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## HIGHLIGHTS

Highlights of City Auditor Report #1420, a report to the City Commission and City management

### WHY THIS AUDIT WAS CONDUCTED

This audit was conducted to evaluate disbursements of City funds relating to salary payments, retirement benefits, and acquisition of goods and services.

The audit addressed disbursements made during the period October 1, 2011, through March 31, 2013. To address the stated objectives, we selected samples of disbursements and reviewed related supporting documentation, completed analytical procedures, interviewed staff, and made observations as necessary.

### WHAT WE RECOMMEND

To improve the City's disbursements process, we recommend management:

- Enhance the review of vendor invoices to ensure sales taxes are not assessed to and paid by the City.
- Ensure the most appropriate competitive procurement method is used when acquiring goods and services.
- Ensure formal written contracts are executed for procurement of goods and services in accordance with City procurement policy and good business practices.
- Ensure adequate supporting documentation is retained to substantiate the quantity of fuel purchased is received.
- Ensure executed task orders establish work commencement and completion dates as required by the applicable contract.
- Ensure disbursements are coded to the most appropriate account in the City's accounting records.
- Enhance processes to ensure educational and development payroll supplements are properly and timely paid to police officers.
- Ensure timesheets are properly signed by employees and their applicable supervisor or designee.
- Enhance periodic monitoring of retirement payments and/or enact other automated measures to ensure retirement payments to beneficiaries are timely terminated when designated payout periods end.
- Ensure required supporting documentation is obtained to validate all aspects of retirees' eligibility and benefits prior to commencement of retirement benefits.

To view the full report, go to: <http://talgov.com/auditing>  
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July 7, 2014

## AUDIT OF CITYWIDE DISBURSEMENTS 2013

*Overall, disbursements were proper, authorized, supported, correctly recorded, and in accordance with governing laws, rules, policies, and procedures. Issues were identified that indicated the need for enhanced procedures and controls.*

### WHAT WE FOUND AND CONCLUDED

Disbursements were generally proper, authorized, supported, correctly recorded, and in compliance with laws, rules, policies, and procedures. However, we did note instances where controls should be enhanced to help ensure proper, timely, and efficient disbursement of City funds in accordance with City policies and procedures. Those instances included the following:

- State sales tax of \$346 was inappropriately paid on a purchase of services.
- The most appropriate competitive procurement method was not always used.
- Appropriate justification was not always prepared in those instances where competitive procurement methods were not used because goods or services were available from only one vendor.
- Contrary to City procedures, formal written contracts were not executed for two significant purchases.
- Adequate documentation was not always retained to substantiate quantities of fuel received from a vendor.
- Certain task orders executed for engineering services did not establish work commencement and completion dates as required by the applicable contract.
- Expenditures were not always charged to the most appropriate accounts in the City's accounting records.
- A Tallahassee Police Department officer was mistakenly underpaid \$1,430 in educational supplements.
- Timesheets indicating time worked by City staff were not always signed by the employee and/or the employee's supervisor or designee.
- Adequate controls were not in place to preclude over payments to beneficiaries of two deceased retirees; those overpayments, totaling \$154,364 in one instance and \$15,905 in the other instance, were detected by the City's actuary or Retirement staff prior to our audit.
- Contrary to established Retirement Division procedures, certain documentation was not obtained to validate all aspects of a retiree's benefit eligibility prior to the commencement of benefit payments.

We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit.

# Audit Report

## Citywide Disbursements 2013

Report #1420

July 7, 2014

### Summary

We found City disbursements in general to be proper, authorized, supported, correctly recorded, and in accordance with governing laws, rules, policies, and procedures. For the most part, management implemented appropriate procedures and controls. We also identified several issues that are indicative of the need for enhancement of those procedures and controls. One of the more significant issues disclosed in this report, that was detected by the City's contracted actuary prior to the audit, was an inappropriate payment of retirement benefits in the amount of \$154,364.

Our audit covered the period October 1, 2011, through March 31, 2013. Total disbursements for that period were \$1,043,387,618, which was segregated, for purposes of our audit, into three broad categories: general disbursements, salary payments, and retirement benefit payments.

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

- In one instance state sales taxes of \$346 was inappropriately paid on a purchase of services. (*Environmental Policy and Energy Resources Department, or EPER*)

- In one instance the most appropriate competitive procurement method was not used in the acquisition of accessories. (*Electric Utility*)
- Adequate documentation was not always prepared and retained in those instances where competitive procurement practices were not used because the goods or services were only available from one vendor. (*EPER, Electric Utility, and Underground Utilities*)
- Contrary to the City's purchasing manual and good business practices, formal contracts were not executed for two significant purchases. (*EPER and Procurement Services*)
- Adequate documentation was not always retained to substantiate purchased quantities of fuel were received. (*Fleet Division*)
- Task orders for engineering services executed under continuing services contracts should establish commencement and completion dates in accordance with applicable contractual provisions. (*Public Works*)
- Disbursement transactions were not always classified and coded to the most appropriate account in the City's accounting records. (*Underground Utilities, EPER, and Department of PLACE*)
- A Tallahassee Police Department (TPD) officer was underpaid \$1,430 in supplements. (*TPD*)
- Contrary to City Policy and good business practices, employee timesheets were not always signed by the employee and/or the employee's

supervisor. (*Parks, Recreation, and Neighborhood Affairs; Public Works; Department of Management and Administration; Underground Utilities; Utility and Business Customer Services*)

- Although detected by the City's actuary prior to our audit, adequate controls were not in place to preclude overpayment of retirement benefits totaling \$154,364 over a six-year period to a beneficiary that was not eligible for those benefits. (*Treasurer-Clerk's Retirement Division*)
- Although identified and addressed by Retirement Division staff prior to our audit, retirement payments inappropriately continued for eight months after a retiree's death, resulting in inappropriate overpayments to the retiree's beneficiary in the amount of \$15,905. (*Treasurer-Clerk's Retirement Division*)
- Contrary to the Retirement Division's established procedures and good business practices, the Retirement Division did not obtain certain documentation needed to validate all aspects of one retiree's eligibility and benefit payment. (*Treasurer-Clerk's Retirement Division*)

During this audit an additional issue came to our attention regarding the City's recently executed agreements for implementation of a new citywide leave and attendance system. Specifically, those agreements only addressed costs for the first three-year period of implementation and operation, and not the first five-year period considered in the established sales quotation and agenda item presented to the City Commission for authorization and approval. To ensure the costs provided in the sales quotation and approved commission agenda item are not exceeded (i.e., via future disbursements), we recommend the City execute a supplemental agreement with the applicable vendor for the fourth and fifth years of operations (i.e., at a total cost not to exceed \$680,004).

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 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 documentations; and (4) properly recorded within the City's financial records.

The scope of this audit included a review of disbursements made during the period October 1, 2011, through March 31, 2013. 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.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### ***Background***

During the period October 1, 2011, through March 31, 2013, the City disbursed funds totaling approximately \$1 billion. For purposes of this audit we classified those disbursements into three areas as shown in the following table.

Disbursement Summary		
Category	Transactions	Amount
General	156,651	\$611,356,428
Salary	165,906	\$338,159,128
Retirement	30,041	\$93,872,062
<b>Totals</b>	<b>352,598</b>	<b>\$1,043,387,618</b>
Note: Excluded from general disbursements is \$133,218,516, which represents disbursements of salary and retirement payroll withholdings/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 the disbursement 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 and retirement). Examples of disbursements audited as part of the general disbursement category included, but were not limited to:

- Payments for the acquisition of services, supplies, materials, parts, fuel, and equipment.
- Contractual payments.
- Purchases of natural gas for provision to customers and/or for generation of electricity at City power plants.
- Purchases of goods and services using City purchase cards.
- Payments to other governmental entities (e.g., federal income tax withholdings remitted to the Internal Revenue Service).

- Disbursements under City programs (e.g., rebate and grant programs).
- Payments of claims under the City’s risk management program.

For this category we selected 72 sample items totaling \$17,293,557. Test criteria applied to these sampled items included verifying that:

- Disbursements were authorized, supported, and for reasonable purposes.
- Appropriate competitive acquisition procedures were followed.
- Payments were made in proper amounts and in accordance with contractual terms and conditions.
- Disbursements were properly recorded in the City’s accounting records.
- Disbursements were otherwise made in accordance with established laws, rules, policies, procedures, and sound business practices.

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.

**In one instance the City inappropriately paid state sales taxes on purchased services.** As a municipal entity, the City is exempt pursuant to State of Florida statutes from paying state sales taxes on purchases of goods and services. Contrary to that statutory provision, the Environmental Policy and Energy Resources (EPER) Department inappropriately paid state sales taxes of \$346 incorrectly assessed by a vendor on design and maintenance services (cost of \$4,620) for the City’s Think About Personal Pollution (TAPP) Program website. In response to our inquiry on this matter,

EPER staff acknowledged the sales tax should not have been paid and initiated efforts to recover the \$346. In addition to recovering those funds, we recommend the EPER Department enhance its review and approval of vendor invoices to ensure state sales taxes are not assessed to and paid by the City.

**The Electric Utility should ensure the most appropriate competitive procurement process is used when acquiring power plant accessories.** In accordance with good business practices, City procurement policy provides for competitive acquisition of goods and services. The degree and manner of competition and amount of documentation required is contingent on the size of the purchase. Larger purchases generally require more formal methods and documentation compared to smaller purchases. For example, City procurement policy provides that verbal or written quotes from at least three vendors should be obtained for purchases of items for which the cost is anticipated to exceed \$1,000 but be less than \$25,000. However, for purchases between \$25,000 and \$100,000, the policy provides that bids should be solicited through the City's "Invitation for Quotes" (IFQ) process. The IFQ process allows for greater competition in that it provides opportunities for multiple (e.g., more than three) vendors to provide quotes for the desired goods and services. City departments are required to use the City's Procurement Services Division for the IFQ process.

One sampled disbursement represented the Electric Utility's acquisition of composite bushings and other accessories in the amount of \$40,608 for installation at the Hopkins Power Plant. As the anticipated cost for those items exceeded \$25,000, the Electric Utility should have issued an IFQ (i.e., through Procurement Services) to prospective vendors. However, the Electric Utility instead solicited written quotes from three vendors and acquired the items from the vendor that provided the best quote. In response to our audit inquiry, the Electric Utility acknowledged the most appropriate process as provided by City policy had not been

used in this instance. We recommend the Electric Utility ensure the appropriate competitive procurement method is applied in future acquisitions.

**Appropriate justification should be prepared, approved, and maintained in those instances where competitive procurement methods are not used because goods or services are available from only one vendor; when such justification does not exist competitive procurement practices should be followed.** The City procurement manual provides in instances where items or services are available from only one known source (a single vendor), competitive procurement practices are not applicable. Such purchases are known as "sole source purchases." Criteria established in the City procurement manual for determining if a sole source purchase is warranted includes:

- The supply (items) or services has no comparable product and/or is available from only one vendor.
- The product (item) or service is only available from the manufacturer's authorized regional representative.
- The item is patented or copywrited software.

For "sole source purchases" exceeding \$1,000, the procuring City department is required to complete a Sole Source Justification Form that documents the determination that the needed items or services are available only from one known vendor. The completed form is required to be approved by the appropriate approval authority based on the amount of the purchase (e.g., department head if less than \$25,000 and Procurement Services if more than \$25,000).

Our review of sampled disbursements involving sole source acquisitions showed, generally, the proper process was followed, forms completed, and justification documented. However, we noted three instances described below that indicate enhancements are needed with regard to acquisition practices and preparation, approval, and justification of sole source acquisitions.

- Staff in the City's TAPP Program, organizationally administered by the EPER Department, acquired services from a vendor to produce a 2013 calendar as an educational and outreach tool for the TAPP Program mission. Those production services were acquired at a cost of \$2,551. Staff prepared a Sole Source Justification Form for that purchase. That form was, however, not approved by the department head (or her designee). We questioned whether those services were available from only one vendor. After our discussions with staff and management on this matter, they agreed competitive quotes should have been obtained for those services and that the sole source acquisition process was not appropriate in this instance. Management and staff indicated future acquisitions would be competitively procured as appropriate.
- The Electric Utility used a City purchasing card (P-Card) to acquire repair services on a motor at the Purdom power plant in the amount of \$24,262. Competitive procurement practices were not used for this acquisition. In response to our inquiry, Electric Utility staff provided an explanation that indicated the repair services were only available from the applicable vendor. Specifically, Electric Utility staff indicated efforts had been made to obtain quotes for the repair services from several vendors, but only one of the solicited vendors was successful in obtaining design drawings of the motor from the manufacturer, and as a result, was the only vendor with the specialized knowledge needed to properly work on the motor. While these circumstances justified not using competitive procurement methods, a Sole Source Justification Form was not prepared and approved as required by the City's procurement manual. Without that properly completed form, the Electric Utility did not have on record the appropriate justification for not using competitive procurement practices.
- Underground Utilities prepared a Sole Source Justification Form for the purchase of a meter

converter in the amount of \$2,240. That form and attached support showed the vendor was the exclusive representative for that item. While the form was properly prepared with appropriate explanation and support, it was not approved by the department head or his designated representative as required by City policy. Such approvals serve to demonstrate the sole source acquisition was determined appropriate.

We recommend management in the three departments enhance processes to ensure competitive acquisition methods are followed when appropriate and/or prepare and retain appropriate forms and documentation to properly support use of the sole source acquisition process when that process is applicable and appropriate.

**Contrary to the City's purchasing manual and good business practices, formal written contracts were not executed (or timely executed) for two significant purchases.** The City's purchasing manual requires execution of a formal written contract for purchased services in amounts equal to or greater than \$50,000. Such formal contractual agreements serve to clearly document the specific scope of services to be rendered by the vendor, the terms of those services (e.g., timing, location, staffing, etc.), method and amount of compensation, and other requirements and expectations of the vendor, as well as the City. Such contractual terms and conditions help ensure each party (vendor and City) understands expectations and requirements, thereby reducing the likelihood of disagreement and litigation. While we determined that formal and appropriate contracts were generally executed for applicable purchases, we noted the following two instances where contractual documents were applicable but not prepared and executed.

- In the first instance, the EPER Department acquired professional advertising services for the TAPP Program campaign. The services were acquired through a competitive process (only one response, or proposal, was received) for \$143,000. The specific services included press releases, press kits, news articles, media

interviews on local television talk shows, placement of advertisements on outdoor billboards, and use of social media. We noted that a purchase order was prepared and issued for those services; however, contrary to City requirements, no written contract was executed with the vendor.

- The second instance involved City Procurement Services staff not timely executing a formal contract for the provision of uniform cleaning and supply services for applicable City employees and facilities. In this case the City had an executed contract for those services that was in effect from February 1, 2009, through January 31, 2012. That contract was extended for two six-month periods, making the contract effective through January 31, 2013. Although the City subsequently executed a new contract with the same vendor through a competitive selection process, that new contract was not effective until April 1, 2013. Accordingly, uniform cleaning and supply services provided by this vendor for the months of February and March 2013 were not covered by a contract, which is contrary to good business practices. Notwithstanding the amounts (totaling \$10,611) paid for those services for those two months appeared reasonable, appropriate efforts should have been taken to ensure a new contract was executed and in place before the previous contract expired.

In regard to the first instance, we recommend the EPER Department ensure that formal written contracts are executed for future purchases of services for which the costs will exceed \$50,000. Regarding the second instance, we recommend Procurement Services implement appropriate planning measures to ensure new contracts are timely executed and in place so as to avoid circumstances where required services are not covered by a contractual agreement.

**Adequate evidence should always be retained to substantiate purchased quantities of fuel were actually received.** The City's Fleet Division buys

fuel in bulk for City fueling stations. Two of our sampled payments represented such fuel acquisitions. One was an acquisition of 4,001 gallons of gasoline in March 2013 and the other an acquisition of 3,000 gallons of gasoline in March 2012. The amount paid for both purchases totaled \$23,841. To determine and document the purchased quantities are received, applicable Fleet Division staff use an electronic inventory monitoring system (Veeder Root System) that measures fuel levels before and after a fuel delivery. The system generates a document (Veeder Root Ticket) showing before and after levels and the calculated difference, which represents quantities (gallons) received. We found the Fleet Division does not always retain the Veeder Root Tickets. Those tickets were not available for either of our two sampled purchases. To adequately substantiate that quantities acquired are actually received for City uses, we recommend the Fleet Division implement procedures to provide for generation and retention of the Veeder Root Ticket for each fuel acquisition. Those tickets should be attached to and stored (e.g., electronically) with the other related purchase documentation. *(Note: Subsequent to our audit fieldwork, the Fleet Division obtained copies of the two Veeder Root Tickets from the vendor; the vendor had generated and retained those tickets when delivering the fuel. Those tickets, or duplicates, should also have been generated and/or retained by the Fleet Division.)*

**While no issues were identified to indicate contracted engineering design services were not timely completed, future task orders for those design services should establish commencement and completion dates in accordance with the controlling contract.** The City executes continuing services contracts for various services needed by the City on a relatively frequent basis. One example is contracts for continuing engineering design services. Entities (engineering firms) are generally awarded those continuing services contracts through a competitive selection process. Once selected and awarded such a contract, a firm may be selected by a department (e.g., Public Works) to provide needed engineering design services for City projects. As

part of the selection process for a specific project, the continuing services contracts typically require the City to issue and execute a project assignment (or task order), which is a formal record defining the agreed upon scope of services, specific tasks to be completed, commencement and completion dates, and compensation amounts and/or methods.

One sampled disbursement was a payment to an engineering firm for design of a City sidewalk constructed on Seventh Avenue. The City paid \$65,759 for those design services. As the City had previously executed a continuing services contract with the engineering firm, the services were provided under a task order executed pursuant to the contract. While that task order specified the specific services (tasks and scope) and compensation, it did not establish a commencement and completion date as required by the controlling contract. While our discussions with applicable Public Works staff and our review of records indicated the design work was timely completed, we recommend commencement and completion dates be established in future project assignments/task orders. Establishing such dates provides the City a formal and legal means to hold the contractor accountable in the event work is not timely performed and completed.

**Instances were noted where payments were not properly classified and coded to the most appropriate accounts in the City's financial system.** Proper and accurate coding of disbursement transactions helps ensure accurate accounting and reporting of City business. Accordingly, it is important that those transactions be properly classified and coded to the most appropriate accounts within the City's accounting records. While we found most disbursement transactions were properly classified and coded, we noted the following instances where disbursements should have been coded to a more appropriate account classification.

- Freight charges of \$40 associated with the acquisition of items (meter converters) for addition to the Underground Utilities inventory were inappropriately classified as “unclassified

contractual services.” Because those freight costs were directly related to the acquisition of those inventory items, they should have instead been included as part of the items' cost and therefore classified as “inventory” in accordance with generally accepted accounting principles. (Note: The total payment for those items was \$2,240, for which \$2,200 was correctly charged to “inventory” and the freight of \$40 incorrectly charged as “unclassified contractual services.”)

- In two instances EPER staff incorrectly coded disbursements (amounts of \$149 and \$661) incurred as part of the TAPP Program's outreach efforts to “office supplies” and “unclassified contractual services” when those costs more appropriately should have been coded as “customer/incentive rebates.” Both disbursements were reimbursements to a Tallahassee resident or vendor for their participation in the TAPP Program initiatives (i.e., building rain gardens).
- The Department of PLACE (formerly the Planning department) purchased space in the “Visit Tallahassee Guide” (periodic publication) to promote the Midtown initiative in the fall of 2011. The cost of that promotion was \$10,000. The related disbursement transaction was coded as “unclassified contractual services.” A more appropriate code would have been “advertising.”

Recording transactions to incorrect or less appropriate classifications within the accounting records reduces the usefulness of those records for the purpose of managerial review and analysis. We recommend efforts be made to charge disbursements to the correct and most appropriate codes.

### *Regular Salary Payments*

Salary disbursements represent payments to individuals for services performed as employees of the City. During the period October 1, 2011, through March 31, 2013, the City employed and



paid 3,038 regular employees and 1,558 temporary employees.

We selected and tested a sample of 30 salary disbursements totaling \$39,969. These 30 disbursements pertained to 30 employees, of whom 21 were in full-time positions, and 9 were classified as temporary employees. 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.
- 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, we did identify the following issues for which enhancements are recommended.

**A Tallahassee Police Department (TPD) officer was mistakenly underpaid \$1,430 in education supplements.** Pursuant to sections 943.17 and 943.22, Florida Statutes, fulltime law enforcement officers are entitled to salary incentives based on participation in and/or completion of specified educational and other career development training programs. For example, officers with associate degrees are entitled to a \$30 monthly supplement and officers with a bachelor's degree are entitled to an additional \$50 monthly supplement. Furthermore, officers are entitled to an additional \$20 in monthly supplements for each successfully

completed 80-hour unit of approved career development training. The maximum month supplement which an officer may receive is \$130.

One of our sampled items was a salary payment to a TPD lieutenant, for which records were on file showing the officer had associate and bachelor's degrees and had completed 160 hours in approved career development training. Accordingly, the officer was entitled to a monthly supplement of \$120. However, the officer was only being paid a monthly supplement of \$100, a monthly underpayment of \$20. Records show this underpayment occurred from May 2007 through the time of our fieldwork in May 2013, and totaled \$1,430. Upon notification of and confirmation of this issue, TPD retroactively reimbursed the officer for the underpayment and commenced payment of the correct supplement prospectively. We recommend TPD enhance the determinations of educational and development supplements to ensure officers are paid the correct amounts.

**Employee timesheets substantiating seven of the 30 tested payroll disbursements were not signed by the employee and/or the employee's supervisor or their designee.** In accordance with good business practices, City Administrative Procedure Manual (APM) 615 requires preparation of timesheets by employees and signing (manually or electronically) of those timesheets by the employees as the employees' assertion of time worked and leave taken. The employees' signatures also document their confirmation that the recorded work time and/or leave taken is complete and accurate. Similarly, the employees' supervisors (or designees) are required to sign the employees' timesheets to document their validation of the correctness and accuracy of the recorded work time and/or leave taken.

While timesheets were prepared for each pay period represented by our 30 sampled payroll disbursements, we determined that seven of those 30 timesheets were not signed by the applicable employee and/or the employee's supervisor or designee. Specifically:

- Four timesheets were not signed by either the employee or their supervisor or designee. (*Parks, Recreation, and Neighborhood Affairs; Public Works; Department of Management and Administration; and Underground Utilities*)
- Two time sheets were not signed by the employee (but were signed by their supervisor). (*Parks, Recreation, and Neighborhood Affairs and Utility Business and Customer Services*)
- One time sheet was signed by the employee but not the supervisor or designee. (*Parks, Recreation, and Neighborhood Affairs*)
- Payments from the City's defined contribution plan, totaling \$296,310, on behalf of five retired employees that elected to receive those payments during the audit period.
- Payments from the City's defined benefit pension plan, totaling \$24,614, to seven individuals that retired prior to the audit period.
- Pension refunds, totaling \$56,355, paid to two terminating employees.
- A pre-retirement benefit of \$50,000 paid to a deceased employee's daughter.

The City is currently in the process of implementing a new citywide time and attendance system. Based on discussions with applicable City staff, one aspect of this new system will require each employee and his/her supervisor to electronically assert and confirm the accuracy and correctness of the time worked and leave taken for each pay period. We recommend the efforts to implement that system continue. The adequacy of the new system will be evaluated in subsequent audits.

### ***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.

For the retirement disbursements category, we selected and tested pension disbursements pertaining to 20 individuals during the period October 1, 2011, through March 31, 2013. The tested payments totaled \$446,364 and were comprised of:

- Payments from the City's defined benefit pension plan, totaling \$19,085, to five individuals that retired during the audit period.
- Retirees had completed the minimum years of City service required to be eligible for retirement benefits (defined benefit and defined contribution plans).
- 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).
- Pension/benefit payments were made in proper amounts and to the appropriate accounts for employees entering and leaving the City's Deferred Retirement Option Plan (DROP) (defined benefit plan).
- Benefit payments were made only to the eligible retirees/disabled employees or their designated beneficiaries/annuitants (defined benefit and defined contribution plans).
- Benefit payments were not made to deceased retirees (defined benefit plan).
- Amounts contributed to eligible retiring employees' defined contribution accounts were correct in amount and based on the proper factors (defined contribution plan).

Test criteria applied to these sampled transactions included verifying that:

- Cost of living adjustments were properly determined and applied to retirement benefits (defined benefit plan).
- Deductions from retirees' pension payments were authorized and proper (defined benefit plan).

Overall, pension benefits were properly and accurately calculated and properly paid to the sampled retirees. We did identify the following issues for which enhancements are recommended.

**Although detected by the City's actuary prior to our audit, adequate controls were not in place to preclude overpayment of retirement benefits totaling \$154,364 over a six-year period to a beneficiary that was not eligible for those benefits.**

The City's retirement plans provide several payment options for retiring City employees. The option selected by the retiree was "ten-year certain and life" which provides for a retirement benefit payable to the retiree during the retired employee's lifetime, and the same benefit payable to the retiree's designated beneficiary should the retiree die prior to receiving monthly benefits for a ten-year period. In such instances where the retiree dies within ten years of starting benefits, the retirement benefits are to be paid to the designated beneficiary until that ten-year period ends. After the ten-year period, the retirement benefits for the designated beneficiary are to be terminated.

During research in the fall of 2011 conducted by the City's contracted actuary in preparation for the City's biannual actuarial valuation, a determination was made that retirement benefits had incorrectly been paid to a designated beneficiary beyond the period that beneficiary was eligible for benefits. Specifically, one of the City's employees retired in January 1996 and selected the option described above. That retired employee died in July 1998, approximately 2.5 years after retirement. As provided by the option, the retiree's beneficiary was to continue receiving the retirement benefit through January 2006 (i.e., next 7.5 years), which was the end of the designated ten-year period. The

retirement benefit should have been stopped at that time. However, because a termination date for the benefits was not entered into the City's PeopleSoft Human Resource System (used to administer retirement benefits as well as employee salary and payroll) at the time the City converted to that system in 1999, the retirement benefits were not terminated after the end of the applicable ten-year period in January 2006. As a result, those benefits continued through the fall of 2011 until detected by the City's actuary. City retirement staff took immediate action to terminate the benefits upon notification by the actuary. Notwithstanding that action, benefits totaling \$154,364 were inappropriately paid during the six-year period (January 2006 through December 2011).

In response to this circumstance, retirement staff initiated efforts to contact the beneficiary for purposes of recovering the overpayments. Unfortunately, the beneficiary died in January 2012, immediately after the error and resulting overpayment were identified. Given the death of the beneficiary, the Retirement Division did not have a party from which to seek recovery of the overpayment. Available documentation and discussions with retirement staff showed the Retirement Division consulted with the City Attorney's Office on this matter to determine any available means of recovery of assets. Those discussions and documentation showed collection specialists hired by the City Attorney determined that there were no assets from which to recover the excess payments.

Retirement Division staff noted that standard procedure provides for a letter of notification to be sent to a beneficiary when payments begin under a ten-year certain and life selection. The letter of notification advises that benefits are to be terminated after the end of the designated ten-year period. Retirement staff could not locate such a notification letter for this beneficiary.

Retirement staff indicated that to ensure the overpayments as described was an isolated incident, an internal review was made of the system dates for

termination for those beneficiaries for which retirement payments should end after a certain period. Retirement staff advised that no other instances were identified where termination dates were not recorded in the system.

In response to this circumstance, the Retirement Division indicated that steps were being taken to revise and enhance the coding structure within the PeopleSoft Human Resource System (PSHR) such that surviving beneficiaries would be better classified so as to ensure applicable classifications (e.g., those for which benefits have a specified termination date) are correctly entered with a termination date required before the system will accept the entry. The Retirement Division should complete that planned corrective action. In addition, we recommend the Retirement Division enhance its periodic monitoring and/or enact other automated measures to ensure retirement payments to beneficiaries are timely terminated when designated payout periods end.

**Although identified and recovered by Retirement Division staff prior to our audit, retirement payments continued for eight months after a retiree's death, resulting in inappropriate overpayments to the retiree's beneficiary in the amount of \$15,905.** Upon the death of a retiree in November 2011, the Retirement Division properly established a continuing retirement payment to the retiree's designated beneficiary (son) pursuant to the retirement option selected by the retiree. However, the Retirement Division did not terminate the retirement payment to the retiree. As a result, the designated beneficiary was inappropriately receiving and depositing duplicate retirement payments, one as the designated beneficiary and the other that was paid in error to the deceased retiree. The improper duplicate payment of retirement benefits continued for nine months (December 2011 through September 2012) before a review of activity by Retirement staff detected the overpayments. The overpayments, which totaled \$15,905, were recovered by the City after the Retirement Division notified the beneficiary and requested reimbursement in September 2012.

While we commend the Retirement Division staff for their review, detection, and recovery of the overpayments, these overpayments likely could have been prevented by enhanced coding in the PSHR System. Specifically, because all payments to a retiree or his/her beneficiary use related identification numbers, it may be possible using system controls to prevent multiple payments with related identification numbers. Accordingly, we recommend the Retirement Division develop and employ methods (e.g., system controls) to prevent such overpayments in the future. If such system preventative controls are not feasible, we recommend a more formal manual review for inappropriate payments of this nature be conducted on a monthly or quarterly basis.

**Contrary to the Retirement Division's established procedures and good business practices, the Retirement Division did not obtain certain documentation needed to validate all aspects of one retiree's eligibility and benefit payment.** Various factors and documents are used in the determination and verification of eligibility for retirement benefits. For those retiring employees that select retirement payout options whereby the spouse receives continuing benefits after the retiree's death, age of both the retiring employee and spouse may impact the amount of the benefit. Accordingly, the Retirement Division requires the retiring employee to provide copies of birth certificates for both him/herself and the spouse, as well as a copy of their marriage certificate (used to verify marital status).

We found the Retirement Division generally obtained all necessary documentation to determine eligibility for and amount of retirement benefits. However, for one employee that "retired" and entered the City's Deferred Retirement Option Program (DROP) during the audit period, the Retirement Division did not obtain copies of the employee and spouse's birth certificates or their marriage certificate. While there is no evidence to indicate the retirement benefit is incorrect in this instance, we recommend the Retirement Division obtain those documents for that DROP employee.

Efforts should also be made in the future to ensure all required documents are obtained and retained prior to commencement of retirement benefits, including those employees that retire through DROP.

### *Additional Issue*

**To ensure future costs do not exceed those quoted by a vendor and approved by the City Commission, the City should execute supplemental agreements for the operation of the soon-to-be implemented new citywide time and attendance system.** During our audit we became aware of an issue pertaining to the City's implementation of the new citywide time and attendance system. Because that issue has a potential impact on the future disbursement of City funds, we have addressed it within this audit. Details are provided in the following paragraphs.

On December 3, 2013, the Department of Management and Administration (DMA) obtained authorization from the City Commission to enter into a contract with a vendor (Immix Technology, Inc.) for software and implementation services for a new automated time and attendance software (Kronos Timekeeper Software). The system is to be implemented citywide and is to provide for more efficient entry, approval, and processing of employee time and attendance. The system is also to reduce regulatory compliance risk and enhance accountability over employee time entered into the City's payroll system. Based on the vendor's proposal and as provided in the agenda item approved by the City Commission, the vendor was to be paid a total of \$2,111,246 over five years for licenses and subscription fees, implementation, and training.

On December 27, 2011, DMA executed agreements with the vendor (Kronos, Inc. through Immix Technology) to implement the Kronos Timekeeper Software. While the sales quotation and agenda item provided to the City Commission for consideration and authorization addressed costs (fees) over implementation and the first five years

of operation, the executed agreements only addressed implementation costs and operating costs (subscription/license fees) over the initial three-year period. The costs for that implementation and initial three-year operating period totaled \$1,431,242 (annualized cost of \$477,080). That three-year total cost appears reasonable in relation to the initial sales quotation.

In response to our inquiry, DMA indicated that staff oversight resulted in an agreement covering only three years instead of the five years contemplated in the initial sales quotation and agenda item presented to the City Commission for authorization. To ensure the City obtains the price established by the established sales quotation, we recommend DMA contact the vendor and execute a supplemental agreement for those two years (i.e., fourth and fifth years of operation). Based on the sales quotation and approved commission agenda item, the costs established in that supplemental agreement for the additional two years should not exceed \$680,000 (annualized cost of \$340,000).

## *Conclusions*

Overall, we found that City disbursements during the period October 1, 2011, through March 31, 2013, 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, accurate, and authorized. We did identify several issues that are indicative of the need for improvements. The most significant of those issues was the overpayment to deceased retiree surviving beneficiaries due to lack of timely independent review of beneficiary benefit payments.

An action plan to address the retirement overpayments and other identified issues was developed by management. We recommend appropriate and timely completion of the identified corrective actions.

We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit.

## *Appointed Officials' Response*

### **City Manager:**

We have reviewed the City Auditor's report related to the Citywide Disbursements 2013 Audit and are pleased to see that citywide disbursements are in compliance with laws, rules, policies and procedures. We have taken note of the findings in the audit where areas were identified for improvement. Staff is supportive of the findings and is proactive in correcting these areas. We would like to thank the City Auditor's staff for their time and effort on this audit.

### **City Treasurer-Clerk:**

We would like to commend the City Auditor and his staff for meeting the audit objectives and for making recommendations for departments to improve systems and processes. We would also like to thank him for recognizing and supporting corrective actions already taken; recognizing actions taken while also making recommendations for improvement results in a comprehensive report that promotes enhanced processes, systems and controls for the good of the City.

## Appendix A - Action Plan

Action Steps	Responsible Employee	Target Date
<b>A. Objective: To ensure that disbursements are proper, authorized, supported, recorded, and made in accordance with governing laws, rules, policies, and procedures.</b>		
<b><i>EPER</i></b>		
1. EPER will make appropriate efforts to recover from the applicable vendor the inappropriate payment of State taxes in the amount of \$346. In addition, EPER staff will be reminded that the City is exempt from payment of State sales taxes and to ensure charges for State sales taxes are properly excluded from future amounts approved for payments.	Venus Childs	Complete* June 25, 2014
2. Competitive procurement methods will be properly applied for applicable purchases exceeding established thresholds.	Venus Childs	Complete* May 31, 2014
3. Formal contracts will be executed for each future purchase of goods or services equal to or greater than \$50,000 in accordance with the City's purchasing manual.	Venus Childs	Complete* May 31, 2014
4. Staff will be reminded and efforts will be enhanced to ensure the most appropriate coding and classification of disbursements within the PeopleSoft Financials System.	Venus Childs	Complete* May 31, 2014
<b><i>Electric Utility</i></b>		
5. Staff will be reminded to apply the most appropriate competitive procurement method for all future acquisitions of power plant accessories.	Robert Wigen	September 30, 2014
6. Staff will be reminded to prepare, and have approved by the appropriate authority, Sole Source Justification Forms for each purchase where the amounts are above the thresholds requiring competitive procurement procedures but the needed goods or services are available only from one vendor (as defined in the City's procurement manual).	Robert Wigen	September 30, 2014
<b><i>Underground Utilities</i></b>		
7. Sole Source Justification Forms will be approved by the appropriate authority as required by City policy.	Diedra Lane	July 31, 2014
8. Staff will be reminded and efforts will be enhanced to ensure the most appropriate coding and classification of disbursements within the PeopleSoft Financials System.	Diedra Lane	July 31, 2014

<b><i>Procurement Services</i></b>		
9. Appropriate planning will be conducted to ensure contractual agreements for citywide services are timely executed such that needed services are not acquired outside appropriate contracts and without application of appropriate competitive procurement procedures.	Andre Libroth	September 30, 2014
<b><i>Public Works</i></b>		
10. As applicable, commencement and completion dates will be established in future task orders for engineering design services.	Steve Shafer	Complete* June 1, 2014
<b><i>Department of PLACE</i></b>		
11. Staff will be reminded and efforts will be enhanced to ensure the most appropriate coding and classification of disbursements within the PeopleSoft Financials System.	Gayle Daniels-Emanuel	Complete* June 25, 2014
<b><i>Tallahassee Police Department</i></b>		
12. Applicable staff will be reminded to ensure supplements paid to TPD officers are properly and accurately determined based on provided documentation.	Greg Frost	Complete* April 4, 2014
<b><i>Department of Management and Administration</i></b>		
13. The new citywide time and attendance system will be implemented to require assertions from employees and their supervisors as to the time worked.	Patrick Twyman	October 1, 2014
14. A supplemental agreement will be executed with Immix Technology and Kronos, Inc. to cover the last two years addressed in the sales quotation. That supplemental agreement will provide the costs for those services will not exceed \$680,004.	Patrick Twyman	October 1, 2014
<b><i>Retirement Division</i></b>		
15. Automated system controls will be established and implemented to preclude generation of retirement benefits beyond PeopleSoft Human Resources System (PSHR) required termination dates. These system dates will be based on retirement option selected and will be required before benefits are initiated. Alternatively, manual monitoring procedures will be enhanced to ensure retirement payments to beneficiaries are terminated when designated payout periods end.	Darrell Thompson, Jr.	December 31, 2014
16. Efforts will be made to develop and employ PSHR system controls to prevent improper multiple retirement payments to individuals with related identification numbers.	Darrell Thompson, Jr.	December 31, 2014



Alternatively, an enhanced and formal manual review process will be developed and used to detect and preclude/stop improper multiple retirement benefits to individuals with related identification numbers.		
17. The birth and marriage certificate for the retiree in question will be obtained and used to validate the retirement calculations and benefits. Staff will be reminded to always obtain copies of birth and marriage certificates whenever applicable to determinations of and eligibility for retirement benefits.	Darrell Thompson, Jr.	September 30, 2014
<b><i>Fleet Division</i></b>		
18. Generated Veeder Root Tickets will be retained by the Fleet Division to support quantities of fuel received from vendors.	Michael Jackson	Complete* June 18, 2014

\*Per department, action plan step has been completed as of indicated date. Completion will be verified during the audit follow-up process.

Copies of this Audit Report #1420 may be obtained from the City Auditor’s web site (<http://talgov.com/auditing>) 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](mailto:auditors@talgov.com)).

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