

**CITY OF CORAL GABLES  
BUDGET/AUDIT ADVISORY BOARD  
Meeting Minutes: Thursday, January 28, 2016**

Conference Room First Floor , City Hall, 405 Biltmore Way, Coral Gables, Florida

<b>MEMBERS</b>	<b>J</b>	<b>F</b>	<b>M</b>	<b>A</b>	<b>M</b>	<b>J</b>	<b>J</b>	<b>A</b>	<b>S</b>	<b>O</b>	<b>N</b>	<b>D</b>	<b>APPOINTED BY:</b>
	16	15	15	15	15	15	15	15	15	15	15	15	
Jose E. Smith	P	P	P	P	P	P	-	P	P	E	-	P	Mayor Jim Cason
Erin Knight	P	-	-	-	-	-	-	P	P	P	-	P	Commissioner Jeanette Slesnick
Alex Menendez	P	P	P	P	P	P	-	P	P	P	-	E	Commissioner Vince Lago
John Hollan	P	P	P	A	P	P	-	P	P	P	-	E	Commissioner Frank C. Quesada
Cheryl Goldstein	P	P	E	P	P	P	-	P	P	P	-	P	Commissioner Pat Keon

(Dash indicates no meeting; blank space indicate member not yet serving.)

^ - New Member

# - Special meeting

\*\* - Resigned Member

**Staff:**

Cathy Swanson-Rivenbark, City Manager

Diana Gomez, Finance Director

Lori St. John, Chief Compliance Office

Keith Kleiman, Budget Director

Minutes preparation and Recording Secretary: Estela Valle, Bailey and Sanchez Court Reporting, Inc.

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CITY OF CORAL GABLES

BUDGET/AUDIT ADVISORY BOARD

MEETING: THURSDAY, JANUARY 28, 2016, 8:00 a.m.

FIRST FLOOR, CITY HALL

405 BILTMORE WAY, CORAL GABLES, FLORIDA

MEMBERS PRESENT:

- ALEX MENENDEZ, CHAIRMAN
- CHERYL GOLDSTEIN
- JOHN HOLIAN
- ERIN KNIGHT
- JOSE SMITH

CITY STAFF PRESENT:

- CATHY SWANSON-RIVENBARK, CITY MANAGER
- DIANA GOMEZ, FINANCE DIRECTOR
- LORI ST. JOHN, CHIEF COMPLIANCE OFFICER
- KEITH KLEIMAN, BUDGET DIRECTOR

ALSO PRESENT:

- OCTAVIO VERDEJA
- MANNY ALVAREZ
- VANESSA GUTIERREZ

**COPY**

1 THEREUPON:

2 (The following proceedings were held.)

3 CHAIRMAN MENENDEZ: I'm going to get started if  
4 everybody is ready. It's 8:05, and we will call the  
5 meeting to order.

6 Is everyone here from the Audit/Budget Board? I  
7 believe all members are here, so we definitely have a  
8 quorum. Let's do our roll call.

9 Cheryl's here. John's here. Erin's here. Jose's  
10 here. Okay, great. So the first order is to approve the  
11 minutes from the December 3rd meeting, which I didn't  
12 attend, but I was able to read over them.

13 Does anybody have any changes they would like to do to  
14 the minutes or corrections?

15 MS. GOLD: Yes, I wish you would have been there to  
16 lead the meeting. That's all, for the record.

17 CHAIRMAN MENENDEZ: I apologize, I was not able to  
18 attend the meeting, but it looks like, from the minutes I  
19 read here, you guys did a great job. It was a lot of  
20 minutes.

21 (Simultaneous speaking.)

22 MR. MENENDEZ: Does anybody want to make a motion on  
23 the minutes from December 3rd?

24 MS. GOLDSTEIN: I'll make a motion to accept the  
25 minutes.

1 MR. MENENDEZ: Anybody second?

2 MR. SMITH: I second.

3 CHAIRMAN MENENDEZ: Everyone's in favor?

4 Okay. So we approved the minutes.

5 The next item is the discussion regarding Agreed Upon  
6 Procedures, so I guess we're going to wait.

7 MS. GOMEZ: They're coming in now.

8 MR. MENENDEZ: Yeah. We'll give them a chance to come  
9 in.

10 MS. SWANSON-RIVENBARK: Mr. Chair, are we waiting?

11 CHAIRMAN MENENDEZ: Yes. We just finished approving  
12 the minutes, and we were going to start the discussion  
13 regarding the Agreed Upon Procedures Analysis of the  
14 Internal Audit Function.

15 MS. SWANSON-RIVENBARK: If you'd like, the 2506 Ponce  
16 discussion, I can bring up now?

17 CHAIRMAN MENENDEZ: Perfect.

18 MS. SWANSON-RIVENBARK: This is not an Agenda item.  
19 Normally, in a process where we are looking at purchasing  
20 property, we would go to the Budget Advisory Board, we  
21 would go to the Economic Development Board, we would go to  
22 the Property Advisory Board, and because of the nature of  
23 the property I'm talking about, we would also go to the  
24 Historic Preservation Board, because it's a historic site.

25 A building that is located at 2506 Ponce, which is

1 right next to Bugatti, which is set back, which is the  
2 premier example of Mediterranean style, not judged by me,  
3 but judged by the American Institute of Architecture, was  
4 on the market. It had been on the market unbeknownst to us  
5 for several months. Actually, two years, and we didn't  
6 learn about its availability until a restaurant was coming  
7 in interested in doing substantial renovations.

8 When I'm done, and they begin their item, I'll bring  
9 you pictures and you'll say, "Oh, I remember this  
10 building."

11 It was designed and occupied by H. George Fink, who  
12 was one of the premier architects for the City, when the  
13 City was only being founded. There were architects that  
14 were in as a part of the Coral Gables Land Corporation,  
15 which became the City of Coral Gables, and H. George Fink,  
16 who was so popular-- that he also built in Miami Beach and  
17 Coconut Grove, and other areas. He designed 300 homes and  
18 buildings in Coral Gables. He was so popular that he had  
19 to have his own studio. This is the studio that we bought,  
20 and we think that it's a stunning example, not only of  
21 architecture, but commitment to our past.

22 Why did we rush? Because of the threat of the  
23 building being gutted. Arbor Parks, the most respected  
24 Historian, Coral Gables wise, has said that it is one of  
25 the two most significant intact interiors in Coral Gables,

1 meaning you walk in there, and you're walking into 1925,  
2 the furnishings, the fixtures. It is a really special,  
3 special building.

4 So the concept of an appraisal, the value to us, has  
5 more than just square footage to it. So ultimately, with  
6 the threat of the building being purchased by somebody with  
7 deeper pockets than the City of Coral Gables, which was  
8 true, we moved quickly and asked the Commission to allow us  
9 to waive the procurement process, so it would not come to  
10 you, it would not go to the Property Advisory Board, to the  
11 Economic Development Board, and we moved forward with  
12 what's called, the full asking price, and so that was  
13 approximately \$2.6 million.

14 How would you pay \$2.6 million, when you hadn't  
15 budgeted during the year for something like this, because  
16 it was not anticipated? We're calling it, informally, Our  
17 Pennies from Heaven Fund. Items that we never thought  
18 would come in or couldn't certainly be assured, so we  
19 didn't include it in the Budget meeting. One of them is  
20 the trash bills.

21 You'll recall that we made a change at the  
22 Commission's leadership that we go aggressively after the  
23 people that had perhaps a trash bill for ten years and  
24 still not paying it. We offered, you know, payment plans.  
25 We offered a variety of things, and we still had a group of

1 property owners that, for some reason, felt that they  
2 should get their trash picked up for free, because they  
3 weren't responding. So the Commission said, let's put it  
4 on the tax bill, got approval from the County. It was an  
5 extraordinary measure. We have now an agreement with the  
6 County on how to do that, and, amazingly, when these people  
7 got their tax bill in November, and they saw the  
8 outstanding waste fees.

9 Diana, how much have we collected to date?

10 MS. GOMEZ: Just out of the tax bills, it was \$1.2  
11 million out of 1.7, but prior to putting it on the tax  
12 bill, we collected another 625, since they knew it was  
13 going to be on the tax bill. So, in total, we got about  
14 \$1.8 million.

15 MS. SWANSON-RIVENBARK: None of which was included in  
16 the 2016 budget, correct?

17 MS. GOMEZ: Correct.

18 MS. SWANSON-RIVENBARK: So that's the Pennies from  
19 Heaven Fund.

20 MS. KNIGHT: How many people was that?

21 MS. GOMEZ: Initially, it was like 800 people, then a  
22 bunch of people paid beforehand, and we put about 100  
23 people on payment plans, so there's another \$400,000 or  
24 so-- \$450,000 of payment plans that we offered, and then we  
25 ended up putting like 350 people, roughly, on the tax bill

1 that equated to 1.7, \$1.8 million.

2 MS. SWANSON-RIVENBARK: And there's still more money  
3 out there.

4 MS. GOMEZ: Yes.

5 MS. SWANSON-RIVENBARK: But, remember, you can pay  
6 your taxes until the end of March.

7 MS. GOMEZ: Until March 30th, right.

8 MS. SWANSON-RIVENBARK: And gain-- you know, you go to  
9 a higher rate. You don't get the benefit--

10 MS. GOMEZ: You don't get the discount, right.

11 MS. SWANSON-RIVENBARK: And so additional monies could  
12 be at, what?

13 MS. GOMEZ: Yes, at about-- I think there's about  
14 \$500,000 left to be collected.

15 MS. SWANSON-RIVENBARK: Because those certificates  
16 will get sold.

17 MS. GOMEZ: Yes, exactly. We'll get it eventually.

18 MS. SWANSON-RIVENBARK: We will get it.

19 So about 1.7 million, let's say, from garbage, a  
20 little more than that-- more to come. Then we have the  
21 Gables Grand, which is where the Ruth's Chris Building is  
22 at. You know, we have the apartments, we have public  
23 parking, we have ground floor retail. It's a city dirt, in  
24 the 99-year lease, and included in that 99-year lease is a  
25 provision that from time to time, when the lease is sold to



1 another group, the City is still owning the land; that the  
2 City will get a piece of the net profit. So Equity  
3 Residential, which held the lease on the property, has sold  
4 to Starwood Capital. Starwood Capital has bought out all  
5 of the equity residentials of the Florida portfolio, and so  
6 we will be getting permission to approve the transaction on  
7 Tuesday. That transaction will close with Starwood Capital  
8 Equity Residential on Tuesday. So that was a very rapid  
9 move, and we will get somewhere between \$550,000 and a  
10 million dollars, and I say, "Somewhere," because there is a  
11 daycare wanting to come in, and if the daycare comes in, we  
12 pick up significant more money. A ground floor daycare  
13 works for the workers in Downtown. It's a good kind of  
14 fresh Urban amenity for people that want to go have lunch  
15 with their kids at lunch time when they're working in the  
16 office. And so that will be-- let's just say that it's  
17 500,000. Together, we have created a significant new fund,  
18 unbudgeted, to pay for the building.

19 In the short term, we went to the City Commission on  
20 Tuesday, and it was a rapid purchase-- not this Tuesday,  
21 but the last Commission meeting, and said, "We want to use  
22 the trash bill money, and we want to grab access to some of  
23 the Capital Improvement Fund," so that we had real dollars  
24 to write a real check at closing.

25 The Commission allowed us to waive the Procurement

1 Code. Highly unusual for us to do, but the threat was  
2 legitimate and great, and it also allowed us to access the  
3 Capital Improvement Fund. It's a capital purchase, it just  
4 wasn't an anticipated one.

5 We will go back to the City Commission after the  
6 transaction rent is received from Gables Grand, and ask  
7 them to put back the capital improvement money, and replace  
8 it with the Gables Grand transaction rent. But given--  
9 once you see the building, and as-- you know, before you  
10 end, I will pass out photos of it. You will remember this  
11 building. You will see the inside, where very few people  
12 see the inside. There are ten tenants today, and we said,  
13 "We will take tenants that are in good standing." It is a  
14 month to month lease, but they are paying rent.

15 There are transfer development rights, not a lot, but  
16 a little bit, about \$70,000, that is still available.  
17 We're going to save that, not put it out to the market,  
18 because that may be a roof money or an HVAC money in the  
19 future, but you will see why it was such a critical move on  
20 the City.

21 We said that we would take it as is, provided there  
22 was clear title. They had gone through their 40-year  
23 recertification. We had seen the roof permits-- you know,  
24 we're the City, we know what permits they pull-- so a 2011  
25 roof permit. So we were able to track a guesstimate of the

1 condition of the building, and the condition is actually in  
2 very good shape. Four owners, H. George Fink in the  
3 beginning sold to Dr. Kitchens, a very well-known doctor  
4 here in Coral Gables for many, many years in the '30s. He  
5 sold to a man named {Dabby} in the '70s, and {Dabby} sold  
6 to his son and daughter-in-law in the '90s. So we have had  
7 four owners, and that's why we think we've had such respect  
8 for the building inside, and it was one of the main reasons  
9 why we moved to acquire it. We were not trying to be  
10 disrespectful to the Budget Advisory Board. You are an  
11 important partner with us. We just-- the threat was too  
12 great, and so we're very excited about it, and we're happy  
13 to come back and give you reports as you want. Clear title  
14 already came through. We're going to be closing by the  
15 beginning of February, if not even sooner, so I wanted to  
16 share that with you before your item came up.

17 CHAIRMAN MENENDEZ: And we appreciate you sharing it  
18 with us. If anyone has any quick questions about it?

19 MS. GOLDSTEIN: I just have one question. Was the  
20 vote unanimous?

21 MS. SWANSON-RIVENBARK: Yes.

22 CHAIRMAN MENENDEZ: Okay. Anyone else have any  
23 questions?

24 No. Okay, great. Thank you so much. We'll move on  
25 with the discussion regarding the Agreed Upon Procedures,

1 and we have the CPA Firm of Verdeja here.

2 MS. ST. JOHN: Excuse me, before we do that, I just  
3 want to make a comment, for the record. Cathy, I would  
4 love for an opportunity to have deferred this to talk to  
5 you in private, one on one, with regard to my response to  
6 the outside auditors report, and I haven't had an  
7 opportunity to do that. I did ask you in an email if we  
8 can discuss this before the Budget Advisory Board meeting,  
9 and I never did hear back from you. It is my preference  
10 that that take place before this meeting. I understand  
11 that that's not what you prefer at this time, but I just  
12 wanted to kind of put it out there, that this is what I was  
13 anticipating before this, in preparation of the meeting.

14 MS. SWANSON-RIVENBARK: I appreciate your comments.  
15 It's not my place to influence the report. We're looking  
16 at the Budget Advisory Board's insight and comment off of  
17 that report. I will take those comments and insight. I  
18 welcome your input, but meeting in advance would not have  
19 changed this report, because I said to our consultants,  
20 who, remember, are conflicted out on whatever their  
21 recommendations are, that their job is to give us their  
22 best recommendation, third party. I did forward to them  
23 your initial review, before the report was done, on the  
24 pros and cons of internal auditing that you provided, and  
25 so for me to-- what I wanted to do at the Budget Advisory

1 Board is hands off, let them present. Let the Budget  
2 Advisory Board ask questions of them, and let's learn from  
3 that discussion as I formulate my next steps.

4 MS. ST. JOHN: Okay. And that being said, I  
5 absolutely would not want or expect the discussion that we  
6 would have to affect their conclusions at all. I mean,  
7 that would absolutely be inappropriate.

8 MS. SWANSON-RIVENBARK: I understand. And so because  
9 of that, I didn't feel that that was necessary.

10 MS. ST. JOHN: Okay. So at this time, then, because I  
11 don't have the opportunity, I think that my response has  
12 significant information in it that really would be very  
13 important for this Board to consider before any decision  
14 making process were to bear down. And so in that regard, I  
15 would-- this is not on the Agenda, and it's not the way I  
16 prefer, but I would like to submit to the Board Members,  
17 and to you, Cathy, my response.

18 MS. SWANSON-RIVENBARK: Okay. So Mr. Chair--

19 CHAIRMAN MENENDEZ: Yes. This is not on the Agenda.

20 MS. ST. JOHN: I don't expect you to review it now,  
21 but I would like it here.

22 CHAIRMAN MENENDEZ: So we're going to keep the meeting  
23 going, because since it wasn't on the Agenda, let's just  
24 have-- since we have time constraints, let's just hear  
25 this, and if something comes up at the next meeting, we

1 will take it into account.

2 MS. ST. JOHN: Right.

3 CHAIRMAN MENENDEZ: But for now we're going to keep on  
4 schedule. We're going to have Mr. Verdeja present his  
5 Analysis and Internal Audit Function.

6 MR. VERDEJA: All right. Good morning. I'm Octavio  
7 Verdeja. This is Manny and Vanessa. And just as a recap  
8 of what you asked us to do, these are Agreed Upon  
9 Procedures. Meaning, that you and us have agreed upon  
10 certain procedures that we're going to do.

11 This is as a form of background. I think I recognize  
12 most of the faces here from the last meeting. Our firm has  
13 been around for 45 years, and it's been-- all of those 45  
14 years has been in the Gables. We are conflicted out.  
15 Meaning, that whatever we say, whichever way we go, we  
16 cannot-- if we go the route of the external internal audit,  
17 we're not going to be a part of that. So in that sense,  
18 when we looked at this whole project, we had no conflicts  
19 in saying whatever we're going to say.

20 Just as a general overall-- and I will let them give  
21 you the details. If you ask for more details-- generally  
22 what we did was, reviewed your existing audits that were  
23 done, determined, through interview, and through all of the  
24 process that we went through, whether you were best suited  
25 to have internal/internal or external/internal, and if

1 that's-- just as a form of clarification, to me, an  
2 internal/internal is a person like you have now, who's  
3 internal to the City, and makes certain decisions regarding  
4 what's going to be audited, as far as your internal audit  
5 process.

6 External/internal would mean that you contract it out  
7 to a CPA firm, through an RFP process, and you request in  
8 that RFP process whatever you feel needs to be audited, and  
9 I would see that as the way to, you know, couple the fees.  
10 If we go that route or if you go that route, you would say  
11 to the external organization, "We would like audits-- this  
12 number of audits during the year." If you want many, many  
13 audits, it's going to cost you more. If you want X amount  
14 of audits, it's going to cost you whatever. And then they  
15 are going to come back with some kind off fee, okay. And  
16 they are going to tell you, "You know, this is what you  
17 get. This is the price of what you get." And you may want  
18 to set a budget or you may not want to set a budget.

19 So you may want to say to the external auditors, "This  
20 is what we have available," and then find out how many  
21 hours they're going to give you for that, or you may say,  
22 Just give us a price." That's part of the RFP process.  
23 So, really, there's these two choices, if you will, and  
24 then--

25 (Thereupon, a telephonic interruption occurred, after

1 which the following proceedings continued:)

2 MR. VERDEJA: So there's really two, right,  
3 internal/internal and external/internal. However, there is  
4 a possibility of a third one, which is what we are  
5 recommending here, which we're calling it co-sourcing or  
6 hybrid, whatever you want to call it, and the reason for  
7 that-- you wouldn't be the only one who does this process.  
8 I'm going to get kind of to the end first, and then we'll  
9 go back and go through the details.

10 The end first is, what we're recommending is this  
11 hybrid model, which would be to go out for RFP, to get an  
12 external firm that's going to do your internal audit, but  
13 have someone in-house, who is going to be able to be a  
14 liaison between this external auditor force and us. Is it  
15 double the money? I don't think so. I don't think that  
16 the person that would be in-house would be at a certain  
17 level that would be too expensive. I think it should be a  
18 finance person or an accounting person, someone like that,  
19 but you do have to have someone who follows up from the  
20 external auditors, and their recommendations, their  
21 findings. You want to have somebody who at least has some  
22 financial savvy knowledge, that could say, "Well, this, in  
23 fact, was followed up on, and this is how it was followed  
24 up on," and not just a-- you know, a person serving as a  
25 contact, that really doesn't have any way of determining



1           whether something that was recommended in the process was,  
2           in fact, followed up on. So that is the end. That's our  
3           conclusion, to go via this hybrid model.

4           For that, you know, you would need to go through RFP,  
5           which, in my opinion, is not very risky, in the sense that  
6           you're going to go out, you're going to ask for dollars,  
7           you're going to ask for what you get for those dollars, and  
8           you're going to come back and you're going to review it.  
9           And I don't think you have to-- if, at the end, you  
10          determine that-- after you review it, that it's too  
11          expensive or it's not suited for you, or for whatever  
12          reason nothing happened. So, you know, yes, it's time  
13          consuming to go through the process, but I do think it's  
14          worth the process.

15          There's reasons in the report, and we'll hand those  
16          out. I see some copies already out there. There are  
17          reasons why we're going through that model-- that hybrid  
18          model. We have looked at-- you know, now getting into more  
19          of the details, we did look at how many audits were done.  
20          We interviewed individuals. We looked to see how the  
21          processes were. And from there we made our conclusion. So  
22          it's not unusual. There's other cities that we called. We  
23          looked at CAFRS. There are cities--

24                   CHAIRMAN MENENDEZ: I'm sorry, what's CAFRS?

25                   MR. VERDEJA: CAFRS is the-- what's the exact word for

1           them? It's the reports given by the cities, C-A-F-R-S.

2           MR. HOLIAN: Miami Beach, Homestead, something like  
3 those?

4           MR. VERDEJA: Yeah. We looked at--

5           MS. GOMEZ: The financial statements.

6           MR. VERDEJA: --the annual financial statements for  
7 the cities or the County. So what we did is, we did go to  
8 other cities, in this case, more than these, but we tried  
9 to find those that were closest in size to you. We looked  
10 at the City of Coral Gables-- I'm sorry, that's on Page 6.  
11 If you don't have a report, I have one here.

12           Anybody else need one? So on Page 6-- these are  
13 colored. We spent the money, you might as well use them.

14           All right. So we called North Miami Beach, looked at  
15 their CAFRS. Homestead, Miami Beach. We also looked at  
16 Miami, but it's really-- the size of the City is just much  
17 bigger than this. So, you know, you see the case of the  
18 City of Coral Gables, right now we estimate it, based on  
19 our conversation, that it's costing you, between salaries,  
20 expenses, and allocated expenses, about \$265,000 to run  
21 your Internal Audit Department.

22           North Miami outsources the entire process at 140,000.

23           Homestead has a mix between the outsourced amount and  
24 salaries and benefits within this hybrid model, if you want  
25 to call it, or in-house person, for a total of 272,000, and

1           then Miami Beach has an in-house for 182,000.

2           The two closest in size, obviously, are North Miami  
3           and Homestead, to the size of Coral Gables. So, we did use  
4           those. There's a cost per resident, if that means anything  
5           to you, at the bottom. So right now it's costing us \$5 per  
6           resident. It's costing North Miami Beach 3.24 per  
7           resident. It's costing Homestead 4.13 per resident, and  
8           it's costing Miami Beach 9.7 per resident. And that's just  
9           taking the total dollars and dividing it by the amount of  
10          residents.

11          Now, if you were to stay internal, you may need  
12          additional help internally, and that may cost you more than  
13          the 265, and that's reported here. I think we're looking  
14          at 355, if you decide to go that route, just because we're  
15          suggesting that you may need more individuals there.

16          So, above and beyond this, you know, my general gut,  
17          and I served-- and I realize it's not exactly comparable,  
18          but I served as the Chair of the Early Learning Coalition  
19          with a budget of \$180 million here located in Coral Gables.  
20          We outsourced-- for eight years, I served as the Chair  
21          there, and we outsourced our whole entire internal audit  
22          process, and it worked out very well in a situation like  
23          that. What the benefit is of outsourcing is that there is  
24          someone else taking care of it. You can ask for one thing  
25          or the other. You can ask for more. You can ask for less.

1           They can put two-staff or four-staff, depending. If you  
2           say, "I want an audit of a certain department," and it  
3           requires more hours, then maybe that month you get more  
4           hours out of them, and maybe the next month there's nothing  
5           or there's less. So if you don't like the staff or the  
6           staff doesn't work for you or there is some kind of  
7           conflict with the staff, you ask that the staff be changed,  
8           so there's a benefit. You also have the fact that there  
9           may be more knowledge in a certain area, because you can  
10          switch staff, and maybe there are partners that are--  
11          within that outsourced external CPA firm-- that are more  
12          savvy in a certain area than another, and they can switch  
13          staff.

14                 The down side, of course, is you don't have anyone  
15          in-house, unless you have this liaison, and you don't have  
16          that immediate communication, perhaps, that you would have  
17          with an internal person. An internal also has-- and we  
18          listed all of the benefits and risks, if you will, for  
19          both, internal and external, and you'll see them there.  
20          But, you know, having gone through the process myself--  
21          and, again, I want to repeat that we are conflicted out, so  
22          I'm not saying this for any-- because we don't have any  
23          chance of getting this external audit, but having gone  
24          through it myself, it worked over there, and it was a very  
25          large budget at that, so there was a lot of work to be

1 done. So it was a very good way of getting firms-- and I  
2 think that there are good quality firms-- and you can go  
3 outside of the Gables, but there are quality firms within  
4 the Gables that would be able to do this, that I can think  
5 of, but if you want to go outside of the Gables, obviously,  
6 there would be many more firms to do that.

7 The other part, I guess, is if you want to take a look  
8 at-- maybe I'll let Manny or Vanessa explain Page 4 a  
9 little bit more, as to what that means, and all of those  
10 lines and graphs, and that sort of thing, and what we did.

11 MR. ALVAREZ: What we did here is-- if you look at the  
12 last couple of pages, this is a summary of all of the  
13 reports that have been issued over the years, and we just  
14 graphed them out, to see if we can see a trend in the  
15 reports.

16 There is some trend with the number of employees you  
17 had in the department throughout the years, but it's just  
18 to depict kind of the type of audits that you've been  
19 doing, and how it graphs out to the number of reports that  
20 you have throughout the years.

21 As you can see, most of them are a downward trend,  
22 because the staff has been reducing significantly  
23 throughout the years, and there's also been medical leaves  
24 and other leaves in there. But there's really nothing else  
25 specific, unless you have a question about it.

1 MR. HOLIAN: I have a question. Did you happen to  
2 look at the cost that we had for like whoever was  
3 employed-- like if there were more people in Audit in 2009,  
4 than we had in 2015? Do we know what those numbers are?  
5 Like within our total cost for audit right now is 265. Do  
6 we know what it was in 2009? Could it have been 465 or 365  
7 or--

8 MR. ALVAREZ: I don't have those numbers for you now,  
9 but I can get you that number.

10 MR. HOLIAN: I'm just wondering, you know, because if  
11 you're doing more reports, whether you're in-sourcing, it's  
12 going to cost more.

13 MR. ALVAREZ: Yes, absolutely.

14 MS. KNIGHT: You did mention additional staff. Is  
15 that on one of these charts?

16 MR. ALVAREZ: Yes. If you wanted to do it all  
17 in-house, we estimated that it would be-- on Page 5--  
18 around 350,000, 360,000.

19 MS. KNIGHT: You were saying over the years, though,  
20 there was additional staff.

21 MR. ALVAREZ: It was a total internal audit department  
22 of three-- she's better with the time table-- for a certain  
23 amount of time, and then it went down to two, and then it  
24 went down to one.

25 MS. SWANSON-RIVENBARK: But those changes happened in

1 '12, right?

2 MR. ALVAREZ: '12.

3 MS. SWANSON-RIVENBARK: And we (inaudible)--

4 MR. HOLIAN: I'm sorry, on that comment, then, so we  
5 had the same amount of staff in 2009 as we had in 2012, is  
6 that correct?

7 MR. ALVAREZ: Yes.

8 MS. GOMEZ: No. In 2009, you had three. In 2012, you  
9 had two. Well, in 2012-- I'm sorry, in 2012, it reduced to  
10 one. So in 2008 and '09, you had three. And then in '09  
11 or the end of '08, you had two.

12 MS. ST. JOHN: Excuse me, actually you're all wrong.  
13 In 2008, the first auditor left, at the end of 2008, and  
14 then the second auditor was with me until 2012, at which  
15 time they left.

16 MS. GOMEZ: Yes, I'm sorry.

17 MR. HOLIAN: Okay.

18 MS. GUTIERREZ: You do see that on Page 3, at the  
19 bottom, that the number at the end varied through 2012?

20 MS. ST. JOHN: Yes. But you say there were up to  
21 three members, but we didn't.

22 MS. GUTIERREZ: Through 2012.

23 MS. ST. JOHN: No, we did not. We only had two. One  
24 member left at the end of 2008, and from 2008 to 2012 there  
25 were only two.

1 MS. GUTIERREZ: Okay.

2 MR. ALVAREZ: We'll just confirm that with the Human  
3 Resources Department, because they're the ones that gave us  
4 those dates.

5 MS. ST. JOHN: Yeah, I spoke with them directly, too.

6 MS. SWANSON-RIVENBARK: Lori, I understand that you  
7 have specific comments. I'd like them to continue with  
8 their--

9 MS. ST. JOHN: That's fine.

10 MR. VERDEJA: Okay. So, as I said, you know, I think  
11 the RFP process is worth going through. I think it would  
12 cost you, in my opinion, and it's not-- I didn't know what  
13 Homestead was charging, and I didn't know what North Miami  
14 Beach was, my gut, at the beginning, was that it would be  
15 about \$150,000. I think that's what it will cost you.

16 Now, you're going to get X amount of hours for that.  
17 If you divide it by 150 an hour, you're going to get 1,000  
18 hours a year. If they charge you 200 per hour, then it may  
19 be less than that a year. So if you divide that by month,  
20 and you can do the math, you figure out how many hours you  
21 get.

22 Now, the way that I would see this is more of, if your  
23 budget-- and let's say you come up with a budget-- you say  
24 it's 150,000, "What are you going to give us for that," or  
25 you go back and say, "These are the four departments or the



1 three departments that we want to audit, how much is that  
2 going to cost us," and they'll come back with a number.

3 Now, they're going to need statistics, they're going  
4 to need amounts, they're going to need to know the size of  
5 the departments, all of these things. You can't just throw  
6 those numbers out there and expect a responder to know  
7 exactly, but some of these companies already do internal  
8 audit work. I've said this before, we do most of the  
9 internal audit work for the Archdiocese of Miami. I know  
10 what we charge them. So I know the type of work that is  
11 necessary for that sort of thing, and what it demands of  
12 the external organization. So I think it's doable. I  
13 don't-- I am not ruling out, and our report does not rule  
14 out internal audit. It just says that we believe it's  
15 worth--

16 (Thereupon, a telephonic interruption occurred, after  
17 which the following proceedings were had:)

18 MR. HOLIAN: That's me, sorry.

19 MR. VERDEJA: We're not ruling that out. We're just  
20 saying, it's worth going through the process, and  
21 determining if this is something that is viable, because we  
22 do think, at the end, in our opinion, that it will probably  
23 be less expensive, and you may get more benefits out of it.

24 So, again, the liaison person we think is a good thing  
25 to have. Again, I'm not exactly sure what that's going to

1 cost you, but if you look at it from the money, what do we  
2 charge, what is that external company going to charge us,  
3 what is the internal liaison going to cost us, and put  
4 those together.

5 Homestead already does that, I think. They're up to  
6 272,000, I think.

7 MR. HOLIAN: Yes.

8 MR. VERDEJA: With an external and internal. The  
9 outsource in North Miami Beach is 140,000. The outsource  
10 in Homestead is 144,000. So it's close to that 150,000  
11 that my gut was telling me from the beginning.

12 I don't know if there's any other questions that you  
13 all have.

14 MS. GOLDSTEIN: One of the things that I've been  
15 thinking about in going through this is that from an  
16 external standpoint, you can get the expertise that you've  
17 been talking about, but I think there's also the other  
18 side, in that they can also use staff that are not-- do not  
19 meet the experience or the technical experience for the  
20 number of audits that are necessary that we do on a regular  
21 basis or the work that the Internal Audit Department does.  
22 For example, reconciliations or other types of-- I don't  
23 know, lower end work, and I'm not really sure how much  
24 falls into that higher end, that lower end, but would it be  
25 advisable, when we go out for an RFP, to somewhat try to

1 define that, so that you know what level person you're  
2 looking for from the external standpoint, and not just an  
3 average hourly billing rate, you know, that type of thing.  
4 I'm just asking it from your expertise.

5 MR. VERDEJA: Typically, RFPs--and we do RFPs  
6 constantly-- they ask you for the mix between partners,  
7 managers, supervisors, seniors, juniors, that sort of  
8 thing. You can get as specific as you want, and you can  
9 see the mix, so that if they're telling you that they're  
10 putting-- and I don't think that anybody would do this, but  
11 if they're telling you they're putting 80 percent juniors  
12 and only 10 percent partners, it should alarm you that this  
13 is what we're going to get for our buck in this case. But  
14 you have to understand, the flip side is, you know, there  
15 is a level of work that can be handled by juniors or  
16 seniors, and it is the responsibility of the manager or  
17 partner to make sure that it's done correctly, at the end  
18 of the day. I mean, you know, you can't just hide behind  
19 your junior and say, "Well, he didn't know what he was  
20 doing." So, you know, it's the firm's responsibility.

21 I also think that the beauty of outsourcing is, if you  
22 do happen to come across that one situation that you felt  
23 or when you all sat down and you reviewed a report in a  
24 specific audit of a specific department, that the  
25 individuals there were not technical enough or not high

1 level enough, you can say to the company, "I don't want  
2 anyone who doesn't have three years experience here," and  
3 that would be part of your demands, you know, reviewing  
4 the-- but I do think, in fairness to the CPA firms, I think  
5 that's going to be something that will be determined by  
6 them, as to what they believe is necessary for a particular  
7 job. You know, I think that we can ask for a percentage  
8 of-- you know, what percent juniors or seniors or managers  
9 are going to be at the job, but at the end, I think the CPA  
10 firm will determine whether that's the right balance.

11 MS. GOLDSTEIN: Right. I think that's kind of the  
12 beauty of what the RFP process will show.

13 MR. VERDEJA: Absolutely. And within that RFP  
14 process-- we get RFPs that are one-page long, and we get  
15 RFPs that are 50 pages, and within that RFP, you can ask  
16 for everything and anything you want to ask, about their  
17 experience, about comparable cities they might do, about  
18 internal audit work that they might do, you know--

19 MR. ALVAREZ: The number of employees.

20 MR. VERDEJA: Exactly, the number of employees, the  
21 breakdown between managers and partners and seniors and  
22 staff. You can ask for anything within the RFP process,  
23 and then they're going to come back, and then-- it's a  
24 process. For sure, it's a process. You have to review it.  
25 You have to determine-- you probably should have, whether

1           it's this Committee or a piece of this Committee or another  
2           Committee, that would review, score these RFPs, you know,  
3           with no bias, and say, "These are the best three." At the  
4           end, we're going to then, in my opinion, select the best  
5           one, and perhaps you want to have a bid, in a separate  
6           envelope, so it doesn't influence anybody. You can do that  
7           or you can have it within the same RFP response. We've  
8           done both. Sometimes they ask us for the response and a  
9           bid in a separate envelope, so that they do not know--  
10          nobody says, "Well, this one's cheaper, let's go with this  
11          one," or "That one's expensive or this one's in the  
12          middle." You can do that or you can put it in the RFP  
13          itself, and you can get a feel, you know, of whether  
14          they're in the ballpark or not.

15                    Any other questions?

16                   MR. HOLIAN: I have a question. I'm not an  
17                   accountant, but like someone mentioned an audit plan, like  
18                   we should have an audit plan, and we probably do. I'm not  
19                   saying we do or we don't. If you're budgeting X number of  
20                   dollars per year, and you're doing three to five audits a  
21                   year, will that be a moving target? Like if you're doing,  
22                   let's say, a finance audit one year, would it go up an  
23                   extra \$50,000 or how would that work?

24                   MR. VERDEJA: I would say, more that you had a budget  
25                   within the year, and then, within the year, you may be able

1 to capture more departments that you're going to audit or  
2 you're going to capture less departments. There may be a  
3 very small department that really has very little risk that  
4 you want to audit, but it may only take the auditors a week  
5 or two weeks to do, and then there may be a very large  
6 department that you want to audit, and that may take more,  
7 but that's-- you know, yes, you could-- as a committee, I  
8 suppose, you can say, "Well, we have \$150,000 budget for  
9 this, but we're going to raise it to 200,000, because now  
10 we want ten audits this year or we want the audits of these  
11 five complicated departments," or you say, "You know, this  
12 is our \$150,000 budget, we want these four departments  
13 audited this year," and maybe we do a mix of a large one  
14 with a small one.

15 MR. HOLIAN: And that would be my question, in what  
16 type of timeframe would it be reasonable? Are there  
17 certain departments that should be audited every year?

18 CHAIRMAN MENENDEZ: Yes.

19 MR. VERDEJA: There are probably some that should be  
20 audited every year.

21 MR. HOLIAN: And then the other ones, they'll be on  
22 a--

23 MR. VERDEJA: Less frequent.

24 MR. HOLIAN: -- Once every three years or something  
25 like that, and you build that into a plan?

1 MR. VERDEJA: Right, once every three years. And, you  
2 know, if there are no findings within a certain department  
3 that's low risk, you may say, "We're going to put that on a  
4 two or three-year calendar." And those that are either  
5 high risk or a lot of findings, you may punish them, and  
6 say, "We have to do this every year until you fix your--"

7 MS. GOLDSTEIN: It's not a punishment.

8 MR. VERDEJA: But, you know, that's pretty typical.  
9 You know, there are some places that we go to have all  
10 sorts of providers, if you want to call it that, and we go  
11 every single year. And then there are other ones that get  
12 by for two years or three years, because they did such good  
13 work, and we've gone a couple of times, and there's no  
14 findings there, and all of their books and records are in  
15 good order, and there's nothing going on.

16 MR. HOLIAN: Okay.

17 MR. VERDEJA: So I do think that that's something  
18 that's up to-- whether it's this Committee or another  
19 Committee, to determine how often it should be audited or  
20 reviewed.

21 MS. ST. JOHN: Would you like my expertise on that?

22 MR. HOLIAN: Sure.

23 MS. ST. JOHN: Because I believe when you take a look  
24 at all of the cities collectively, and a lot of them have  
25 online what their reports are, more times than not, you do

1 not revisit the same audit every single year, because you  
2 have your follow-up on recommendations, which ensures that  
3 those direct findings and recommendations are actually  
4 implemented, and there are so many things throughout a city  
5 or municipality that you're constantly moving around, based  
6 upon what you're finding, what management wants, and what  
7 have you. So certain things are done every single year on  
8 a regular basis, like we do now, but it's not typically  
9 done every single year. You need to look at Finance or you  
10 need to look at Parks and Recreation. That's not the norm.

11 MR. HOLIAN: Okay.

12 CHAIRMAN MENENDEZ: I have a question. I was reading  
13 the pros and cons report, I guess, that I think Lori  
14 provided, and one of the things that was bold in her report  
15 was on Page-- well, right at the beginning of the pros and  
16 cons section, Paragraph 3, there's a section that says,  
17 "The Institute of Internal Auditors (IIA) believes that  
18 oversight and responsibility for the internal audit activity  
19 cannot be outsourced." And then it goes on to say,  
20 "According to the Institute of Internal Auditors (IIA), an  
21 in-house liaison, preferably an executive or senior  
22 management-level employee, should be assigned  
23 responsibility for management of the internal audit  
24 activity."

25 When I read this, it showed concerns about outsourcing



1 the function of the internal audit, but then, when I read  
2 the part about a liaison, preferably an executive or senior  
3 management-level employee should be assigned responsibility  
4 for management, is that the liaison/internal liaison that  
5 you are discussing in your hybrid model?

6 MR. VERDEJA: Right. I guess, I haven't read this,  
7 but as I see in bold here, you don't outsource to your  
8 internal auditors the same-- your internal auditors,  
9 whether external or not, should not be your same external  
10 auditors. So just to pick on Ernst & Young, Ernst & Young  
11 can't be your external auditors and be your internal  
12 auditors. There would be a conflict there.

13 CHAIRMAN MENENDEZ: Well, no, I'm simply discussing  
14 the external audit-- outsourcing the internal audit  
15 portion, not the financials. I understand that's separate.

16 My question, to redirect, is that there's a concern  
17 here that it's being outsourced, the internal audit  
18 function, but then it says that you can have a management  
19 person as a liaison. Is that kind of the internal liaison  
20 that you were discussing in your hybrid?

21 MR. VERDEJA: That's exactly right.

22 MR. ALVAREZ: I think it's hard for us to comment on  
23 what specifically Ms. St. John meant there.

24 MS. ST. JOHN: Yeah. I think I could address that  
25 more clearly if you want when they have their opportunity

1 to finish.

2 CHAIRMAN MENENDEZ: Okay.

3 MR. ALVAREZ: I don't know what specifically she-- I  
4 haven't read that, but-- specifically what she's trying to  
5 address there, but if she's saying that there should be  
6 someone in-house that should track the changes, then that's  
7 exactly what we're saying.

8 MR. VERDEJA: I think what we're-- we recognize that  
9 there's someone that should be here, within the City, that  
10 is responsible-- not a person who's a receptionist, that's  
11 just making a phone call and organizing an audit-- that is  
12 responsible, that if we find something, bank  
13 reconciliations are not being prepared on a timely basis,  
14 well somebody has to be knowledgeable enough to know what  
15 that means and how to follow up on that. It just can't be  
16 somebody that says, "I'm going to call the-- whatever  
17 facilities department, and try to see if they're available  
18 for audit." That's not enough. If we came back and said  
19 that within Property or Facilities or whatever other  
20 department, there was a finding because there was a  
21 missing-- that was missing inventory or whatever it is,  
22 somebody has to be knowledgeable enough to follow-up on  
23 that. I think it's a matter of responsibility, not a  
24 matter of outsourcing.

25 In other words, somebody has to be responsible for

1           that. Obviously, the outsourced external audit should be a  
2           responsible company, and you can look at all of their peer  
3           reviews. You can look at all of their quality control  
4           reviews. You can look at all sorts of things to make sure  
5           you're talking about the right company. After that, then  
6           somebody within the organization here should be responsible  
7           to make sure that the findings or the comments or  
8           weaknesses or whatever are being followed up on.

9           MS. SWANSON-RIVENBARK: Just to complicate the  
10          discussion, when we were looking at, do we provide more  
11          resources to internal audit or do we look at other ways of  
12          serving internal audit, I reached out to the University of  
13          Miami Business School, and talked to the internal auditing  
14          professor, to say, "Help me with this. Talk me through it,  
15          and what would you do?" And so that's what started this  
16          report on the examination.

17          CHAIRMAN MENENDEZ: Okay. And that was one of my big  
18          concerns when we first met two meetings ago, was to make  
19          sure that we had somebody with institutional knowledge,  
20          that could help direct the external auditors, doing the  
21          in-house function, so it wouldn't become, you know, time  
22          consuming, and then also that's in communication with the  
23          City Manager, as well, so they know what's important and  
24          what actually to be focused on, and there would still be  
25          somebody in-house to be able to do special projects if the

1           need arose.

2           MR. VERDEJA: Right. And I think-- again, I haven't  
3 read this whole thing, just the bold, it says clearly,  
4 "Oversight and responsibility for the internal audit  
5 activity cannot be outsourced," and that's true, that's  
6 correct. You just can't give it to somebody and say,  
7 "Here, you run with it," because they don't know the City  
8 like an internal person knows the City. And then they go  
9 on to say that, your internal auditors should not be your  
10 external auditors-- the same firm should not be both--  
11 which makes a lot of sense. You don't want the same firm  
12 to be the external and internal. Those things are true,  
13 but that's what we're talking about having this liaison,  
14 who would be familiar enough or would be able to follow-up  
15 on.

16           CHAIRMAN MENENDEZ: And one other thing, speaking to  
17 Cheryl's point about the external auditor firm having  
18 specialties, I know that some of these firms have actual  
19 departments that specialize in computer testing. That was  
20 one of the things I read in the meeting. You could  
21 contract out, if you wanted to do a special audit, or you  
22 might not need to, if you have an external audit firm that  
23 has different departments that can test different  
24 functions.

25           MR. VERDEJA: Well, I can tell you that, just within

1           our firm, we have certain software that-- you know, to go  
2           to the technology piece of your audit, that we didn't have  
3           that many years ago, you know, that didn't exist. So right  
4           now we're able to extract a lot of information, and get a  
5           lot of data imaging software that allows us to audit all  
6           sorts of pieces, not just test that the bank  
7           reconciliations are done, but we know exactly how many  
8           checks you wrote, we know what days you wrote them, we know  
9           to whom you wrote them, we know what numbers they start  
10          with, we know whether you wrote checks on weekends, all  
11          sorts of information that you extract through a data  
12          imaging program, which could be held internally. It's not  
13          that you can't, but firms that are external may have more  
14          of a technological piece, because they are spreading those  
15          costs across many different audits, not just one  
16          organization.

17                 Yes.

18                 MS. KNIGHT: May I ask you a question on Page 5 of  
19                 your report? Are you suggesting that we need to increase  
20                 if we continue with the in-house internal audit?

21                 MR. VERDEJA: Yes, that's exactly what we're saying  
22                 is, if you had X amount of employees, and it's been going  
23                 down, and it's due to you don't have enough resources  
24                 in-house, then what else would we need? Do we need another  
25                 senior, a staff, and then we calculated that number, you

1 know, based on what we have, and what we think we need to  
2 get to that point. That's a decision for you all to say,  
3 "No, we need one person or two persons. If we go internal,  
4 we'll only have two people, and that's going to cost us,  
5 not 355, it might cost us 300." You know, we're at 265  
6 now. We're thinking, two more people staff and senior,  
7 will cost you up to 355. So the number's going to be  
8 between 265 and 355. So you want to say an average of  
9 300,000. If you only have one more individual, that might  
10 be the correct number, you know, including benefits.

11 Yes, you're paying more dollars to the outsource, but  
12 you're not paying the benefits, you're not paying health,  
13 you're not paying any of that stuff, directly, at least.

14 CHAIRMAN MENENDEZ: Anybody else have any other  
15 questions on the report provided?

16 Okay. Now, we're going to move to the next item on  
17 the Agenda.

18 MR. VERDEJA: So we're done?

19 MS. GOMEZ: Yeah.

20 MR. VERDEJA: Great.

21 MR. HOLIAN: For now.

22 MR. VERDEJA: No, but I mean--

23 CHAIRMAN MENENDEZ: I think you should stay for the  
24 pros and cons of the outsourcing.

25 MR. VERDEJA: Oh, okay. Okay.

1           CHAIRMAN MENENDEZ: The next thing real quick will be  
2           the pros and cons of outsourcing the internal audit  
3           function, so I believe that's Lori's report, if that's okay  
4           with you guys?

5           MR. VERDEJA: Yes, sure. Absolutely.

6           MS. ST. JOHN: Thank you. You had an opportunity to  
7           review the report, I'm sure, all of you. At this time,  
8           what I'd prefer to do is to go over the things that I think  
9           are most significant, and some of those things that might  
10          actually address some of the questions that we might have  
11          here in the room today.

12          First, let it be stated that the data that was  
13          gathered and accumulated came from governing bodies; the  
14          American Institute of Certified Public Accountants, the  
15          Institute of Internal Auditors, and the Association of  
16          Local Government Auditors. That's really important,  
17          because these are leading authorities as it pertains to  
18          management oversight, and they have established standards  
19          regarding government auditing, and I think those are  
20          critical with regard to this Board's job and review process  
21          as you're looking to make a decision.

22          In order to gain perspective about the pros and cons,  
23          there's numerous guidelines that are outlined on Page 1,  
24          and they're important enough for me to discuss very  
25          briefly, just even list them.

1 Independence is number one for a reason.

2 Standards that are across the board for all government  
3 agencies.

4 The Independent Audit Committee, which is you, the  
5 Board.

6 Unrestricted access to local government. Unrestricted  
7 access for an auditor is extremely important, and is what  
8 actually provides the day-to-day oversight that is so very  
9 important. Now, I'm not sure whether we really want that  
10 for an outside firm. That's something you have to decide,  
11 but when I review undercover operations in the police  
12 department, is that something we really want an outsider to  
13 look at? I don't know.

14 Sufficient funding. When we talk about sufficient  
15 funding, you'll see later on, that the suggestion and  
16 recommendation by the standards is that you never cut the  
17 budget of internal audit, and that's on Page 9, when it  
18 talks about, "Budget of the audit function is typically  
19 exempt from the function from management proposed for  
20 budget reductions." Why? Because it's such an important  
21 function internally to any organization. These are not my  
22 recommendations, keep in mind. These are recommendations  
23 from authoritative figures that we, as auditors, must follow.

24 We need competent leadership and staff. That's really  
25 important.



1           Response to audits. It requires that responsible  
2 government managers promptly respond in writing within a  
3 specified time to audit recommendations. You all know, and  
4 you know more than anyone, John, how numerous, and, you,  
5 yourself, have stated, when you reviewed the work here, how  
6 numerous some of those audit findings are; how detailed  
7 some of those were in payroll, when we had a broken system  
8 at some point.

9           The follow-up is significant. I'm not sure how that  
10 follow-up would occur when you're breaking that system  
11 between an outside and an internal auditor. I see that  
12 there would be very many problems.

13           In order to remain independent, in fact and  
14 appearance, auditors must be free from conflicts, and this  
15 is on Page 2. You know, and why is that so very important?  
16 Because managers of functions that may be audited should  
17 not have authority over the work of auditors. You can't  
18 have someone in Finance that might be audited, you know,  
19 controlling and looking at what might be audited. You  
20 know, acting as a liaison when they might be audited or  
21 subject to audit at some time. That goes directly to your  
22 question, and I'll get to that.

23           CHAIRMAN MENENDEZ: But these are general standards of  
24 audit, as I understand, right? And I'm going to go under  
25 the assumption that everybody's read this report?

1 MS. SWANSON-RIVENBARK: I don't think you've been  
2 provided that, though.

3 CHAIRMAN MENENDEZ: No, the Board, though? Everyone  
4 on the Board was provided--

5 MS. ST. JOHN: You were provided that in July or some  
6 time ago. I provided you with that upon request.

7 MR. ALVAREZ: This?

8 MS. ST. JOHN: This report.

9 MR. ALVAREZ: Okay.

10 CHAIRMAN MENENDEZ: But my concern is that the Board  
11 Members have read it, and that they can ask questions about  
12 it that they might have or concerns about it, and if we can  
13 go from the generalizations of the audit standards--  
14 because I'm sure it's safe to assume that we're not going  
15 to choose an external auditor that has a conflict that  
16 would go against the rules and regulations. But if we can  
17 go just straight to the pros and cons.

18 MS. ST. JOHN: But, actually, it has something to do  
19 with that.

20 CHAIRMAN MENENDEZ: Okay.

21 MS. ST. JOHN: Because in choosing someone, there are  
22 some threats there. And if you look at Page 2, there are  
23 some threats with-- self-interest threat, financial or  
24 other interest, which would inappropriately influence an  
25 auditor's judgment.

1           There's a bias threat as a result of a potentially  
2           political position.

3           There's a familiarity threat with aspects of a  
4           relationship with management that would lead an auditor  
5           maybe not to be objective.

6           Undue influence; management participation, and a  
7           structural threat.

8           These things are really viable and very important to  
9           consider, because it's not whether they would breach that,  
10          it's whether that independence and these standards could  
11          maintain themselves when you're looking at an outside  
12          auditor.

13          As a matter of fact, just recently, the City of  
14          Hollywood was under attack by the Broward Office of the  
15          Inspector General, and the Mayor just recently, two days  
16          ago, said he did not want an external auditor firm, he  
17          wanted an in-house auditor to look at the day-to-day  
18          operations of the organization, because of what they found  
19          in that organization. And I think that that's really  
20          important.

21          MS. GOLDSTEIN: And I also think that those standards  
22          are the same whether you have an internal or external  
23          auditor.

24          CHAIRMAN MENENDEZ: Yes, I agree.

25          MS. KNIGHT: That's also identified in the report--

1 the Verdeja Report, Page 7.

2 CHAIRMAN MENENDEZ: Yeah. I mean, the risks are on  
3 both sides, and I don't think that we should, you know, go  
4 over and explore the risks on both sides. We're not  
5 questioning--

6 MS. SWANSON-RIVENBARK: Excuse me, Board. Lori, I  
7 just remind you that the Chair's in charge of this meeting.

8 MS. ST. JOHN: Yes, that's fine.

9 CHAIRMAN MENENDEZ: And we're not questioning either  
10 side's independence on either one of these issues. We're  
11 looking at this subjectively as just the hybrid versus the  
12 internal versus the internal/external functions.

13 MS. ST. JOHN: Okay. So if you'd like, I'll go to  
14 pros and cons of outsourcing on Page 4. In 2009, there was  
15 a study by the Institute of Internal Auditors, and I think  
16 it's important with regard to their position when it comes  
17 to utilizing external sources for a full or a partial  
18 outsourcing.

19 They concluded that it was not more efficient or  
20 effective to provide the internal needs of an organization.  
21 There was a general consensus that if a decision was made  
22 to partially or completely outsource, that an in-house  
23 auditor be on staff as an independent coordinator and  
24 liaison. That goes directly to your question with regard  
25 to, what does that mean when it says, the IIA believes that

1 the oversight and responsibility of the audit activity  
2 cannot be outsourced?

3 If you look below, it says, you can't really have  
4 someone on the inside who is a non-- who has non-internal  
5 audit responsibilities oversee that operation, because they  
6 can direct them in manners that might conflict with the  
7 independence. Its independence that's so critical with  
8 regard to an auditor's view of the operations of an entire  
9 city, what gets audited, what doesn't get audited. That  
10 paragraph--

11 MS. GOLDSTEIN: Wait, wait, wait. Do you think  
12 they're suggesting that, because I didn't hear that?

13 MS. ST. JOHN: I'm not saying they're suggesting  
14 anything, no. This is not--

15 MS. GOLDSTEIN: You're just going through your report?

16 MS. ST. JOHN: Right. This is not about them at all.  
17 This is about the standards, and this is about what happens  
18 when you're looking to outsource.

19 MS. GOLDSTEIN: Okay.

20 MS. ST. JOHN: This is what the IIA is suggesting.  
21 All I'm doing is bringing forward what the governing bodies  
22 are suggesting, and it's the IIA's position, and they have  
23 done great studies on this, that you cannot outsource that  
24 activity, and have it be overseen by a non-internal audit  
25 person. And there's reasons for that, a great many that

1 get kind of complicated, but I'm trying to-- if you read  
2 through this very carefully, you'll see why.

3 The IIA recommends performing a very great pros and  
4 cons analysis when you're looking at outsourcing  
5 completely, and which requires a great deal of formal  
6 reporting. Some of the factors are listed on Page 5 with  
7 regard to the IIA's suggestions with regard to what you  
8 look at.

9 The independence, obviously, is always number one.

10 The staffing. You talked about staffing yourself,  
11 sir, with regard to possible change of staff.

12 The lack of institutional knowledge from an internal  
13 audit perspective.

14 The retention of knowledge when you change staff  
15 members in an outside firm.

16 The culture of the organization. You know,  
17 receptiveness to providers, and what have you.

18 The coordination of in-house internal auditing. Who's  
19 going to decide what gets done, and how is that decided?

20 Retention. We have problems, you know, maybe  
21 potentially with ownership of workpapers. That has to be  
22 clearly defined.

23 And I mentioned previously, the follow-up on  
24 recommendations, which is really important with regard to  
25 making sure that those recommendations get followed. It's

1 a little bit disjointed to have one organization issue a  
2 report with findings and recommendations, and then have a  
3 person on staff, that is not an auditor, to then follow  
4 through and make sure that those recommendations are  
5 implemented. Someone that might not even have the  
6 knowledge and expertise in order to make sure that that  
7 happens.

8 And then everyday access and availability to City  
9 staff. You know, that was really important in the recent  
10 Commission hearings that I listened to in Hollywood. They  
11 want someone there every single day, you know, to oversee  
12 the City's operations, to make sure that there was pretty  
13 much a watch dog, who someone could call on a daily basis,  
14 without additional billing, because, as you know, the Chief  
15 Compliance Officer's position is an exempt employee and  
16 works, you know, regardless of how many hours, to get the  
17 job done.

18 And then physical presence in the environment is also  
19 really, really important. I can't tell you how many times  
20 employees have come to me, personally, and, you know,  
21 talked about a situation or brought something to my  
22 attention, and feel very comfortable in doing that. I  
23 think that's a value of the internal audit organization, as  
24 well.

25 If you look, then, again, on Page 5, also, when you're

1 doing an analysis like this, you look at best practices,  
2 and I brought to your attention the best practices outlined  
3 in QFinance, which includes the Vice-Chairman of  
4 PriceWaterhouseCoopers, to talk about the reasons why. And  
5 I'm not suggesting that this firm or any particular firm  
6 does this. I'm talking about what this study has brought  
7 to my attention, which I'm now bringing to your attention,  
8 for you to utilize in your evaluation.

9 In this particular study, there was an international  
10 auditing guideline for both internal and external auditors,  
11 including public sector accounting standards, and they  
12 found, through this individual Board that performed the  
13 evaluations of partners in other firms, were looking at the  
14 individual's ability to garner greater fees from existing  
15 and new clients. So selling additional services, because  
16 people are now offering services as an internal audit  
17 basis, for other revenues for that firm, doesn't mean that  
18 it's a greater opportunity in all regards for the auditee.  
19 It could perhaps mean, as is stated in here, that these  
20 firms are looking to grow these services because it's  
21 highly lucrative.

22 In that regard, the chief auditor of the oversight  
23 committee commented on the emphasis of which these firms  
24 sought to capitalize on this, and, you know, the criteria  
25 sometimes was, are we making enough money?



1           In that regard, the advantages of engaging an external  
2           audit firm also in the same aspect, you know, are you all  
3           sometimes this higher quality of personnel? That's been  
4           disputed as well. As you know, you can get us a junior  
5           member. As you so clearly stated, you know, you can't  
6           argue, I don't like that staff member. They only have  
7           three years. We had an auditor with 35 years. You know,  
8           it's difficult to start having that discussion with someone  
9           that you have entertained a contract with.

10           And then, finally, as we move forward, I point out  
11           on-- it's very important, on Page 6, in addition to the  
12           threats posed to independence noted above, other  
13           fundamental principles of professionalism, including  
14           integrity, objectivity and due care, are threatened by the  
15           advocacy threat-- again, this is not what I'm saying. This  
16           is what the standards and the reviews and studies by  
17           governing bodies are saying-- the threat that a  
18           professional accountant will promote a client's position to  
19           the point that their objectivity is compromised. And,  
20           indeed, independence can be compromised and impaired when  
21           an outside firm is concerned about bringing to light issues  
22           criticizing management which could jeopardize their future  
23           engagement.

24           And, then, finally, as we move down the page, I  
25           brought up Arthur Anderson for a reason, everyone knows

1           about what happened with Enron. In a study done in  
2           analyzing what happened, it was widely believed that one of  
3           the contributing factors to this was the audit failure in  
4           the Enron case, is because there was an outside firm that  
5           was doing internal auditing, as well. And so they failed  
6           to concentrate sufficiently on its responsibility for the  
7           financial statements. Of course, there's a significant  
8           difference, obviously, between an internal auditor and an  
9           external auditor. The internal auditor, as we know, is  
10          designed to benefit the organization.

11                 And then, if we look at the pros and the cons, as the  
12          external auditors here did today, the pros, you know, are  
13          obviously, a reservoir of knowledge about the City.

14                 Nuances concerning the organizational structures. I  
15          mean, even something as small as the-- Cathy, that we spoke  
16          about at one point. You know, how do we bring that out to  
17          employees? Do we just throw it out there or do we make it  
18          mandatory? Even small little things like that, that  
19          someone on the inside would know, but someone on the  
20          outside won't know. You take that, and you magnify that on  
21          a much larger scale, and you get a significant difference  
22          in your results.

23                 Also, the personal development and experience in  
24          dealing with the challenges of the organization. It's  
25          really important-- and, John, you'll know this more than

1 anyone, you've been on this Board, I think, longer than  
2 everybody here. You know what has transpired from many  
3 years ago to today's period of time, and how that  
4 development has clearly enhanced the City and benefited the  
5 City. And as we know, there is so much more to be done.

6 You can read the rest of the benefits yourself-- the  
7 pros. I think it's really important, though, you know, to  
8 understand the experience and the institutional knowledge,  
9 I think, is probably something that you-- not probably--  
10 something that you cannot and will not get from an external  
11 auditor.

12 And finally, on Page 8, when we're looking at best  
13 practices, and this is citing the Institute of Internal  
14 Auditing, the internal auditing function should be  
15 maintained within the organization by a chief audit  
16 executive who is accountable to the organization's Board of  
17 Directors and its Chief Executive Officer.

18 The oversight and responsibility for establishing the  
19 scope and evaluating the performance of internal auditing  
20 cannot be outsourced.

21 And I really want you to take a look at that. It's  
22 not, again, my words, but this is from the Institute of  
23 Internal Auditors, and these standards are not just, well,  
24 are they not going to do it? This is something that the  
25 City of Coral Gables must establish. It has nothing to do

1 with who can and who cannot implement that.

2 And as we look, then, to the bottom of this, this was  
3 a study done by the banking industry. Relevant to all  
4 industries, including government entities, the importance  
5 came about in this to realize that it came about in this  
6 particular study that if internal audit weaknesses  
7 materialize as a result of an outsourcing arrangement, a  
8 key component of internal control would be weakened,  
9 potentially, causing an unsafe and unsound operating  
10 environment.

11 And as we're moving toward the end of this, now I draw  
12 your attention to the top of Page 9, and specifically as it  
13 pertains to the AICPA. The AIPCA challenged the belief  
14 that external audit firms were the most efficient solution  
15 to outsourcing internal audit, because outsourcing this  
16 function to an external auditor has a high potential to  
17 compromise the external auditor's independence. And I want  
18 you, again, to really think about that when you're going  
19 through this process.

20 And so important is the internal audit function that  
21 if you look at the local Association of Government  
22 Auditors, it talks about that sufficient funds, and I know  
23 we mentioned that previously, about that that's something  
24 that they encourage management not to cut. Because of all  
25 of the funding activities in the City, you need and want

1 that oversight. And the purpose of such guidelines is to  
2 make sure that the function is not compromised to support  
3 management in its goals and objectives. This is to add  
4 value to the City's operations.

5 And then, finally, you know, the institutional  
6 knowledge we talked about. It's unparalleled by someone that  
7 especially has been here for almost eight years, we talked  
8 a little bit about detail. You had suggested maybe there's  
9 too much detail. I'm suggesting that we had little detail  
10 here beforehand, and during the past eight years the detail  
11 that I brought to this organization has brought us five  
12 million from the Biltmore, and back rent has brought us one  
13 million in the beginning, when I got here, and 345,000 in  
14 recurring revenue.

15 Just recently, Cathy, in a recent study, I found out  
16 that we were overbilled \$52,000 by outside consultants on  
17 the City 2 pump station. About 25,000 of that we already  
18 paid. If I didn't pay attention to detail, if I didn't  
19 know how to review contractual language, work with the  
20 attorneys, and understand the nuances of all of that, all  
21 of this would be lost. And are you going to gain this type  
22 of experience and knowledge from an outside firm? I'm  
23 suggesting that you would not.

24 And then, finally, you know, the efficiency and  
25 effectiveness of citywide operations is really important,

1 not just to the City Manager, but to this oversight  
2 authority, this Board, who is responsible to make sure that  
3 the organization is run as it should. And not only that,  
4 to make sure that any problems, any findings and  
5 recommendations, come to the Board. That you are aware of  
6 everything that is found in the Internal Audit Division.

7 And then, finally, in the conclusion, it is-- we can't  
8 overemphasize institutional knowledge that's there. That  
9 retention cannot be made-- the internal audit's position  
10 has always been at the disposal of the City Manager and  
11 used very frequently when the City Manager has asked me,  
12 not just this City Manager, I've been through four  
13 different management positions, you know, where I've worked  
14 for four different people, and many of them will call in on  
15 many of these different special projects, and some of them  
16 were timely, some of them were urgently calling for an  
17 evaluation, some of them were extremely complex, that an  
18 ordinary person in finance or accounting would not be able  
19 to handle, and I bring that to your attention because  
20 oftentimes, you know, auditors, we always tease each other  
21 in our little field. A lot of people don't really know  
22 what is involved in internal auditing. What does it really  
23 take when you're analyzing businesses profits, and bring to  
24 the Board that you are responsible to report to, because  
25 you want to make sure that the City is operating in the

1 most efficient and effective way possible. And so without  
2 that day-to-day, you know, onsite presence, with strong  
3 management on top, you know, a disconnect will follow. And  
4 I say strong management on top, because I need to share  
5 with this Board that in my experience in the past eight  
6 years, with several different managers, I see a direct  
7 correlation between the management tone on top, and the way  
8 employees function. I see a direct correlation with, are  
9 they behind internal audit and supporting internal audit as  
10 a function, and making sure the directors and the staff are  
11 following through? Because, if they are, I see things  
12 getting accomplished much more quickly. If they're not, I  
13 see that things are kind of faltering.

14 CHAIRMAN MENENDEZ: Okay, Lori, that's good. I just  
15 want to make sure that we have time for questions, and I  
16 want the CPA firm also to go on their way if they have  
17 things to do, since we have been running long.

18 (Thereupon, a short recess was taken for the court  
19 reporter, after which the following proceedings continued:)

20 MR. VERDEJA: I appreciate the passion. I understand  
21 that this is an employee of the City. I'm just meeting you  
22 today for the first time.

23 We were asked to do something with no bias whatsoever,  
24 and it was told to us from day one, there's no bias here.  
25 We're not going this route. We're not going this route.

1           You guys are going to come in, and you are going to look at  
2           this. So that's what we did, and we looked at it, and we  
3           thought this hybrid model would be the best. I don't think  
4           anything you've said-- maybe I shouldn't say everything  
5           you've said-- but almost everything you said conflicts with  
6           anything we've said. I think that we agree, you know, what  
7           you were reading about.

8                     I think independence was an area that you emphasized a  
9           lot, but I think, what is more independent than having an  
10          independent firm, you know, that doesn't get a payroll  
11          check, that's as independent as you get? Obviously, they  
12          get paid, but that's independent. So I don't think that is  
13          an issue. I mean, I think that if you found out that one  
14          of the partners was running for Mayor of the City, that  
15          would be a conflict, and you would stop it immediately, but  
16          I think that goes without saying. You know, you might run  
17          into things like that, but I think that everything that  
18          you've said, you know, I agree with.

19                    The responsibility can't be outsourced. You know, at  
20          the end, whether this hybrid person, this person in-house,  
21          the responsibility has to be here. You know, it can't be  
22          something that you give and walk away. That person has to  
23          follow-up, as you said, and I think that most of the  
24          comments that were in your report, throughout the report,  
25          were correct, as far as, you know, what we've said and what



1           you've said pretty much align.

2           What we're saying is that we believe that this hybrid  
3 model should be tried; that it's worth going out for RFP.  
4 It's worth finding out what's out there. It's worth  
5 finding out what you can get, and for how much, and make  
6 all of your demands up front, you know, with this firm, and  
7 make all of your demands in your RFP, everything. That's  
8 part of the process.

9           So, I guess I'm not shocked by anything that was in  
10 your report that would sway me to change my mind. You  
11 know, we have our pros and cons, and they're in the  
12 report-- in our report, and many of them are exactly what  
13 you said for both, external and internal. So, I mean,  
14 again, you know, you did your homework, obviously, and we  
15 did ours, and we came to our conclusion, because that's  
16 what you asked us to do.

17           CHAIRMAN MENENDEZ: And we appreciate that.

18           Lori, you had a question, and I don't know if--

19           MS. GOLDSTEIN: Cheryl.

20           CHAIRMAN MENENDEZ: Cheryl.

21           MR. HOLIAN: It's a friendly term, Lori.

22           MS. GOLDSTEIN: I'll hold my peace on that.

23           CHAIRMAN MENENDEZ: Okay, great. We're going to move  
24 to the next discussion item. We appreciate the work you  
25 guys did, and thank you very much.

1 MR. VERDEJA: Thank you.

2 MS. GOMEZ: Thank you very much.

3 MS. SWANSON-RIVENBARK: Chair, is there a need for me  
4 to remain?

5 CHAIRMAN MENENDEZ: No. I believe the rest is  
6 standard. Now we're going to go to the quarterly overtime  
7 reports.

8 Lori, do you have anything else for our meeting?

9 MS. ST. JOHN: No. Other than that, I just gave Cathy  
10 her copy, and I want to hand out the rest, everybody  
11 else's. I think you'll find that some of this is  
12 important. I did not want to go through their report.  
13 There were many things that were in error in their report,  
14 and I brought that to your attention. And just there are a  
15 lot of things that are significant for this Board's review,  
16 that you want to look at in this particular package.

17 CHAIRMAN MENENDEZ: Okay, great. So let's go to the  
18 overtime reports. And we appreciate you coming in.

19 MR. KLEIMAN: Okay. Go to Page 2. It has the entire  
20 City. If you notice, there are some increases in overtime,  
21 and I'd like to go through those. The City Clerk and Human  
22 Resources has experienced overtime, and if you look at  
23 their percentages, they're a little high, but they budget  
24 overtime as needed. So if you need \$5,000 of overtime,  
25 we're budgeting 5,000 overtime, so it's very close to a

1 number that's higher than a 25 percent percentage. We  
2 don't budget ahead of time for those departments for  
3 overtime, because, again, it's budgeted as needed.

4 Development Services. Last year we mentioned we  
5 wanted to break out each of the different types of  
6 overtime, and, unfortunately, when their reimbursable  
7 overtime was set up-- the process internally-- it wasn't  
8 set up through me. So as you can tell, if you look at  
9 Development Services, under the 14-00 column, their actual  
10 in the first quarter is significantly high. What they're  
11 still doing, and we're now going to fix it, they're still  
12 registering all of their overtime in the 14-00 account, and  
13 then reimbursing it through the 14-01 account. We don't  
14 want that to happen.

15 CHAIRMAN MENENDEZ: Okay. I have a quick question.  
16 When you say, "reimburse," you mean you guys, for some  
17 reason, out of necessity, created a budget for overtime?

18 MR. KLEIMAN: Uh-huh.

19 CHAIRMAN MENENDEZ: And that's where they reimburse  
20 from?

21 MR. KLEIMAN: No. The budget is \$2,318. They're  
22 charging regular City overtime, plus overtime that they're  
23 incurring, that is reimbursable.

24 MS. GOMEZ: From an outside source.

25 MR. KLEIMAN: From an outside source.

1           CHAIRMAN MENENDEZ: So this is still reimbursable like  
2 when the police is shared with someone else?

3           MR. KLEIMAN: Right. Everyone else has been  
4 separated. This one was not set up correctly, so that's  
5 why you're going to see it the way it's working right now.  
6 All of the others have been set up correctly, so it's just  
7 a lot cleaner, okay. You know, overtime is no longer  
8 pensionable, so we now separate everything, and each one  
9 has nothing to do with the other, okay. So Development  
10 Services, we are owed money in collections, so that's  
11 basically what it is.

12           Okay. Public Works. Their number is 38 percent,  
13 which is high. What they've incurred is event-- special  
14 event overtime, which should not be charged to them. This  
15 is one of the weaknesses that-- actually, going through  
16 this has uncovered that Parks and Recreation is not  
17 budgeted for sufficient overtime for special events. So  
18 what we are going to do is journal the event overtime over  
19 to Parks, and then make Parks whole, because if you look at  
20 Parks right now, you're going to see that Parks and  
21 Recreation only has a small budget of like \$3,000. It's  
22 not enough to cover that.

23           Now, once we do the journal entry in the Public Works,  
24 it will bring it down close to 25 percent, which is right  
25 on the money. So we have some internal work to do to fix

1 up Parks and Recreation. And in the future, I've talked to  
2 the Parks and Recreation Director, for the FY17 budget,  
3 he's going to submit a new-- a decision package to correct  
4 the overtime budget for special events, okay. So going  
5 forward for next year, so you won't see it necessarily here  
6 until maybe the second or third quarter. We're going to  
7 fix this year temporarily.

8 MS. GOLDSTEIN: Where is it coming from?

9 MR. KLEIMAN: Right now it's going to come from  
10 contingency. We have a contingency account. Next year, it  
11 will come as part of the budget process and be approved by  
12 Cathy during the decision making.

13 Okay. Let's go to the next page, for Fire and Police.  
14 Now, their numbers are up substantially. Now, just so you  
15 know, if you take a look at the bottom line of the first  
16 column on either side of these pages, you're going to see a  
17 budget of \$1,170,00 last year, and this year it's  
18 \$1,235,00.

19 Homeland Security basically made recommendations that  
20 during the holiday period, that the City ramp up its  
21 coverage, and that's what we did for both, Police and Fire.  
22 For Police, it came out to \$65,000, of which we gave them  
23 money. We budgeted money from them. We took it from  
24 salary surplus, because they have so many vacancies, and we  
25 put it in here, because we had to make them whole. Their

1 overtime budget is not for that type of special coverage.  
2 So we made them whole. That's where you see the budget has  
3 gone up.

4 Now, that said, they are still experiencing tremendous  
5 amounts of vacancies. We have the Vacancy Report if anyone  
6 wants to see it. It's actually as of 1/21. If anybody  
7 wants it, please let me know, and I'll pass it out. So  
8 their overtime is going to be maintained well into the  
9 year. As you know, there have been issues with  
10 recruitment. They are actively recruiting, but it's been  
11 difficult, and every city, including Miami-Dade, I think  
12 their vacancies are 400 vacancies. So we are competing  
13 with a tremendous vacancy pool.

14 MR. HOLIAN: And the time frame. It's like 18 months  
15 to 24 months, something like that.

16 MR. KLEIMAN: Oh, it's been difficult. It's been very  
17 difficult.

18 MR. HOLIAN: Even if they wanted to hire, we're still  
19 a year-and-a-half out.

20 MR. KLEIMAN: Right. And keep in mind, also, that  
21 we've been increasing our range, the salary range for  
22 Police, and coming into FY17, we're going to boost it up  
23 one more time. At the end of the three-year period, we're  
24 boosting the range to be more competitive, okay. So their  
25 overtime is going to be going through at least until the

1 third quarter, and may go even further, okay.

2 Now, for Fire, their Homeland Security coverage was  
3 \$61,000, and we've made them whole for that. And then, on  
4 top of that, you can see it went from \$350,000 to 471. The  
5 350 went-- we gave them \$60,000 in the FY16 budget process,  
6 and that was to make sure they could have their minimum of  
7 32 staffing on every shift, and so that was one piece. And  
8 then it goes from 410,000 to 471. That 61,000 is the  
9 special coverage that they did during the holidays, and we  
10 had no choice but to do it. The Commission knew about it,  
11 Cathy knew about it, and they were directed by the Director  
12 of Public Safety, in order to ramp up.

13 MR. HOLIAN: Is that 61,000-- I don't mean to  
14 interrupt-- something that's going to be ongoing, do we  
15 think? I mean, considering the environment. Or is that  
16 going to be an annual decision?

17 MR. KLEIMAN: So far, it's annual. This one came down  
18 very, very quickly. We didn't even know about it.

19 CHAIRMAN MENENDEZ: This was Christmas, Halloween,  
20 Thanksgiving.

21 MR. KLEIMAN: Well, not Halloween. I think it was  
22 just Thanksgiving and-- from November through-- so it was  
23 significant. And that actually boosted the minimum  
24 staffing to 34, okay. So, now, their overtime is very  
25 heavy. For Fire, they have now, I think, eight vacancies.

1           CHAIRMAN MENENDEZ: See, I'm not really okay, but I  
2           see the police overtime, and I keep hearing about the  
3           recurring issue of the police overtime, but when you see  
4           Fire with overtime, and you see that you gave a test and 60  
5           people passed it, and 50 showed up for interviews, every  
6           time you pay overtime, you're paying time-and-a-half, and  
7           you are putting a strain on the individuals that are  
8           working. So I don't see why Fire has these vacancies at  
9           the same time the Police has it.

10           MR. KLEIMAN: Well, there's a lot of vacancies,  
11           because we're losing people very, very quickly. At least  
12           two-thirds are in the DROP right now, and they're ready to  
13           retire. Right now what the City has done is put a program  
14           into place where we're looking well in advance of their  
15           retirement, and so now we're working this current list of  
16           candidates, so that we're going to cover the ones that  
17           haven't even given us their notice yet.

18           CHAIRMAN MENENDEZ: I saw the-- forecast for Police  
19           was six people by May of this year. I don't remember  
20           seeing Fire.

21           MR. KLEIMAN: They probably haven't advertised it yet,  
22           but I spoke to the Chief, and there's another five or six  
23           coming off beyond what's showing on the Vacancy Report  
24           right now.

25           MR. HOLIAN: When you say two-thirds are in the DROP,



1 two-thirds of what, the whole force?

2 MR. KLEIMAN: Yeah.

3 CHAIRMAN MENENDEZ: That means they have have, what,  
4 two years?

5 MS. GOMEZ: Eight years. They have an eight-year  
6 DROP.

7 CHAIRMAN MENENDEZ: For Fire?

8 MS. GOMEZ: For the Fire, yes.

9 MR. KLEIMAN: Yes.

10 CHAIRMAN MENENDEZ: I'm sure you guys have a schedule.

11 MS. GOMEZ: Yes.

12 MR. KLEIMAN: Absolutely.

13 MS. GOMEZ: What we're doing now is we're budgeting  
14 and starting the recruiting process before the person-- if  
15 this person is going to leave in December, let's just say,  
16 we may start now in February, March to recruit that person  
17 who is out, so that we have the six to nine months in line  
18 and in place, both through--

19 MR. KLEIMAN: And the current list of candidates is  
20 sufficient to cover the anticipated retirements.

21 MS. GOMEZ: For Fire.

22 MR. KLEIMAN: For Fire, yes.

23 CHAIRMAN MENENDEZ: For Fire, once you take the test,  
24 and once you come in and interview, what's the turn around  
25 time until you're actually trained and put into the job,

1           because I remember with Police, it's ride alongs? It's a  
2           much longer process.

3           MS. GOMEZ: It is a longer process for Police. I'm  
4           not sure exactly what the process is for Fire.

5           MR. KLEIMAN: We can find that out for you, and get  
6           the information back to you if you'd like.

7           MR. HOLIAN: It's definitely shorter.

8           MS. GOMEZ: It is shorter, right.

9           CHAIRMAN MENENDEZ: It's just that the overtime is  
10          concerning, and you have people lining up for it.

11          MR. KLEIMAN: Right.

12          MR. HOLIAN: I would think you would have-- well, you  
13          probably do have a zillion people lined up, but I guess  
14          it's qualified people.

15          MS. GOMEZ: Right. And if you think about it, it was  
16          the Chief who requested the lead time within the six to so  
17          months. So, obviously, maybe it's within that period at  
18          some point, because they developed that schedule how early  
19          in advance we're going to start recruiting.

20          MR. KLEIMAN: Right. Now, according to the Chief, we  
21          should be leveling off close to the 60 percent by the end  
22          of the second quarter. As far as those things, I'm sort of  
23          a show me type of guy, okay, so show me that. But he said  
24          that he's very satisfied with the list that's out there  
25          right now. It's enough to cover the current vacancies,

1 plus the anticipated vacancies. So I'm suggesting that it  
2 will equalize, I'm saying, conservatively, more into the  
3 third quarter, but he says possibly by the second, okay.

4 Any questions?

5 CHAIRMAN MENENDEZ: Okay. So we've gone over the  
6 overtime reports. There's no questions. Next on the  
7 Agenda is the Charter Review Memos. That's for the Board's  
8 information.

9 MS. GOMEZ: Right. I just provided them because, you  
10 know, it's something that's going on now, and one of them  
11 does potentially affect the Board, if it does get adopted  
12 by the-- it would be-- Charter Amendments are by  
13 referendum, so it will be a vote to the citizens-- you  
14 know, to the residents. And so it's the first one on the  
15 annual audit, so they're just saying-- this Board hasn't  
16 really had a lot of interaction with the external auditors,  
17 so this would just kind of make it that the-- you know, the  
18 auditor will report directly to the Commission and to the  
19 Budget Advisory Board. This is the external audit for the  
20 financial statement audit, and so it's also suggesting or  
21 mandating a mandatory rotation, every six years, at  
22 minimum, and so I just wanted to make you aware of that.  
23 And then there are other times that are there that if you  
24 had any questions about it, I can get some information for  
25 you, but, again, since the one item--

1           CHAIRMAN MENENDEZ: Those are all of the  
2           recommendations from the Charter Review?

3           MS. GOMEZ: Yes. These are the ones that were  
4           provided to me from Legal. I'm not involved in the  
5           process. There's a committee that was established, the  
6           Charter Review Committee, and when asked, these were the  
7           items that had been recommended by them.

8           CHAIRMAN MENENDEZ: Does anybody have a question about  
9           the Charter Review?

10          The next ting is discussion items. Informal  
11          discussion among Board Members. So anybody have any new  
12          thing they want to bring up at this point?

13          MR. HOLIAN: I have a question. When are we going to  
14          discuss this presentation, this information, and--

15          MS. GOMEZ: I mean, I would have thought that it would  
16          have been now. I don't know. I mean--

17          MR. HOLIAN: We need to have a conversation about  
18          that.

19          CHAIRMAN MENENDEZ: My concern is that we keep going.  
20          Now we have the findings, we have the reports. The  
21          decision is, obviously, in the hands of the City Manager,  
22          and we just give a recommendation.

23          MS. GOMEZ: Right. I can ask the City Manager to come  
24          back in and see what she's expecting.

25          CHAIRMAN MENENDEZ: Yes. I think that would be--

1 MR. HOLIAN: Yes, certainly.

2 MS. ST. JOHN: Now, keep in mind that I had asked you  
3 to please review, you know, this document, because there  
4 are significant things in there that are very important.  
5 There is much of the data in their report that is not true,  
6 like Miami Beach is not outsourced. I spoke directly with  
7 the City Manager and the Finance Department. It is, in  
8 fact, not outsourced. So there's some information in their  
9 reports that are inaccurate. And if you base your decision  
10 on the underlying data, you might be going down the wrong  
11 path. So I please just, again, for the record, say that  
12 you read that, because I think it's very significant with  
13 regard to your decision.

14 MS. GOLDSTEON: So I have a couple of comments that  
15 you can take. One, Lori, although I know it might be  
16 difficult, I don't see this as our personal evaluation of  
17 you and your work. And so in looking at the proposal on  
18 whether to stay internal or external or like that liaison  
19 function, I would look at it as management to decide what  
20 the qualifications are for that liaison person, and I  
21 would-- you know, from my stand point, and I would hope  
22 from the Board, you know, that this is not our personal  
23 evaluation of your work, and we're just trying to look at  
24 what the options are and then go forward from there. So  
25 saying that, I think there's no harm in going out for an

1 RFP, and looking at what the options are to see what's out  
2 there, what they can do with whatever resources that the  
3 City decides that they want to put toward internal audit.

4 My second comment is that, from your report, I just  
5 want to make note that there's a lot of things that can  
6 change within an organization that will determine what a  
7 particular department budget is, and while I don't think  
8 anyone is explaining or is asking for the budget to be  
9 decreased, what I'm saying is that we see a need and we're  
10 looking at how to expand the function. Over time different  
11 procedures and policies can be in place and proven that--  
12 as you've said many times, improvements have been made to  
13 an organization. So, you know, I don't think you can say  
14 you should never decrease a budget.

15 And, lastly, I would just like to recommend that we  
16 move forward with the RFP process as a Committee, if that's  
17 on the table.

18 MS. ST. JOHN: Can I just make one comment about that?  
19 It's not that--

20 MS. SWANSON-RIVENBARK: Lori, I don't want us to be  
21 argumentative.

22 MS. ST. JOHN: No, I'm not being argumentative. I'm  
23 just correcting her statement.

24 MS. SWANSON-RIVENBARK: You don't need to correct her  
25 statement. She's a Board Member, appointed by the

1 Commission.

2 CHAIRMAN MENENDEZ: And my question was, we want to  
3 discuss this, and we don't have to discuss this openly, and  
4 I honestly thought Cheryl's comments-- and this is not a  
5 personal thing-- I didn't know as a Board if we can discuss  
6 this in private or if you are here as a public or private  
7 member.

8 MS. SWANSON-RIVENBARK: Mr. Chair, if I can?

9 CHAIRMAN MENENDEZ: Yes.

10 MS. SWANSON-RIVENBARK: Thank you for inviting me  
11 back. This is your meeting. At this point, Lori and I are  
12 members of the public. You know, it's a public meeting.  
13 We're allowed to come in and observe, but we don't have to  
14 participate. So if you step into conversations that are  
15 just amongst the Board, that is your prerogative as the  
16 Board. It is our right to be here to observe those  
17 discussions, but we don't get to comment, and we need to  
18 respect that.

19 CHAIRMAN MENENDEZ: So at this point, what I would  
20 like to ask--

21 MR. GOLDSTEIN: And it's a public record.

22 MS. SWANSON-RIVENBARK: Absolutely. It's being  
23 recorded, and we got you an outlet that works.

24 CHAIRMAN MENENDEZ: So my question is, before the  
25 Board internally discusses our ideas behind these reports,

1 can you give us a clarification on what you want from us in  
2 terms of recommendations or do we make a motion or  
3 procedurally what should we do next in regard to this one  
4 item?

5 MS. SWANSON-RIVENBARK: So staffing is my sole and  
6 exclusive right. Who, what, how much, and any additions we  
7 would need to bring to the Commission through the budgeting  
8 process, which we work with Budget to do, in terms of  
9 needs, request, and all. But I value the input of the  
10 Budget Advisory Board, and so as we come to this crossroads  
11 of do we provide more monies internally or do we pursue  
12 external to compliment or what version do we do, I really  
13 need your input and expertise, because this is a  
14 partnership. You all are appointed by the Commission. I  
15 am appointed by the Commission. The role of good internal  
16 auditing and processes are very important. How to get  
17 there, we are looking for your recommendation. That  
18 recommendation isn't necessarily to the Commission. It's  
19 included in the minutes. It's actually to us, so that I  
20 know the options of moving forward.

21 CHAIRMAN MENENDEZ: Great. I appreciate that. So  
22 apart from any personnel type decisions, we know we're not  
23 involved in at all, does anybody want to make any comments  
24 about the actual options that we were showed today and any  
25 opinions on them?



1 MS. ST. JOHN: Cathy, could I just ask one thing?

2 MS. SWANSON-RIVENBARK: He's the Chair.

3 CHAIRMAN MENENDEZ: Yes. I was asking the Board if  
4 anyone wants to say anything.

5 MR. HOLIAN: One question I have is, do we know what  
6 we want an RFP for? Like specifically if we just said we  
7 want an RFP for a hybrid internal/external audit plan, is  
8 that something--

9 CHAIRMAN MENENDEZ: I was going to ask if this third  
10 party-- this CPA firm could-- if we could increase the  
11 scope of their work to actually maybe draft or help with  
12 our decision. Once we talk about what best decision we  
13 would go with, maybe they can help with the structure,  
14 which is the concern you have. I know that we have  
15 overall-- you have overall decision and ownership of what's  
16 done in internal audit, but they can help, since they're  
17 independent, in that sense, come up with maybe some of the  
18 language that we would want. But before we get there, I  
19 guess we would have to ask, what do you guys feel about the  
20 options on the table?

21 MS. GOLDSTEIN: I think I've stated mine.

22 CHAIRMAN MENENDEZ: Okay.

23 MS. KNIGHT: I would agree to move forward with an  
24 RFP.

25 MR. HOLIAN: I would agree to move forward with an

1 RFP, with the understanding that we know what we are  
2 RFP'ing. I know I don't have the skill set to add value in  
3 that. So I would agree with your words, if we can agree to  
4 have the external consultants prepare, and say, if we were  
5 to go forward with the RFP, please give us an outline of  
6 what we would like to request, so on and so forth, and,  
7 then, once we get that, I think--

8 MS. GOLDSTEIN: Or we can do it internally, and they  
9 can review it.

10 MR. HOLIAN: Yeah. If we know the scope of what we  
11 want, sure.

12 CHAIRMAN MENENDEZ: Jose?

13 MR. SMITH: I agree with going forward.

14 CHAIRMAN MENENDEZ: Okay. And I believe we don't have  
15 to make a motion. But I believe there's a unanimous  
16 consent that we should look at the RFP process for a hybrid  
17 internal/external audit function, and that would be our  
18 recommendation from the Audit Board.

19 MR. HOLIAN: I just have one other comment. This  
20 liaison-- internal liaison, I think there should be-- I  
21 would like to see the scope of work for that person,  
22 because it's very important. It's not as important as  
23 being an internal auditor. I mean, we can't shrug the  
24 responsibility, so on and so forth. I would like the clear  
25 definition of what that role is. Is it a middle level

1 person? Is it a senior level person? And what costs that  
2 might fall under. I don't know if that's the RFP people  
3 that say that, but reading the word, "liaison," I don't  
4 know what that means. It talks between two parties, but  
5 what's the job set for that person-- the job role. That's  
6 my thought.

7 CHAIRMAN MENENDEZ: Anyone else from the Board have  
8 any other comments to that? If not, I think we can move on  
9 from that discussion item.

10 Any other open discussion items?

11 No, okay. Then we'll discuss scheduling for our next  
12 meeting. The next meeting is proposed for Thursday,  
13 February 25th. Does anyone have a conflict with that at  
14 this moment?

15 MR. SMITH: No.

16 MR. HOLIAN: No.

17 CHAIRMAN MENENDEZ: Okay. So as of now, there's no  
18 conflict for the 25th, so we'll send out an invite for that  
19 meeting. And then it's 9:44--

20 MS. GOMEZ: I have a quick question. Is there  
21 anything that the Board would like to see on that Agenda?  
22 I'm not sure if, Lori, you'll have any other audit reports?

23 MS. ST. JOHN: The Police and Property Room audit will  
24 likely be done. It is done, except Cathy, we're waiting on  
25 the response from the police department auditing, but that

1 should be coming in any day now.

2 MS. GOMEZ: And then I will have the Quarterly  
3 Financial Report for the first quarter, which should be  
4 presented to the Commission at the next Commission meeting.

5 MR. HOLIAN: Do you think we can have the information  
6 back from the internal auditors on what the RFP would look  
7 like at the next meeting?

8 MS. SWANSON-RIVENBARK: We'll have to talk to them.  
9 Let me reach out to them, and amend the scope, and go from  
10 there.

11 MR. HOLIAN: Great.

12 CHAIRMAN MENENDEZ: Great. With that said, everything  
13 seems to be adjourned. We're adjourning at 9:44. Thank  
14 you guys.

15 MS. ST. JOHN: Thank you.

16 (Thereupon, the meeting was adjourned.)  
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I, ESTELA L. VALLE, Notary Public, certify that I was authorized to and did stenographically report the foregoing proceedings, and that the transcript is a true and complete record of my stenographic notes.

Dated this 5th day of February, 2016.

*Estela L. Valle*

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ESTELA L. VALLE  
Shorthand Reporter and  
Notary Public.