



11R-202

Introduce: 8-22-11

RESOLUTION NO. A- 86477

1 WHEREAS, the City Council adopted Resolution No. A-86267 on March 14, 2011,
2 requesting the City Audit Advisory Board, pursuant to Art. IV, § 8 of the Lincoln Charter and
3 Chapter 4.66 of the Lincoln Municipal Code, to consider the appropriateness and desirability of
4 performing an independent assessment of the performance of the Department of Public Works
5 and Utilities; and

6 WHEREAS, the City Audit Advisory Board has evaluated the City Council's
7 Resolution A-86267 regarding a performance audit of the Department of Public Work & Utilities
8 and recommends that the audit be divided into two separate engagements, (1) an examination of
9 collected impact fees and activity within the Engineering Revolving Fund and (2) an
10 examination of Engineering Services Division charges in comparison with other cities and
11 private engineering firms.

12 NOW, THEREFORE, BE IT RESOLVED by the City Council of Lincoln, Nebraska:

13 The recommendations of the Audit Advisory Board as set out in the attached
14 Memorandum dated August 10, 2011 regarding type and scope of audit and for separate phases
15 of examination of the Public Works & Utilities Department, Engineering Services Division, are
16 hereby accepted.

Introduced by:

Dee Emery

AYES: Camp, Carroll, Cook,
Emery, Eskridge; ABSENT:
Hornung, Snyder; NAYS: None.

Approved as to Form:

Rich Rea
City Attorney

Approved this 31st day of Aug., 2011:
[Signature]
Mayor

CITY OF LINCOLN ✓

Request for: Ordinance
 Resolution

(Do Not Write in this Space)

Bill Control No. 11R-202 Date: 8-12-11

Docketing Date 8-22-11 P.H. 8-29-11

(To Be Entered by City Clerk)

DATE August 12, 2011	REQUEST MADE BY Marcee Brownlee	DEPARTMENT Law
DESIRED DOCKET DATE: August 22, 2011	IF EMERGENCY, GIVE REASON (See Art. 6, Sec. 2 of Charter)	
Emergency Measure Required: <input type="checkbox"/> Yes <input type="checkbox"/> No		

REASONS OR JUSTIFICATION FOR PROPOSED LEGISLATION

Approving the Audit Advisory Board recommendations, pursuant to Resolution No. A-86267, regarding the appropriate type of audit and the appropriate scope of the audit of the functions, programs and activities of the City of Lincoln, Department of Public Works and Utilities in the areas of operations of its Engineering Services Division and utilization by the Department of collected impact fees.

FILED

AUG 12 2011

CITY CLERK'S OFFICE
LINCOLN, NEBRASKA

REQUESTOR <input type="checkbox"/> DOES <input type="checkbox"/> DOES NOT	WISH TO REVIEW AND APPROVE THIS ORDINANCE PRIOR TO ITS INTRODUCTION	<u>Rob Cooper</u> DIRECTOR'S SIGNATURE	<u>8-12-11</u> DATE
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TO BE USED BY THE FINANCE DEPARTMENT

BUDGET REVIEW	DATE:	ACCOUNT NUMBER AND APPROPRIATE BALANCES	DATE:	FUND AVAILABILITY APPROVED	DATE:
			DIRECTOR OF FINANCE SIGNATURE		

DISTRIBUTION

Return two (2) copies to City Clerk for Docket Number

Memo

To: Mr. Gene Carroll, Chair City Council

From: Mike Justus, Chair
Audit Advisory Board

CC: Lincoln City Council
Mayor's Office
Marcee Brownlee, Assistant City Attorney

Date: August 10, 2011

Re: Audit Advisory Board Activity

This memo is to update you on the activity of the Audit Advisory Board (Board) with respect to the two Council resolutions that have been forwarded to us for action.

Resolution A-86238. This resolution requested the Board to determine an appropriate examination of StarTran. The Board completed its work on this resolution.

Resolution A-86267. This resolution directed the Board to conduct an examination and/or audit of the functions, programs and activities of Public Works in the areas of its Engineering Services Division and its use of collected impact fees.

The Board has met numerous times to work on this latest request and has determined that this request will need to be divided into two or three separate engagements.

The Board first determined that the examination of collected impact fees could best be analyzed through the use of an agreed upon procedures engagement. Under this approach, an outside CPA firm would be hired to determine the City's compliance with the collection and use of impact fees in accordance with the impact fee ordinance established in January, 2003. The Board has completed its work on this portion of the Council's request and it is our understanding that a firm has been selected and a resolution will be coming forward to the Council for approval.

The second portion of the request has consumed most of the Board's attention. After interviewing the Councilman who introduced the Resolution and interviews with Public Works staff, it appears that the focus of the request should be on the Engineering Services Revolving Fund within Public Works. It appears to the Board that the broad request to conduct a performance audit of all of Engineering Services was not the focus of the request and if so, there would be very little likelihood of conducting such an engagement within the \$100,000 limitation imposed by the City Council.

The Board is recommending to the City Council that two separate engagements be pursued. The first would again involve an agreed upon procedures engagement to determine that the activity within Engineering Revolving are being accounted for accurately. Again a firm would be hired to select a

sample of financial transactions and determine that costs are properly allocated and charged to the appropriate projects that Engineering Services is working on.

The second engagement would attempt to compare the rates that Engineering Services charges in comparison with other Cities and other private engineering firms. An attempt would be made to *determine a benchmark for the comparable City's and private firms and then compare the rates charged by Public Works.* To the extent possible, other benchmarks would be developed and compared.

The Board believes that these two engagements would be the most efficient way to analyze what we believe is the intent of the latest Council resolution.

We would appreciate if the Council would review the Board's proposed method of analyzing Engineering Services and either affirm or deny our proposed course of action.



11R-203

Introduce: 8-22-11

RESOLUTION NO. A- 86478

1 WHEREAS, the City Council adopted Resolution No. A-86267 on March 14, 2011,
 2 requesting the City Audit Advisory Board, pursuant to Art. IV, § 8 of the Lincoln Charter and
 3 Chapter 4.66 of the Lincoln Municipal Code, to consider the appropriateness and desirability of
 4 performing an independent assessment of the performance of the Department of Public Works and
 5 Utilities; and

6 WHEREAS, the City Audit Advisory Board has evaluated the City Council’s Resolution
 7 A-86267 regarding a performance audit of the Department of Public Work & Utilities and
 8 recommends that the audit be divided into two separate engagements, (1) an examination of
 9 collected impact fees and activity within the Engineering Revolving Fund and (2) an examination
 10 of Engineering Services Division charges in comparison with other cities and private engineering
 11 firm; and

12 WHEREAS, the estimated costs and available resources to engage in the first phase of
 13 the aforementioned two-part audit have been determined and deemed appropriate by the Audit
 14 Advisory Board and it recommends pursuing this phase of the audit.

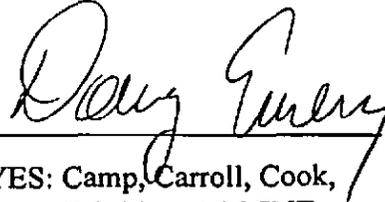
15 BE IT RESOLVED by the City Council of the City of Lincoln, Nebraska:

16 That the attached Engagement Letter between the City of Lincoln and HBE Becker Meyer
 17 Love LLP for examination of the City’s Public Works & Utilities Department with regard to
 18 compliance and collection of impact fees, in accordance with the terms and conditions contained in
 19 said Engagement Letter, is hereby approved and the Mayor is authorized to execute the same on
 20 behalf of the City of Lincoln.

1/1

- 1 The City Clerk is directed to return the executed copies of the Engagement Letter to Vince
- 2 Mejer, Purchasing Agent, for transmittal to HBE Becker Meyer Love LLP.

Introduced by:



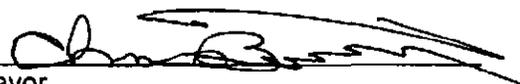
AYES: Camp, Carroll, Cook, Emery, Eskridge; ABSENT: Hornung, Snyder; NAYS: None.

Approved as to Form & Legality:



~~Asst~~ City Attorney

Approved this 31st day of Aug., 2011:



Mayor

ADOPTED
 AUG 29 2011
 BY CITY COUNCIL



Becker Meyer Love LLP

Certified Public Accountants & Consultants

July 27, 2011

Vince Mejer
City of Lincoln
440 S. 8th Street
Lincoln, NE 68508

Dear Vince:

We are pleased to confirm our understanding of the nature and limitations of the services we are to provide for City of Lincoln, Nebraska.

We will apply the agreed-upon procedures for the period of June 1, 2008 through May 31, 2011, which the Lincoln, Nebraska City Council has specified in the attached. We will present the report at the City Council meeting as specified by you. Our engagement to apply agreed-upon procedures will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described above either for the purpose for which this report has been requested or for any other purpose. If, for any reason, we are unable to complete the procedures, we will describe any restrictions on the performance of the procedures in our report, or will not issue a report as a result of this engagement.

Because the agreed-upon procedures do not constitute an examination, we will not express an opinion on compliance and on effectiveness of internal control over compliance. In addition, we have no obligation to perform any procedures beyond those listed above.

We will submit a report listing the procedures performed and our findings. This report is intended solely for the use of the Lincoln, Nebraska City Council and City of Lincoln, and should not be used by anyone other than these specified parties. Our report will contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

You are responsible for making all management decisions and performing all management functions; for designating an individual with suitable skill, and knowledge; and for evaluating the adequacy and results of those services and accepting responsibility for them.

Lanelle E. Herink is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

City of Lincoln
Lincoln, NE 68508

We expect to begin our procedures on approximately August 15, 2011 and, unless unforeseeable problems are encountered, the field work should be completed by August 31, 2011. At the conclusion of our engagement, we will require a representation letter from management that, among other things, will confirm management's responsibility for the presentation of findings.

Our fees for these services will be \$7,500. The fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the engagement. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

We appreciate the opportunity to assist you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us. If the need for additional services arises, our agreement with you will need to be revised. It is customary for us to enumerate these revisions in an addendum to this letter. If additional specified parties of the report are added, we will require that they acknowledge in writing their responsibility for the sufficiency of procedures.

HBE Becken Meyer Towle LLP

RESPONSE This letter correctly sets forth the understanding of City of Lincoln.

By:  _____

Title: Mayor

Date: August 31, 2011

CITY OF LINCOLN AGREED UPON PROCEDURES - IMPACT FEES - ATTACHMENT

- 1) Perform a walk through of 3 Impact Fee applications, from beginning to end, and determine that internal controls as described by City Personnel are accurate.
- 2) Review 10 Building Permit applications that do not include Impact Fees and determine that Impact Fees were properly excluded.
- 3) Randomly select 25 residential and 25 commercial Impact Fee applications and verify that:
 - a) Impact Fees were properly calculated per the pre-determined fee schedule.
 - b) Exemptions were proper per 27.82.060 of the Lincoln Municipal Code.
 - c) Amount of Impact Fees collected agrees with amount calculated on application.
 - d) Impact Fees collected were distributed to the proper districts and in the correct amounts
- 4) Review 25 expenditures of Impact Fee revenue and verify that:
 - a) Expenditure made was for the proper use.
 - b) Expenditure made was within the proper district.
 - c) Any refunds were proper.
- 5) Review "Impact Fees - Compliance with Spending Time Limit" worksheet prepared by City staff and verify that Impact fees are being spent within the proper time limits per 27.82.080(a) of the Lincoln Municipal Code.

CITY OF LINCOLN



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Emergency Measure Required: <input type="checkbox"/> Yes <input type="checkbox"/> No		

REASONS OR JUSTIFICATION FOR PROPOSED LEGISLATION

Approving a Consultant Agreement between the City of Lincoln and HBE Becker Meyer Love LLP for examination of the City's Public Works & Utilities Department with regard to compliance and collection of impact fees.

FILED

AUG 12 2011

CITY CLERK'S OFFICE
LINCOLN, NEBRASKA

REQUESTOR <input type="checkbox"/> DOES <input type="checkbox"/> DOES NOT	WISH TO REVIEW AND APPROVE THIS ORDINANCE PRIOR TO ITS INTRODUCTION	 DIRECTOR'S SIGNATURE	<u>8-12-11</u> DATE
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DIRECTOR OF FINANCE SIGNATURE

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Draft Agreed Upon Procedures
handed out by Fran Mejer

Examine and test internal control structure for the following elements:

- Cost accounting practices and procedures
- Billing procedures and controls
- Systems for tracking and allocating direct labor costs
- Systems for allocating indirect labor costs to appropriate indirect labor categories.

Track 25 labor samples from employee time records to:

- The payroll records to assure hours recorded are paid
- The cost system to assure hours are posted properly to jobs
- The general ledger to assure that the total posted is recorded in the financial accounting system.

Verify that the revenue earned from billable hours is recorded accurately in the general ledger and reconciles to the job cost system.

Verify the accuracy of the calculation of the overhead rate.

Verify if costs included in the overhead rate are appropriate or should be funded with other sources of revenue.

Examine other fees of the engineering revolving fund to determine if, at a minimum, all costs are recovered through the fees. Other fees include map sales, sidewalk permits, curb cuts, and the general fund reimbursement.

Additional Information:

	<u>FY 10/11</u>	<u>Estimated FY 11/12</u>
• Revenues:		
Engineering fees	6,515,884	7,031,393
General fund reimbursement	203,303	-0-
Misc revenue	563,783	550,000
Total Revenues	7,282,970	7,581,393
• Expenditures	(7,633,790)	7,383,409
• Net Income (Loss)	(350,820)	197,984