

Audit Report



Sam M. McCall, CPA, CGFM, CIA, CGAP
City Auditor

“Disbursement Audit 2004”

Report #0522

April 1, 2005

Summary

Our audit covered the period July 1, 2003, through June 30, 2004. Total disbursements for that period were \$516,666,403, which were segregated, for purposes of our audit, into four broad categories: general disbursements, salary payments, retirement benefit payments, and energy purchases.

Generally, disbursements were proper, authorized, supported, correctly recorded, and in compliance with laws, rules, policies, and procedures. However, we did note instances where controls were not in place or operating effectively to ensure the proper, timely, and efficient disbursement of City funds in accordance with City policies and procedures. In addition, we noted instances where fixed assets were not properly capitalized. Those instances, which are identified for management’s review, resolution, and disposition, are as follows:

- Significant savings can be realized by identifying frequently paid vendors (e.g., multiple payments per week) for the purpose of accumulating and paying their invoices weekly.
- Late charges of \$1,273 were paid when Department of Neighborhood and Community Services staff did not forward an invoice to Accounts Payable in a timely manner.
- A \$1,200 payment under the City’s natural gas conversion program was not adequately supported as to validity and amount.
- Uniform and cleaning fees totaling \$55 continued to be paid to a vendor for an Electric Utility employee nine weeks after the employee’s retirement.
- Vehicle preparation costs incurred by the Fleet Division, as well as the costs for a replacement fence at the City’s Southeast Farm, were not capitalized in the City’s fixed asset records.
- Instances were noted where employees did not sign their timesheets.
- A retired employee’s pension benefit was \$238 less than what it should have been based on wording used in a pension ordinance.

Actions to address the noted instances have been identified and developed in conjunction with applicable City management. We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit.

Scope, Objectives, and Methodology

The objectives of this annual audit were to determine whether disbursements of City funds were: (1) for authorized and necessary purposes; (2) made in accordance with governing laws, rules, policies, and procedures; (3) supported by appropriate documentation; and (4) properly recorded within the City’s financial records. The results of this audit are relied upon by the City’s external auditors and, as a result, reduce the costs associated with the City’s financial statement audit.

The scope of this audit included a review of all disbursements made during the period July 1, 2003, through June 30, 2004. To address the stated objectives, we selected samples of disbursements by category and reviewed the related supporting documentation, completed analytical procedures, interviewed applicable staff, and made observations as necessary.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and the Standards for the Professional Practice of Internal Auditing, as appropriate.

Background

During the period July 1, 2003, through June 30, 2004, the City disbursed funds totaling approximately \$517 million. For purposes of this audit we classified those disbursements into four areas as shown in the following table:

Disbursement Summary		
Category	Transactions	Amount
General	23,316	\$ 200,659,371
Salary	89,239	\$ 136,013,094
Retirement	11,260	\$ 22,569,408
Energy	299	\$ 157,424,530
Totals	124,114	\$ 516,666,403

Note: Excluded from general disbursements is \$41,705,457 which represents disbursements of employee salary and retirement deductions to applicable entities (e.g., IRS and insurance providers). This amount was excluded to preclude counting that amount twice as it is also included in the payroll and retirement amounts above.

For each of those categories we completed analytical procedures, selected samples, and applied test criteria designed to address our stated audit objectives. An overview of the testing performed for each category and the resultant findings are noted in the following sections of this report.

General Disbursements

General disbursements include all disbursements not specifically identified as part of another category (i.e., salary, retirement, and energy). Although reimbursements to the applicable bank for the accumulation of monthly purchase card acquisitions were included in this population, individual purchase card disbursements were not included in the scope of this audit. (We previously conducted a separate audit of purchase card usage, and the results of that audit are contained in Report #0326.) Examples of disbursements audited as part of the general disbursement category included, but were not limited to:

- payments for the acquisition of equipment, supplies, materials, parts, inventory, services, and land;
- contractual payments;
- payments to other governmental entities (e.g., loan repayments);
- disbursements under City programs (e.g., gas conversion rebates);
- payments of risk management claims; and
- deposit refunds, including utility refunds to City customers.

For this category we selected 50 sample items totaling \$13,846,681. Test criteria applied to these sampled items included:

- verifying that disbursements were authorized, supported, and for reasonable purposes;
- verifying that appropriate competitive acquisition procedures were followed;

- verifying that payments were made in proper amounts and in accordance with contractual terms and conditions;
- verifying that the disbursements were properly recorded in the City’s accounting records; and
- verifying that the disbursements were otherwise made in accordance with established laws, rules, policies, and procedures.

Overall, we found that general disbursements were (1) supported and for authorized and reasonable purposes, (2) made in proper amounts, (3) properly recorded, and (4) made in compliance with established laws, rules, policies, and procedures. However, certain issues were identified as described in the following paragraphs.

Significant savings can be realized by identifying frequently paid vendors (e.g., multiple payments per week) for the purpose of accumulating and paying their invoices weekly. During our review we noted several vendors for which multiple checks were disbursed each week. For example, for each of two vendors we noted that more than 160 checks were issued in a year (average of approximately three per week). Based on Procurement Services’ estimate of \$12 to \$20 to produce each check, significant savings could be achieved if invoices from those vendors were instead accumulated and paid once a week (e.g., 52 rather than 160 payments per year for the two vendors). After we brought this to their attention, Procurement Services developed a query and plan to identify and pay “high volume” vendors’ invoices weekly. Our analysis showed that if each vendor paid more than 60 times per year were included in this high volume group and their invoices accumulated and paid once a week, the City could potentially save over \$15,000 each year (based on an average cost of \$16 per check). We recommend that Procurement Services continue with this plan. Upon implementation, periodic reviews and updates should be performed to ensure appropriate vendors are included.

The City incurred late charges of \$1,273.59 when the Department of Neighborhood and Community Services (NCS) staff did not forward an invoice to Accounts Payable in a timely manner. As part of the City’s efforts to encourage affordable housing, a construction loan program was created to loan money to qualified nonprofit organizations and builders. To facilitate the program, the City entered into a line of credit agreement with the Federal National Mortgage Association (Fannie Mae) for \$1,000,000. On a quarterly basis, Fannie Mae bills the City for principle and interest due on the outstanding balance of funds drawn on that line of credit. One of our sample items represented one of those payments, in the amount of \$753,546. Our review of that payment and related Fannie Mae invoice showed that \$1,273.59 of that amount represented late fees and accrued interest attributable to the City not paying the previous quarter’s invoice by the due date. In response to our inquiry on this matter, NCS staff acknowledged that untimely

payment and attributed the delay to staff reassignments and turnover during the applicable time period. NCS further indicated that current staff had been trained and subsequent invoices had and will continue to be processed in a timely manner. We recommend that NCS management take the necessary actions to ensure timely processing of invoices in future circumstances involving staff reassignments and turnover.

A payment of \$1,200 under a City rebate program was not adequately supported as to validity and amount. The City's Commercial Natural Gas Conversion Rebate Program offers rebates to commercial utility customers for their costs incurred in converting appliances from electric to natural gas. The rebates are not to exceed installed costs, with a maximum rebate allowed of \$1,200. To receive a rebate, customers are required to submit a paid invoice evidencing the costs incurred and that the conversion/installation was done. One of our sampled payments represented a rebate payment of \$1,200 to a customer. Contrary to the described provisions, we noted that there was no invoice evidencing the conversion/installation and actual costs paid/incurred. Instead, the rebate was paid based on a contractor's proposal. The proposal indicated that the costs would be \$990. Subsequent to our inquiry, Energy Services obtained documentation from the customer that supported the actual cost of the conversion (\$990). Based on these circumstances, the City overpaid the customer \$210. Energy Services concurred with this assessment and attributed this occurrence to applicable staff not being familiar with the program's requirements. We recommend that management ensure that rebate program staff is properly trained on program requirements.

Uniform rental and cleaning fees continued to be paid to a vendor for one employee nine weeks after the employee's retirement. Under the City's contract for employee uniforms, weekly fees are charged based on the number of employees to which uniforms are issued (e.g., a "rental" fee is charged for each employee that has uniforms). Our review of a sampled payment to the contracted uniform company disclosed that fees of \$6.10 were incorrectly paid for a Hopkins Power Plant employee that had retired two months previously. Further analysis showed that the City incorrectly made payments for nine weeks (totaling \$54.90) after the employee's retirement. In response to our inquiry, Electric Utility staff attributed these vendor overpayments to a period in which power plant staff was not comparing employees billed on weekly invoices to individuals employed during the billing period. Electric Utility staff indicated that corrective action has now been implemented to ensure those comparisons are done.

Vehicle preparation costs are not always capitalized in the City's fixed asset records. To ensure accountability, generally accepted governmental accounting standards provide that fixed assets should be recorded at cost.

The cost of the fixed asset includes not only the purchase price, but also ancillary costs incurred to place the asset in its intended location and condition for use. Some of the more significant fixed assets acquired by the City are vehicles. When the City acquires vehicles, there are generally certain expenses incurred while preparing the vehicles for use. Examples include installing decals, emergency lights and equipment, or other specialized equipment to make the vehicle functional. We noted that although these additional costs are identified in the City's fleet management software system (FASTER system), they are not capitalized in the City's fixed asset records. To illustrate, two of our sampled disbursements (\$827,136 and \$241,086) were for the acquisition of trucks for City use. While those purchase prices were properly capitalized in the fixed asset records, the related preparation costs (\$45,347 and \$7,376) were not capitalized. Our inquiries showed that there is no process in place for communicating these additional costs to Accounting Services for capitalization. Accordingly, we recommend that the City's Fleet Division and Accounting Services develop and implement a method for communicating and capitalizing those preparation costs.

The cost for replacing the fence around the City's Southeast Farm was not capitalized in the City's fixed asset records. When the City acquired the Southeast Farm in May of 2000, no portion of the acquisition costs were assigned to the existing fence (i.e., the entire cost was assigned to the land). Subsequent to the acquisition, the City entered into a contract with a vendor to replace the fence. The contract totaled \$148,750 and was to be completed in phases. The City paid the vendor \$37,187.50 in September 2003 upon completion of the first phase. Based on generally accepted governmental accounting standards, the cost of the fence replacement should have been capitalized in the City's fixed asset accounting records (i.e., because the existing fence had not been capitalized and the fence replacement represented a significant capital improvement). However, because the payment was coded as an expense and not as an asset, and because the project was not funded as a capital project, the cost of the first phase was not capitalized in the fixed asset records. We recommend that Accounting Services emphasize to City departments/offices the importance of correctly coding disbursements that relate to the acquisition of fixed assets. We also recommend that the Water Utility provide instruction/training to applicable staff responsible for coding these type disbursements.

DMA's instructions for the check request process should be revised to allow use of check requests to generate payments for roof repairs under the Emergency Home Repair Program managed by Neighborhood and Community Services (NCS). The intent of the "check request process" is to facilitate the payment process for items where the amount and/or vendor is not known in advance and the use of the PeopleSoft purchase

requisition/order process is not appropriate. Examples include payments for real estate purchases, utility refunds, legal settlements, and employee pension refunds. During our audit we noted that NCS used the check request process to generate vendor payments for the Emergency Home Repair Program. However, the program was not listed in DMA's instructions as allowable uses of the check request process. Notwithstanding they were not included, it appears the payment represents a type appropriate to be made through the check request process (e.g., vendor/payee and amount are generally not known prior to receipt of the invoice). Accordingly, we recommend that DMA's instructions be revised to provide for Emergency Home Repair program payments through the check request process.

Salary Payments

Salary disbursements represent payments to individuals for services performed as employees of the City. As of June 30, 2004, there were approximately 2,800 City employees working in authorized positions. Additionally, the City employs individuals in temporary positions. The number of temporary employees varies, but during peak work times of the year that number may reach or exceed 1,070.

We selected and tested a sample of 20 salary disbursements totaling \$31,598. These 20 disbursements pertained to 20 employees, of whom 19 were in full-time positions, and one was classified as a temporary employee. Audit criteria applied to the salary disbursements included, but was not limited to:

- verifying that the employees existed and were employed during the sampled pay periods;
- verifying that the employees' gross and net pay were properly authorized, calculated, and supported by appropriate leave and attendance records;
- verifying that payroll deductions were proper and supported by appropriate employee authorizations where applicable; and
- verifying that the disbursements were properly recorded in the financial records.

Overall, we found that the disbursements (1) were made to employees that existed and that were employed during the sampled pay periods, (2) were made in the proper amounts, (3) were authorized and supported by adequate documentation, and (4) were properly recorded in the financial records. However, as described in the following paragraph, we did note an issue where improvements should be made.

Instances were noted where employees did not always sign their timesheets. Administrative Procedures Manual (APM) 615.07 and APM 706.02 require that employees eligible for overtime and compensatory time must complete and sign, either by paper copy signature or electronic signature, a weekly timesheet that accounts

for time worked and leave earned/taken. Also, APM 615.07 and APM 706.02 require departments, for certain other employee classifications (i.e., "Professional 2" and "Management"), to maintain documentation (paper or electronic) of employees' assertions and related management approval for any leave taken. The signing of timesheets and/or leave records (paper or electronic signatures) represents an employee's confirmation that the time worked and/or leave taken is accurate and complete to the best knowledge of the employee. In our tests, we noted three instances where the records used by the applicable departments for employees to document time worked and leave taken were not always signed by the applicable employees. These three employees worked in Gas Utility, Water Utility, and Public Works. We recommend that these departments emphasize to their employees the requirements for signing timesheets and leave records.

Retirement Benefit Payments

Retirement benefit payments represent pension disbursements to retired employees and their designated beneficiaries/annuitants. This category also includes disability and pre-retirement benefits, which are paid to disabled employees or to employees' designated beneficiaries in the event an employee is disabled or dies while employed with the City. In addition, refunds of pension contributions to terminating employees are included in the category.

For the retirement disbursements category, we selected and tested pension disbursements pertaining to 21 individuals during the period July 1, 2003, through June 30, 2004. The tested payments totaled \$459,106 and were comprised of:

- payments from the City's defined benefit pension plan, totaling \$141,263, to nine individuals that retired during the audit period;
- payments from the City's defined contribution plan, totaling \$226,619, on behalf of four individuals that retired during the audit period;
- payments from the City's defined benefit pension plan, totaling \$21,206, to six individuals that retired prior to the audit period;
- a pre-retirement benefit totaling \$50,000 paid to the beneficiary of a deceased City employee; and
- a pension refund of \$20,018 paid to a terminating employee.

Test criteria typically applied to these sampled transactions included the following:

- verifying that retirees had completed the minimum years of City service required to be eligible for retirement benefits (defined benefit and defined contribution plan);
- verifying that the pension/benefit payments were made in proper and accurate amounts based on the

- former employees' years of service, salary histories, pension plan types, payment options selected by the retirees, and other factors (defined benefit plan);
- verifying that amounts contributed to eligible retiring employees' defined contribution accounts were correct in amount and based on the proper factors (defined contribution plan);
 - verifying that cost of living adjustments were properly determined and applied to retirement benefits (defined benefit plan);
 - verifying that deductions from retirees' pension payments were authorized and proper (defined benefit plan); and
 - verifying that benefit payments were made only to the eligible retirees/disabled employees or their designated beneficiaries/annuitants (defined benefit and defined contribution plan).

Overall, we found that procedures and controls were adequate to ensure that retirement payments and contributions were made only to eligible individuals and in proper amounts. However, we noted one underpayment as described in the following issue.

Based on wording of a pension ordinance, a retiree was underpaid \$238 per month. City retirement ordinances for general employees provide for escalation of a retiring employee's average base salary when determining pension benefits in certain circumstances. For example, the average base salary used in determining the pension benefit may be the higher of: (1) the final 36 months' base salary divided by 36 or (2) any consecutive 36 months' salary divided by 36 and escalated from a designated date by three percent each year up to the employee's date of retirement.

At the time of our fieldwork, section 14-2.314 of the City retirement ordinances for general employees provided that the designated escalation period was any consecutive 36-month period worked by the employee and escalated from January 1987 (i.e., no earlier than January 1987) through the date of retirement. For one of our sampled new retirees, the most favorable 36-month period based on this ordinance was the 36-month period ended December 31, 1987. However, we noted that the Retirement Division used and escalated the average base salary for the 36-month period ended December 31, 1989, when determining the retiree's pension benefit. As a result, the retiree's pension benefit was \$238 less than what we calculated.

In response to our inquiry, the Retirement Division indicated that the intent in this ordinance was to only consider 36-month periods that occurred during the period January 1987 through the employee's date of retirement. Using that interpretation their initial pension benefit calculation would have been correct. However, after consultation with City Auditor and City Attorney staff, the Retirement Division acknowledged that the ordinance as worded did not support their interpretation.

As a result, the Retirement Division took the following corrective actions: (1) increased the applicable retiree's pension benefit by \$238 per month, including retroactively paying the retiree for amounts previously underpaid (i.e., \$2,592), and (2) obtained City Commission approval to revise the wording in section 14-2.314 of the City retirement ordinances to be in accordance with their original intent. The Retirement Division indicated that they will continue efforts to ensure that ordinances are worded in accordance with the desired intent.

Energy Purchases

The City purchases both: (1) natural gas and other source fuels to generate power internally and to supply customers and (2) externally generated power. The purchases of natural gas and source fuels are made by Energy Services staff located in the Gemini Building. The purchases of generated power are made by staff located in the Gemini Building (purchases for a day or more) and Electric Operations staff at the electric system control center on Van Buren Street (hourly purchases).

Purchases of natural gas and other source fuels by staff at the Gemini Building are done both through long-term contracts and short-term agreements with energy companies/suppliers. The long-term contracts are for multiple years and require the purchase of minimum/maximum volumes of source fuel at contractually established prices. In addition, some of the long-term contracts are hedged through the financial markets to mitigate the risk due to fluctuations in gas prices. The short-term agreements range from daily to monthly deals. For those deals City staff negotiate and "shop" the open market to obtain the best prices for the City.

Purchases of generated power are made when the City's demand exceeds what is being produced at the City's power plants and/or when available information shows that generated power can be purchased from an external source cheaper than being generated by the City. Purchases of generated power are generally made from other utilities and independent power producers or through contracted power brokers.

In connection with our audit, we selected a sample of ten energy purchases totaling \$18,663,770. Test criteria applied to these sampled transactions included the following:

- verifying that prices paid were in accordance with contractual and other governing terms and conditions;
- verifying that controls existed to ensure that quantities purchased were received;
- verifying that payments were timely; and

- verifying that the purchases were adequately supported and properly recorded in the City's financial records.

Our tests showed that controls were adequate to ensure that disbursements for energy were appropriate. No reportable issues were identified.

Conclusions

It is our opinion that, overall, City disbursements during the period July 1, 2003, through June 30, 2004, were (1) for authorized and necessary purposes; (2) made in accordance with established laws, rules, policies, and procedures; (3) supported by appropriate documentation; and (4) properly recorded in the City's financial records. Given the complexities and diversity of City business, we commend City staff for their efforts in ensuring that disbursements of City funds were proper.

There are areas where improvements should be made to ensure City funds are expended in compliance with governing laws, rules, policies, and procedures, and accounted for in accordance with generally accepted government accounting standards. We recommend that management review each issue in this report and take appropriate corrective action. The corrective action taken should be based on whether the issue is (1) a violation of an established internal control system or (2) an instance that identifies a weakness where a control system should be established. The anticipated benefits of each corrective action should exceed the related costs of control. A conscious involvement by City management in making those determinations and implementing improvements will help the City realize the intended benefits. We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit.

Response from Appointed Officials

City Manager:

I want to thank the City Auditor's staff for their thorough review of our disbursement process. I was pleased to note no major issues.

Staff will be completing the action steps to enhance our processes.

City Treasurer-Clerk:

We agree with your recommendation for the Treasurer/Clerk's Retirement Division to enhance their review of proposed City ordinances to ensure that they are worded to provide the desired interpretation and intent. The Retirement Division has implemented enhanced review procedures to comply with this recommendation.

Copies of this Audit Report #0522 (project #0406) may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index.html>), or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

Report prepared by:

Stephanie E. Jones, Senior Auditor

Dennis Sutton, CPA, CIA, Senior Auditor

T. Bert Fletcher, CPA, Audit Manager

Sam M. McCall, CPA, CGFM, CIA, CGAP, City Auditor

Appendix A - Action Plan

<i>Action Steps</i>	<i>Responsible Employee</i>	<i>Target Date</i>
<i>A. Procurement Services</i>		
1. A "high volume" vendor pay group will be identified based on the number and frequency of checks generated by vendor. Once the group is identified, invoices for those vendors will be accumulated and paid weekly.	Joseph Love	9/30/05
2. On a periodic basis, the volume and frequency of checks generated by vendor will be evaluated to determine if the vendors need to be added or removed from the "high volume" pay group.	Joseph Love	9/30/05
3. The Payment Request Form – Preparation Instructions will be amended to include expenditures for contractor services under the Emergency Home Repair Program.	Joseph Love	9/30/05
<i>B. Neighborhood and Community Services</i>		
1. NCS senior management will emphasize to managers that new staff need to be quickly trained in assigned duties that have direct financial impact on the City (e.g., timely payment of invoices).	Michael Hervey	9/30/05
<i>C. Electric Utility</i>		
1. Staff will be reminded of the importance of verifying that the City is billed only for current employees who were issued uniforms.	Dianne Blanton	12/31/04
<i>D. Fleet</i>		
1. In conjunction with Accounting Services, a method and process will be developed and implemented for communicating to Accounting Services costs incurred for preparing newly acquired vehicles for City use.	Terry Lowe	9/30/05
<i>E. Accounting Services</i>		
1. In conjunction with the Fleet Division, a method and process will be developed and implemented for the Fleet Division to communicate costs incurred for preparing newly acquired vehicles for City use.	Lorrie Harvey	9/30/05
2. Costs reported by the Fleet Division pursuant to the previous step will be properly capitalized in the City's fixed asset records as part of the applicable vehicles' costs.	Lorrie Harvey	9/30/05
3. Emphasize to City departments and offices the requirements that capital outlay costs be properly coded in the financial system to enable proper capitalization of the applicable costs/assets in the City's fixed asset records.	Lorrie Harvey	9/30/05

<i>Action Steps</i>	<i>Responsible Employee</i>	<i>Target Date</i>
<i>F. Energy Services</i>		
1. Emphasize to employees involved in the gas conversion rebate program the rules, requirements, and limitations of the program.	Veronica Cross	3/16/05
<i>G. Water Utility</i>		
1. Emphasize to applicable staff the process for and importance of properly coding capital outlay expenditures in the financial system (i.e., to enable identification of costs that should be capitalized in the City's fixed asset records).	Joanne Becknell	6/30/05
2. Emphasize to applicable employees the requirement that employees sign and date their timesheets.	Joanne Becknell	6/30/05
<i>H. Gas Utility</i>		
1. Emphasize to applicable employees the requirement that employees sign and date their timesheets.	Rhonda Johnson	4/15/05
<i>I. Public Works</i>		
1. Emphasize to applicable employees the requirement that employees sign and date their timesheets.	Greg Wilkerson	3/15/05
<i>J. Office of the Treasurer-Clerk</i>		
1. Management of the Retirement Division will enhance their review of proposed City ordinances to ensure they are worded to provide the desired interpretation and intent. As needed, assistance will be sought from the City Attorney's Office in this endeavor.	Steve Chase	3/15/05