



CITY OF GAINESVILLE

Office of the City Auditor



City Auditor's **MISSION**

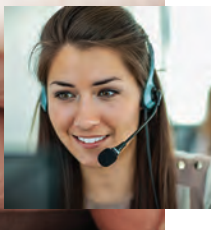
To promote honest, efficient, effective, transparent, and fully-accountable government by providing value-added, informationally-rich products to the citizenry, City Commission, and City Management.

Accomplishment Highlights for **FY17**



Audit Personnel

- Filled final person to complete office design. An experienced Senior Auditor



Fraud, Waste, and Abuse Hotline

- Received 40 hotline contacts of 20 unique issues



Audits and Non-Audit Services

- Completed a total of 15 complete engagements – the most in recent history (>14 years)!
- Developed and presented fraud awareness and internal control training for P-Card program.
- Received and processed a total of 40 contacts from the Fraud, Waste, and Abuse hotline. Among the items substantiated:
 - Contractor invoice fraud – billed for services not received – funds returned
 - Employee faked credentials for job – subsequently terminated
 - Helpless cat stuck on roof for days with foot wedged in gutter, freed and saved by GFR
 - Water meter malfunctioning causing excess bills – meter changed and credit issued



Investigations

- Completed 5 Investigations Including: P-Card Issues, contractor fraud, claimed contract issues, personnel matters



Volunteering

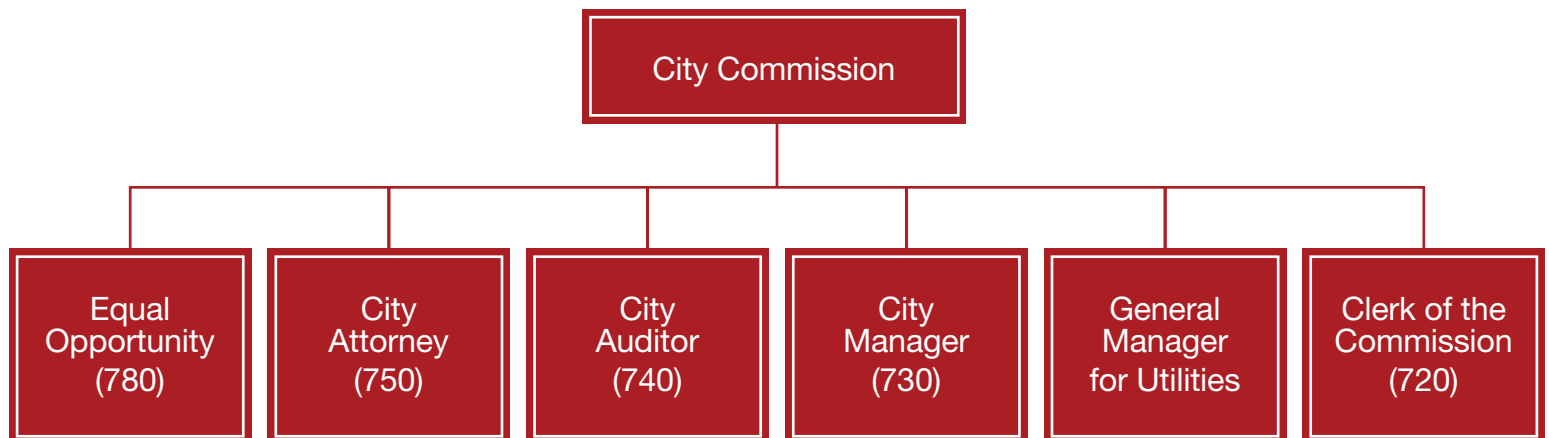
- Tutored UF students in Audit Competition, assisted UF students with research on 3 occasions, extra large food drive contributions from office.



Community Involvement

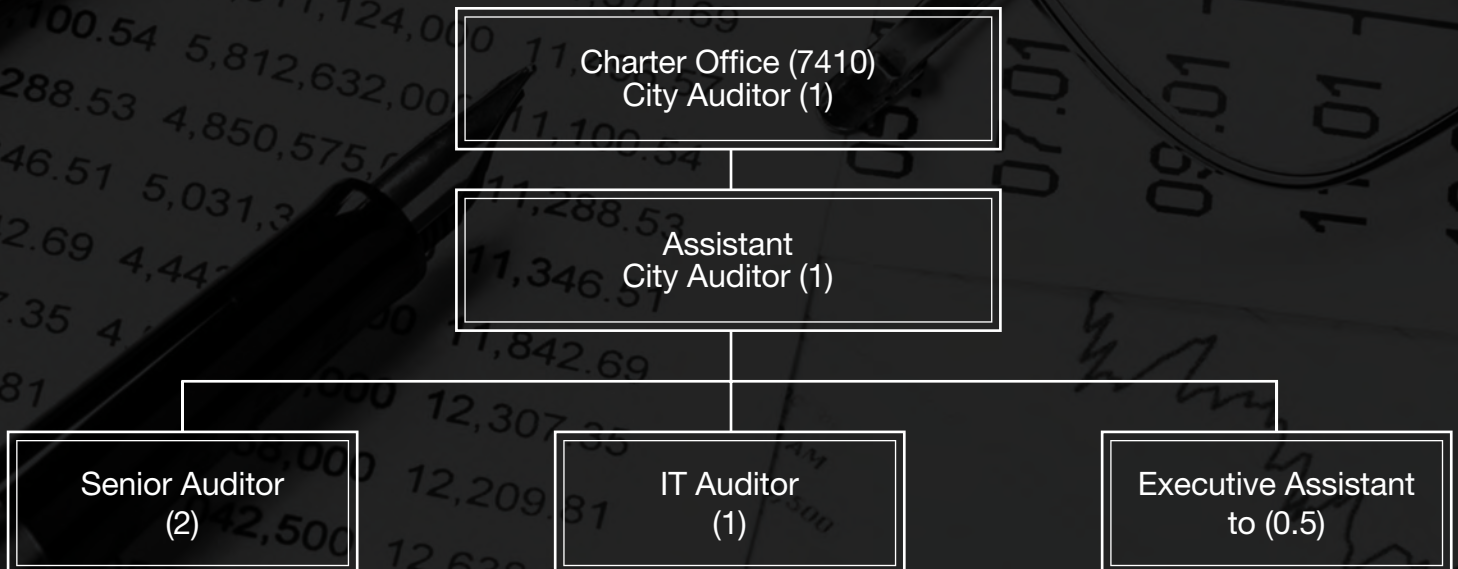
- Longest table attendees from office, Mayor’s book club participants at event, “Bikers on Parade” for Veterans and other community service volunteering

Citizens of GAINESVILLE



The City Auditor is one of six Charter Officers that report directly to the seven-member, elected City Commission

City Auditor FY 2018 ADOPTED ORGANIZATION CHART





Eileen Marzak (right) serves Nkwandah Jah (left) during The Longest Table Dinner and Dialogue event at Depot Park. The Longest Table is a free dinner designed to strengthen the relationships and unite the community on Sunday, Dec. 4th, 2016 in Gainesville, FL. Chris Totzke/Correspondent - Chris Totzke



University of Florida Students complete school assignment working with the City Auditor and staff.



City Auditor Carlos Holt mentored accounting majors to compete in the UF Fisher School of Accounting's 2nd Annual Audit Case Competition taking fourth place with over 20 teams.

Annual HIGHLIGHTS

- Completed a total of 15 complete engagements – the most in recent history (>14 years)!
- Developed and presented fraud awareness and internal control training for P-Card program.



City Auditor presenting the fraud and P-Card training



City Auditor's **STAFF**

Carlos Lee Holt (CPA, CFF, CFE, CGAP, CIA)
City Auditor

Mr. Holt joined the City of Gainesville in April, 2015. He previously served as the Internal Audit Manager for Metropolitan Nashville, TN; as the Lead Investigator in the Inspector General's Office at Space and Naval Warfare Center (SPAWAR); as well as a 21 year career in the US Marine Corps. He has an MS in Accounting and Finance from the University of Maryland, an MS in Administration from Central Michigan University and a BS In Accounting from Columbia College. Mr. Holt is a Certified Public Accountant (CPA), Certified in Financial Forensics (CFF), Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE) and Certified Government Audit Professional (CGAP). He coauthored an ACFE book on Fraud, Fraud Casebook, published by Wiley & Sons. Mr. Holt enjoys participating in professional speaking engagements and presentations to professional groups.



Eileen Marzak (CPA, CFE)
Assistant City Auditor

Eileen Marzak has been with the City of Gainesville since 1986. Prior to joining the City, Eileen spent eight years with small and regional public accounting firms providing tax, auditing and consulting services. Eileen holds a Bachelor of Science Degree in Accounting from the University of Florida and is a Certified Public Accountant (CPA) and a Certified Fraud Examiner (CFE). Professional memberships include the American Institute of Certified Public Accountants (AICPA), Florida Institute of Certified Public Accountants (FICPA), Institute of Internal Auditors (IIA), Association of Certified Fraud Examiners (ACFE) and Association of Local Government Auditors (ALGA). Eileen is an active member of the Institute of Internal Auditors (IIA) and Association of Local Government Auditors (ALGA). She currently serves as Secretary for the North Central Florida Chapter of the IIA and recently served as Team Leader for a peer review for ALGA.



Brecka Anderson (CIA, CFE, CGAP)
Senior Auditor

Brecka Anderson joined the City of Gainesville in 2008. She received a Bachelor of Business Administration Degree in Marketing from Mississippi State University in Starkville, MS. Brecka began her career in Internal Auditing at the University of Florida. Prior to that, she worked as a Field Auditor for General Electric and Deutsche Financial Services. Brecka is a Certified Internal Auditor (CIA) and a Certified Government Auditing Professional (CGAP). She is an active member of the Institute of Internal Auditors (IIA) and is a member of the Association of Local Government Auditors (ALGA) and the Florida Government Finance Officers Association (FGFOA).





Ron Ison (PMP)
Information Technology Auditor

Ron Ison received a Master of Science in Management Information Systems from the University of Illinois, Springfield and a Bachelor of Science Degree in Computer Information Systems from DeVry University, Long Beach. Mr. Ison has decades of experience in various computer information environments that include the University of California, Northrop Grumman, and General Dynamics. He is certified as a Project Management Professional (PMP).

Emily Bowie (CPA)
Senior Auditor

Emily Bowie joined the City of Gainesville in September, 2017. Prior to joining the City, Emily spent five and half years with a Big 4 public accounting firm in the Federal Audit practice. Emily holds a Bachelor of Science Degree in Accounting with a Minor in International Business from The Pennsylvania State University and is a Certified Public Accountant (CPA). Professional memberships include Institute of Internal Auditors (IIA) and Association of Local Government Auditors (ALGA).



Karen Haskell
Executive Assistant

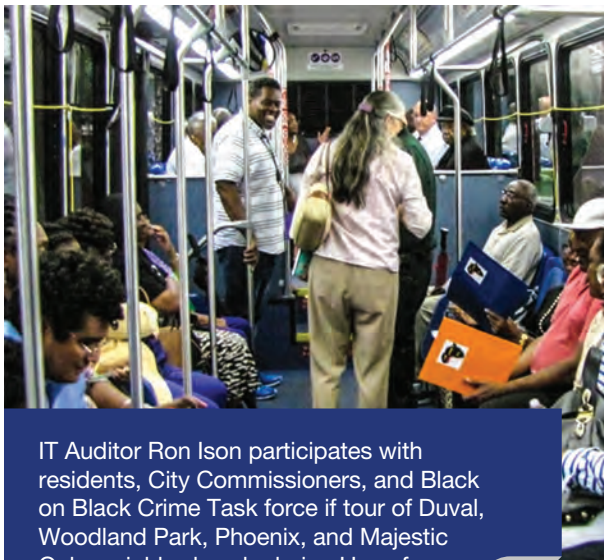
Karen Haskell has been with the City of Gainesville since 2000. She holds an Associate of Science degree in Computer Science and a Bachelor of Arts degree in Business Administration. Over her employment with the City, she has also held positions in Human Resources, Office of Budget and Management, and GRU's Energy Supply department.



Summary of PERFORMANCE AUDITS ISSUED

Audit of Gainesville Police Department's Use of Force

The United States Constitution and Florida law allow the Gainesville Police Department (GPD) to use force to effect arrests and ensure public order and the safety of citizens and their property.



IT Auditor Ron Ison participates with residents, City Commissioners, and Black on Black Crime Task force if tour of Duval, Woodland Park, Phoenix, and Majestic Oaks neighborhoods during Use of Force audit.

- The use of force subject is well defined in resources available to GPD officers. Efforts to revise and update the policy with relevant criteria have been ongoing since September 2016 and will soon be shared with the community and finalized.
- A small number (2%) of sworn police officers had not received their required training during the 2016 calendar year.
- The 2016 Gainesville Police Department's Annual Use of Force Report contains relevant and valuable information.
- The Gainesville Police Department has demonstrated that it has taken a proactive stance to ensure that its criteria are reflective of the current environment and that its officers are knowledgeable about the requirements.

Fiscal Year 2018 General Fund Revenue Estimate Attestation

We found the projected Fiscal Year 2018 General Fund Revenues and Other Sources of Funds in the total amount of \$120,589,078 as adopted by the City Commission on September 21, 2017, were prepared using data and methods to provide reasonable assurance the revenues will be realized.

Concerned parties can place reasonable reliance on revenues contained in the General Government Financial and Operating Plan. Minor differences noted in our analysis were considered to not be significant. Management actively monitors the City's financial position throughout the year and provides monitoring reports to the Audit and Finance Committee.

Audit of GRU SAP Upgrade Interim Report I

The project team is functioning within the standards of project performance. However, we found that there are four areas of general concern at this time which can be adequately address by GRU without long-term negative impacts.

- The SAP Premium Engagement Services presents a lack of clarity of services to be provided and value to be received
- There is a lack of visibility of the project schedule due to it not being updated in a timely manner
- The contractor is not filling some key roles when scheduled
- Data migration staffing presents risks to the critical path and completion timeline



Audit of GRU SAP Upgrade Interim Report II

The project team was functioning with a high sense of urgency and was expertly achieving tasks. However, we found that there are four areas of general concern at this time.

- Time documentation of hours worked by SAP contractors were not being obtained by GRU.
- The change process did not utilize a change control log to ensure accuracy of changes and document changes for historical reference.
- Policy recognition and execution require more attention to detail.
- The perceived value of the SAP Premium Engagement Services could not be verified (repeat area of concern).



Audit of Vehicle Fuel Process

- Fleet Management's fueling structure is obsolete, labor intensive, and inefficient
- Fuel transaction records from the vendor could not be accurately matched with the fuel transaction records in FASTER, the City's Fleet Management system
- Some departments with high fuel usage were not monitoring their fuel usage transactions
- Internal controls over "dummy" keys (not specifically assigned to a vehicle or person) were not in place to establish accountability for fuel gallons pumped
- Gainesville Regional Utilities (GRU) Eastside Operations Center fuel site equipment has experienced frequent outages since its 2011 installation
- Fleet Management has a large number of key functions centered on one person

Audit of the Small Business Purchasing Process

The Office of Equal Opportunity provides oversight of the Small and Service-Disabled Veteran Business Enterprise Program. We found that:

- There is effectively two different programs with two sets of criteria, two business listings, two different required registrations, and two different processes

- The City's small business reporting custodianship is misplaced
- Annual small business reports were inaccurate
- General Government business processes for creating reports did not produce correct small vendor information
- Small business vendor payment reports were not adequately reviewed to ensure compliance to program objectives
- The definition of certified small business benefits were not clear
- Small Business Listing did not provide all business contact information
- The Small Business Listing included businesses with expired certifications
- Master vendor file was not controlled to ensure that small business vendor records were correct
- The OEO Director and staff were aware of design flaws in the program and were anxious for the audit to take place

Audit of Regional Transportation Farebox and Bus Pass Revenue

- Significant variances between the number of passes sold at Rosa Parks Downtown Station and revenues reported on daily cash reports were noted. *Note: There was no assurance that all revenues received for bus pass sales were deposited and reported.*
- Rosa Parks Downtown Station clerks used the same cash drawer and computer log-on credentials to process bus pass sales.
- Reported bus farebox revenues were not reconciled to revenues monies deposited into the City's bank account.
- The system has the ability to print passes good for extended periods as evidenced by one found for a six-year period and seven others found for periods over 30 days.
- No database administrator is assigned to manage the Genfare Fare Management System. Former City employees had assigned access to secure areas.
- Regional Transit System video equipment was not maintained or monitored so that it could be used in a valuable way. Footage was not available for review in the revenue room due to malfunctioned equipment.
- Periodic background checks were not done for cash-handling employees.
- Daily cash reports were reconciled and submitted several days after the actual transaction date.
- A sample of 305 buses indicated 10 were not scanned at the end of their routes to capture daily revenues.
- Four percent of all passes were courtesy passes, issued without charge.



Gainesville Regional Transportation

Audit of Follow-up of Previous Recommendation

Out of 39 audit recommendations at the start of the year, 21 were implemented and 18 remain outstanding (5 from 2014, 2 from 2015, 8 from 2016, and 3 from 2017).

Department	Report Date	Audit Title	Recs Start of Period	Recs Implemented or Closed	Recs Still Open
Finance	Jan 14	Review of Payroll System	3	0	3
Community Redevelopment Agency (CRA)	Jan 14	Review of CRA Capital Projects	2	1	1
Neighborhood Improvement	Aug 14	Review of CDBG/HOME Funds	5	4	1
Gainesville Police Department (GPD)	Sep 15	Audit of GPD Property and Evidence Section	5	3	2
Fleet Management Division	Jan 16	Audit of Gainesville Fleet Operations	4	0	4
Department of Doing	May 16	Audit of Historic Preservation Board Processes and Practices	8	7	1
Risk Management Division	Sep 16	Audit of Health Plan Dependent Eligibility	1	0	1
Fleet Management Division	Nov 16	Audit of Vehicle Fuel Process	7	5	2
Office of Equal Opportunity (OEO)/General Government/GRU	Apr 17	EO/Small Business Purchasing Process	4	1	3
TOTAL RECOMMENDATIONS			39	21	18

24/7



Fraud, Waste,
ABUSE

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Summary of **INVESTIGATIONS PERFORMED**

Investigation of Contract Fraud – Utility Line Clearing (Asplundh)

A local citizen reported via the hotline that an Asplundh truck with four-man crew had been parked on a public road near the complainant's house each day beginning on November 14, 2016, and continuing through November 30, 2016. The complainant stated they spent time and effort to watch the crew who appeared to do no significant work, hanging around the truck and lying down with multiple pairs of feet stuck out the windows (crew cab with front and rear windows). The complainant provided two videos showing the occurrences. The City Auditor's Office verified that the same behavior was still occurring over the next two days before notifying the GRU General Manager; thus, the allegation was **substantiated**. The City Auditor also notified the Asplundh Tree Expert Company Corporate Office located in Willow Grove, Pennsylvania. Numerous controls were implemented to prevent reoccurrence. An invoice credit was provided by Asplundh and the crew leader and another worker were subsequently removed from the contract.

Investigation of Contract Clause Violations

Hippodrome State Theater leases the building it uses from the City of Gainesville, who also provides the theater company with grant funds. As per the contract between the City of Gainesville and Hippodrome State Theater, Article 10 – "Termination Prior to Expiration" lists five reasons that the LESSOR shall have the right to terminate the lease with reason A:5 being: "The failure of the LESSEE to abide by the terms of any law governing its business operations." The complainant alleged that employee wages were withheld by the Hippodrome State Theater for health insurance premiums but coverage was not provided to the employees. However, enough information was obtained to determine that the complainant was misinformed. Records from the insurance provider and the insurance agent clearly show that employees were covered by medical insurance for the two months cited. Thus, we were able to conclude that the allegation was **not substantiated**.

Investigation of P-Card Purchases

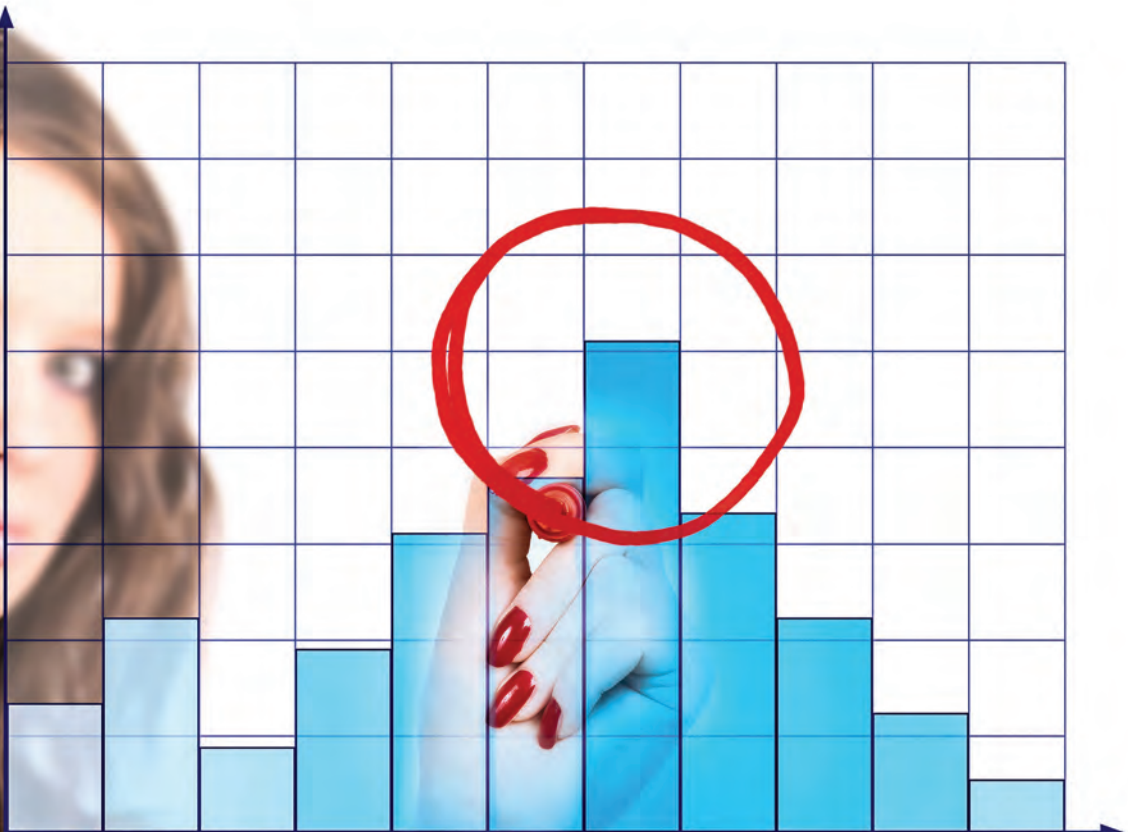
It was **substantiated** that purchase card transactions from the City purchase card of Parks, Recreation, and Cultural Affairs (PRCA) employee Natwaina Clark contained 136 transactions (for \$61,475.03) not for a business purpose. Further, 41 transactions (for \$32,134.28) were from cardholder statements closely associated with the same employee and accounts where she had physical access to. It was also substantiated that the Director of PRCA did not ensure that City Purchasing Policy 43-000 and others were implemented or even remotely followed despite making two previous representations (2013 and 2016) that policies were implemented as intended at PRCA. A total of \$93,609.31 was found to have been spent on unauthorized purchases.

Investigation of City Manager Issues

It was **substantiated** that Human Resources policies were not followed during the Assistant City Manager search process when internal candidates were not provided an opportunity to interview as required and that purchases greater than \$50,000 for similar services were made to the same contractor without City Commission review and approval. Several other allegations were not **substantiated**.

Investigation of missing cash at Building Department

After reviewing the processes surrounding missing safe funds (\$102.75), interviews **substantiated** that the funds were missing; however, it was **not determined** how the missing safe funds were lost. Effective internal controls were not established to ensure that revenues were adequately safeguarded.



Other Non-Audit SERVICES PERFORMED



Biomass Plant – Now named “Deerhaven Renewables”

Proposed GREC Asset Purchase Agreement

- Projected savings for the first 26 years would be \$28,437,762 annually.
- Years 27-30 would see increases of \$45,077,584 annually and a 5.9% increase in rates over status quo (GREC contract would end year 26).
- Total actual dollars (not PV) saved for the 30-year period would be \$559,071,488.
- The PV of status quo exceeds the PV of purchase by \$527,574,165 when plant lay-up cost, insurance, and property taxes are factored in.
- GRU electric segment revenue could be reduced by 8.31% for the first year if all savings are applied, and 9.88% if utility taxes and surcharges were held to constant dollars.
- By year 26, the maximum electric savings would have eroded to 6.02% after 1.3% annual inflation of rates.

- At \$750 million, GREC would receive 99.35% of the present value of its income stream minus stand-by costs, without further obligation and without factoring in a discount for arbitration or the contract's history of legal disputes.

Some of the top risks of purchasing the plant were found to be:

- Savings will not be applied to rate reduction
- Plant will need un-forecasted repairs
- Woody biomass as a fuel will not be economical
- Debt load will degrade GRU's borrowing ability and increase future rates
- New revenue bondholders will have superior status to current contract owners and other General Obligation bondholders

Options for Considerations of a Forensic Audit

- A forensic audit is the process of reviewing a person's or company's financial statements to determine if they are accurate and lawful.
- Without a court order, there were no financial statements or personal financial records available likely to contain evidence of unlawful or inaccurate information related to the GREC purchase.
- Other municipalities who have attempted to do a generalized forensic type audit often obtain reports similar to the Navigant report.



- The only specific area identified with claimed indicators (red flags) of fraud was regarding the Consent and Agreement.
- The City Auditor retained Akerman Law, LLP to review the Consent and Agreement issues, which had never been thoroughly investigated.
- Akerman Law, LLP found several terms of the Consent and Agreement they determined to be ultra vires, or beyond legal authority.

Our recommendations were:

- Do not proceed with a generalized forensic audit related to the biomass purchase power agreement process because the City Auditor can find no basis to do so.
- Review the attached 62-page letter report (with 292 pages of exhibits) related to the Consent and Agreement produced by Akerman Law, LLP. Consider the report's findings, determine if legal responses are warranted; and, act as the City Commission desires.

Audits completed after **SEPTEMBER 30, 2017**

Audit of Gainesville Regional Utilities Non-Pension Investments (Completed November 2017)

- During the period under review (calendar year 2016) segregation of duties was an issue due to the assignment of only one staff member to perform one-hundred percent of all activities as well as other activities related to debt and derivative instruments.
- The portfolio management process could be strengthened by enhancing the reporting process to make it more frequent and to include key metrics.
- A substantial reliance for the restricted funds was provided by manual spreadsheets which are inherently prone to spreadsheet error.

Note:

During the planning and fieldwork stage of the audit, management at GRU was already addressing the most important of the key issues noted by adding additional manpower and oversight to the process as well as implementing the SAP financial module (FMIS) to replace the overreliance on spreadsheets for restricted fund activity.

Other Audits **UNDERWAY AS OF DECEMBER 2017**

- **Audit of Vendor Master File**
- **Audit of Small/Minority/Veteran Purchasing Compliance**
- **Audit of Taxes and Fee collection for Annexed Property**






Future **GOALS TO PURSUE**

- Continue to build the organizational risk model, updating continuously
- Continue implementing the COSO internal control plan across the organization
- Continue performing risk based audits
- Build a library of City Auditor procedures for internal use
- Continue to expand auditor's capabilities and certifications



FRAUD, WASTE & ABUSE HOTLINE 1-844-818-2492



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