

## **Audit Committee**

## **Meeting Minutes**

Monday, August 20, 2012, 3:00 p.m.

# 1. Opening Remarks/Roll Call -

Chairman Williams called the meeting to order at 3:00 p.m.

### **Present:**

Rick Williams, Audit Committee Chairman Preston Edwards Lori Barnett Dodson

## Staff:

Bill Dollar	Robby Neill	Jed Johnson
Bryan Bradford	Bob Bonnell	Christian Thony
David Schuler	Kevin Slay	Pam Asbell
Steve Niekamp	Richard Briley	Marla Hamilton
Chief Bates	Steve Killen	

Craig Hametner

## **Deloitte:**

Chief Rene

Reem Samra, Audit Director Nick Scott, Audit Manager

### 2. Approval of the minutes from the meeting of April 16, 2012 –

Upon motion made by Preston Edwards and seconded by Lori Barnett Dodson, the minutes of April 16, 2012 were approved.

#### 3. Introduction of Internal Audit Staff -

Craig introduced Pam Asbell, Internal Audit's newest member and cited her audit experience with various companies. He also mentioned that she was a Certified Internal Auditor.

#### 4. Deloitte Presentation -

Craig introduced Reem Samra, Audit Director with Deloitte and Touche. She took over the discussion by introducing Nick Scott, Audit Manager. She mentioned that her group reports directly to the Audit Committee and is independent from Management. She pointed out the agenda which introduced the engagement team, reinforced Deloitte's commitment to the Audit Committee and Council, discussed the scope of services and certain inquiries they are required to perform. She introduced various audit teams that work with the group and discussed the objective. Ms. Samra also noted that if the team identifies any weaknesses they will notify management in the form of a management letter unless the weakness is material, then management will be notified immediately. She then discussed the 300 hours of assistance the City's Internal Audit Department provides.

Ms. Samra noted the definition of materiality and that the defined number of materiality can be communicated to the Audit Committee in an Executive Session, if requested.

Ms. Samra discussed areas considered significant risks and that Management employs an actuary to determine the liability for the City in these risk areas. She discussed that the Deloitte team will utilize its own actuary to analyze the report and determine if the methodology and calculations are appropriate as well as review the information provided to the actuary to ensure that the information is also complete and accurate. The Chairman and Ms. Samra discussed the use of the actuary and Ms. Samra assured the Chairman that the Team's actuary reads the reports to determine if the conclusions were reasonable and if the actuary is reputable.

Ms. Samra also discussed the Electric Power Contracts which the City entered into to hedge gas prices for the City's electric utility and identified the risks associated with improper classification of the contracts.

Her discussion then went into the Fraud Inquiries where she discussed the direct communication with Management regarding the specific risk of Fraud as required by the Accounting Standards. She asked if there was any known instances of Fraud that has occurred at the City during FY2012 at which point a discussion was held between her and Chairman Williams regarding Fraud. There was also a discussion regarding the controls in place to subvert fraudulent activity at the City.

The Timeline was outlined in the presentation and the Team is expected to complete the fieldwork by the end of March.

No additional questions were asked and Ms. Samra then completed her discussion.

#### 5. Executive Session -

The Committee went into Executive Session the deployment, or specific occasions for implementation of security personnel or a security audit was discussed – Sec. 551.076, TEX. GOV'T CODE. – Discussed Security of Hard Disk Drives and the IT Access Control Audit Follow-up at 3:18 p.m.

The Committee ended the Executive Session at 3:29 p.m. and went into regular session.

### 6. State Narcotic Seizure Fund Audit -

Craig discussed the objective of this audit which was to ensure compliance with regulations and laws as well as security over assets and reviewed each finding. The Police Department concurred with all findings and implemented an action plan. Craig commended the Department for their cooperation and Chief Bates commended the Internal Audit Department for pointing these issues out and mentioned that they are ensuring that these areas are corrected accordingly.

### 7. A/R - Cash Handling Audit -

Craig discussed the objective of the audit and pointed out that we reviewed the very large revenue sources excluding sales tax and franchise agreements. He

pointed to page 1 regarding the revenue sources and a correction to one of the footnotes on page 4. He discussed each finding by revenue source and mentioned that each associated management team concurred with its perspective recommendation.

There was additional discussion regarding the cellular fees as stated in Ordinance 5044 between the Chairman, Craig and Marla who provided additional clarification regarding who is in control of these fees. There was also discussion between Bryan Bradford, Craig, Jed and Marla regarding the decentralization of the E-911 fees and the issues discovered and the fact that the Internal Audit Department was not convinced that expenses exceeded the revenue.

## 8. Liability Claims Audit -

Craig discussed the objectives in the audit which was to check the segregation of duties and check for the reliability and integrity of the claims. He commented that everything appeared good for the most part and mentioned that there were minor discrepancies in the two findings as discussed in the audit report. Management concurred with all findings and recommendations.

One other item that Craig discussed with the Committee was the Benford's Law analysis that was applied in the audit. He briefly explained the law, its origin and how it is applied in various analyses including fraud. There was a brief discussion regarding the analysis between the Chairman and Craig.

### 9. Single Family Rental Registration Program Audit -

Craig opened the discussions on this audit by mentioning the objective of the audit which was to check if there was a mechanism in place to verify rental properties are registered and to test the effectiveness of the mechanism. He mentioned that the mechanisms used were satisfactory and included a discussion on the suggestions mentioned in the report.

The Chairman and Mr. Briley entered into a discussion regarding the recommendations mentioned in the report.

#### 10. Presentation of the FY13 Annual Audit Plan -

Craig described the various factors used to develop the audit plan. He pointed out the number of hours and how they are separated through enterprise risk

which is generic to all organizations. He mentioned that this was a plan and a goal for the department. He pointed out that the objectives are tentative that they are not completely developed until the background phase is complete. He then delved into a detailed discussion of each of the audits planned for FY2013.

Craig then asked if there were any questions or adjustments needed. The Chairman said that Craig would be on the agenda for the next session to present the Audit Plan for approval by council.

Chairman Williams asked if anyone had any additional questions at which point Councilwoman Dodson asked for clarification regarding the structure of the Kraft Retention Agreement. There was discussion from both Mr. Dollar and Mr. Bradford which explained this agreement and its structure.

There being no further business to discuss, the meeting was adjourned at 4:16 p.m.