

MEMORANDUM

DATE: May 15, 2007

TO: Fellow Members of City Council

FROM: FY 2006 Audit Committee
Councilman David N. Mosby, Chair
Councilman Willie Golden, Jr.
Councilman Leonard Abbatiello

SUBJECT: REVIEW OF FY 2006 AUDIT

City Council's Audit Committee met on May 11, 2007 to review the audit of the City's accounts and funds that was conducted by Pugh & Company, P.C., the firm of certified public accountants engaged by the Council last year. Present at the meeting were Mr. A. Ted Hotz of Pugh & Company, the three members of the Audit Committee, the City Manager, the Deputy City Manager, the City's Finance Director, and the City Clerk.

Three audit-related reports were reviewed: the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006, the Independent Auditors' Reports on Internal Controls and Compliance for the Fiscal Year Ended June 30, 2006, and the Report on Policies, Management Guidelines and Procedures Placed in Operation, and Tests of Operating Effectiveness for the Period from January 1, 2006 to June 30, 2006 for the City's Electric Department. These reports have been distributed to the Council, along with two letters from Pugh & Company, one addressed to the Audit Committee and the other to Council Members.

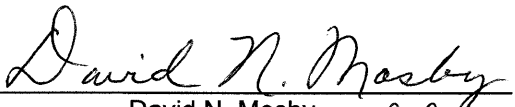
As you may recall, this is the first year that additional audit procedures were conducted in connection with the City's Electric Department. These additional procedures were requested and paid for by the Tennessee Valley Authority. In discussing the report related to this audit, the Committee noted the concerns with reference to the City's utility billing systems and software. The auditor, Mr. Hotz, clarified that these results are not uncommon; in fact, TVA has found similar problems system-wide. The Deputy City Manager explained that the City's billing software was developed by in-house programmers in the late 1970's and early 1980's and has served its purpose well. The software has been patched many times with changes and improvements over the years, but it still has many inherent weaknesses as pointed out by the auditors. In order to fully correct the weaknesses, City staff has determined that it is better to purchase new software rather than continuing to patch old software or attempting a full rewrite of the old software. The computer services staff has been reviewing options over the past few months and will begin contacting vendors for demonstrations in the very near future. The Deputy City Manager noted that the conversion of major software and hardware systems is a long process and will be relatively expensive. There are no reliable cost estimates at this time. Other system-related weaknesses that have been identified will be addressed as the staff moves forward with this process.

At the conclusion of its review, the Committee characterized the reports presented by City staff and Pugh & Company as "excellent" and voted unanimously to recommend acceptance of all three. Attached is the Schedule of Findings and Questioned Costs for the Year Ended June 30, 2006 that is contained in the Independent Auditors Reports on Internal Controls and Compliance. This schedule confirms that the auditors have issued an "unqualified" report that contains no findings and that the City qualifies as a "low-risk auditee."

Following its review of the audit documents, the Committee discussed the matter of selecting a firm to audit the City's accounts and funds for FY 2007. It is too late in the year to solicit proposals if an award is to be made that will allow completion of the audit in a timely manner. Therefore, it is the Committee's recommendation that the Council extend the contract with Pugh & Company for one additional year. The company has agreed to such an extension for a fee of \$33,000 for the audit and \$8,000 for preparation of the financial statements. Once again, TVA has requested the additional procedures in connection with the Electric Department and the auditors have agreed to conduct those procedures for an additional fee of \$30,000. TVA will cover that additional fee. The Committee further recommends that the next Audit Committee solicit proposals from certified accounting firms in January 2008, with a view toward awarding a new audit contract prior to the end of the fiscal year.

In summary, the FY 2006 Audit Committee recommends:

- Acceptance of the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006, the Independent Auditors' Reports on Internal Controls and Compliance for the Fiscal Year Ended June 30, 2006, and the Report on Policies, Management Guidelines and Procedures Placed in Operation, and Tests of Operating Effectiveness for the Period from January 1, 2006 to June 30, 2006 for the City's Electric Department;
- Adoption of the attached resolution that will extend the contract with Pugh & Company for one additional year; and
- Endorsement of the Committee's recommendation that the next Audit Committee solicit proposals from certified accounting firms in January 2008, with a view toward awarding a new audit contract prior to the end of FY 2008.



David N. Mosby J.B.

Attachments

CITY OF OAK RIDGE, TENNESSEE

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? yes no
- Reportable condition identified that is not considered to be material weakness yes no

Noncompliance material to financial statements noted yes no

Federal Awards

Internal control over major federal programs:

- Material weakness identified? yes no
- Reportable condition identified that is not considered to be material weakness yes no

Type of auditors' report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 yes no

Major federal programs for the City of Oak Ridge for the fiscal year ended June 30, 2006 are:

<u>Program Name</u>	<u>CFDA#</u>
Police Patrolling Services	81.502

Dollar threshold used to distinguish Type A \$ 300,000

Auditee qualified as low-risk auditee? yes no

CITY OF OAK RIDGE, TENNESSEE

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006**

II. Findings related to the audit of the financial statements of the City of Oak Ridge

There were no findings noted in conjunction with the financial statements audited.

III. Findings and questioned costs related to the audit of Federal awards

There were no findings noted in conjunction with the major programs tested.

IV. Status of Prior Year Findings

There were no prior year findings.

RESOLUTION

WHEREAS, Article V, Section 19, of the Charter of the City of Oak Ridge, Tennessee, provides that an audit shall be made of the accounts and funds of the City covering the operations of the past fiscal year by a Certified Public Accountant selected by the Council; and

WHEREAS, to aid in the selection of a firm of certified public accountants to conduct the audit for the past fiscal year and to oversee said audit, City Council on March 20, 2006 appointed three of its members to serve as the FY 2006 Audit Committee; and

WHEREAS, on the recommendation of the FY 2006 Audit Committee and with the adoption of Resolution No. 7-93-06 on July 24, 2006, City Council engaged the firm of Pugh & Company PC, Knoxville, Tennessee, to conduct the audit of the City's accounts and funds for the fiscal year ending June 30, 2006; and

WHEREAS, the FY 2006 Audit Committee has determined that it would be in the City's best interests to extend the contract with the firm of Pugh & Company for an additional one-year period, and the firm has agreed to such an extension for a fee that is no greater than its fee for FY 2006; and

WHEREAS, said firm has also agreed to provide assistance with preparation of the City's Comprehensive Annual Financial Report.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF OAK RIDGE, TENNESSEE:

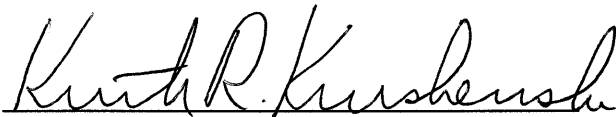
That the recommendation of City Council's Audit Committee is approved and the firm of Pugh & Company PC, Certified Public Accountants, Knoxville, Tennessee, is employed to audit the accounts and funds of the City of Oak Ridge, Tennessee, covering the operations for the fiscal year ending June 30, 2007, for a fee of \$33,000 for the regular audit, \$30,000 for additional procedures related to the Electric Department that have been requested by the Tennessee Valley Authority (TVA), and \$8,000 for assistance in preparation of the Comprehensive Annual Financial Report, for a total payment not to exceed \$71,000.

BE IT FURTHER RESOLVED that the TVA shall reimburse the City for the costs associated with the additional procedures related to the Electric Department.

BE IT FURTHER RESOLVED that the Mayor is hereby authorized to execute the appropriate legal instruments to accomplish the same.

This the 21st day of May 2007.

APPROVED AS TO FORM AND LEGALITY:


City Attorney

Mayor

City Clerk