte – 300 Hours

Total External Audit Assist = 300 Hours

Recurring Audits:

- P-Card/Expense Reports 400 Hours
- Cash Counts 300 Hours
- Garland Cultural Arts Commission 100 Hours
- Kraft Retention Agreement 170 Hours (management request)
- Fuel/Warehouse Inventories 40 Hours

Total Recurring Audits = 1,010 hours

Follow-Up Audits

- Landfill Investigation 100 Hours
- Verizon Franchise Fee Audit 40 Hours
- Time Warner Audit 40 Hours
- Wire Transfer Audit 80 Hours
- GP&L IT Security Audit 40 Hours
- Atmos Franchise Fee Audit 40 Hours
- Wastehauler's Franchise Fee Audit 50 Hours
- Deloitte Follow-ups 150 Hours

Total Follow-Up Audits = 540 Hours

FY11 Audit Hours Needed to Complete FY10 Audits

Fleet Audit – 200 Hours Construction Management – 200 Hours Police Peripheral Inventory – 50 Hours A/R Cash Handling – 400 Hours Access Control – 50 Hours

Total FY11 Audit Hours Needed to Complete FY10 Audits = 900 Hours

10. Adjournment.

The meeting was adjourned at 4:08 p.m.