

CITYWIDE DISBURSEMENTS - 2003

AUDIT REPORT #0410

April 2004



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Audit conducted by:

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

HIGHLIGHTS

Highlights of City Auditor Report #0410, a report to the City Commission and City management

WHY THIS AUDIT WAS DONE

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

For the one-year period covered by this audit, the City disbursed funds in excess of \$500 million. For purposes of this audit, those expenditures were classified into five distinct categories: (1) General Disbursements, (2) Salary Disbursements, (3) Retirement Benefit Payments, (4) Energy Purchases, and (5) Contracted Legal Services.

WHAT WE RECOMMEND

Individual recommendations were made to address the various issues identified and reported. These recommendations included enhancing the existing control structure to ensure the proper disbursement of City funds. Recovery of funds was recommended in the few instances where overpayments occurred. In those instances, the funds have subsequently been recovered or actions have been planned or initiated to ensure recovery.

In determining specific corrective actions, management should ensure the anticipated benefits exceed the related costs of the action.

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For more information, contact us by e-mail at auditors@talgov.com or by telephone at 850/891-8397.

Audit Conducted by: Dennis Sutton, CPA
Jerry Edwards, CIA, CCSA, CGAP
T. Bert Fletcher, CPA

April 15, 2004

CITYWIDE DISBURSEMENTS - 2003

Overall, disbursements were proper, authorized, supported, accurately recorded, and in accordance with established laws, rules, and policies.

WHAT WE FOUND

Overall, disbursements were proper, authorized, supported, recorded, and made in accordance with governing laws, rules, and policies. However, instances were noted where controls should be improved to ensure the proper disbursement of City funds.

General Disbursements. While the testing showed that the majority of disbursements within this category were appropriate, instances were noted where: (1) payments were not in accordance with the terms of applicable contracts or other legal documents, (2) the public purpose or direct benefit to the City was not documented or otherwise apparent, (3) sufficient support was not available to substantiate a payment's validity, (4) a City Commission agenda item did not indicate that local preference provisions impacted the selection of a vendor, and (5) a \$412,000 down payment to an entity was not adequately protected through a written agreement.

Salary Disbursements. Overall, payments were made to employed individuals in the proper amounts and were adequately supported. However, we noted: (1) an employee on workers' compensation was overpaid \$3,074 due to an administrative error, (2) inefficient and incorrect timekeeping/payroll practices were used for a temporary employee, and (3) the need to document certain City procedures. In addition, due to potential overtime implications, the secondary employment of a fulltime driver for the Fire Department as a Taltran coach operator was discontinued after it was determined that the secondary employment was not sporadic and occasional.

Retirement Benefit Payments. Retirement benefits were generally properly calculated and paid to retirees and their designated beneficiaries/annuitants. The only issue noted involved an overpayment of the initial pension payment to an employee that retired in the middle of a month.

Energy Purchases. Our test of energy purchases, which included both natural gas and electricity, showed that purchases and disbursements were properly documented and recorded. No issues were noted.

Contracted Legal Services. Overall, legal contract disbursements were proper and reasonable. Testing showed that reviews of some billings for services could be improved. Also, instances were noted where hourly rates paid for legal services were not always in accordance with applicable contract terms or supported by approved contract amendments.

Office of the City Auditor

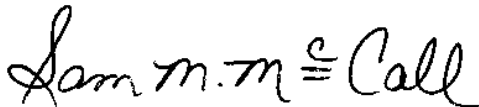
MEMORANDUM

To: Mayor and Members of the City Commission
From: Sam M. McCall, City Auditor
Date: April 15, 2004
Subject: Audit Report on Citywide Disbursements – 2003 (#0410)

We have completed an audit of Citywide Disbursements – 2003 (#0410). We submit this report that contains our audit issues and recommended actions and the responses from the City Manager, the City Treasurer-Clerk, and the City Attorney. We will periodically review the implementation of these recommended actions.

We thank applicable City staff for their cooperation and assistance during this audit. If you have any questions or need a more detailed briefing on this audit, please contact me.

Respectfully submitted,

A handwritten signature in cursive that reads "Sam M. McCall".

Sam M. McCall
City Auditor

SMM/mbd
attachment

Copy: Members of the Audit Committee
Appointed Officials
Executive Team
David Byrne, Director, Energy Services
Gloria Hall-McNeil, Director, Human Resources
Thomas Lewis, Director, Neighborhood & Community Services
Walter McNeil, Chief, Tallahassee Police Department
Gabriel Menendez, Director, Public Works
Thomas Quillin, Chief, Tallahassee Fire Department
Randy Trousdell, Director, Parks & Recreation
Kevin Wailes, General Manager, Electric
Paula G. Cook, Records Administrator

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“Citywide Disbursements - 2003”



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

Report #0410

April 15, 2004

Executive Summary

Of City disbursements totaling \$504 million, we selected and tested 126 transactions totaling \$57 million.

Overall, disbursements were proper, authorized, and made in accordance with established laws, rules, and procedures. However, certain exceptions were noted.

General disbursement controls were adequate and payments were proper; however, some issues were identified.

City disbursements during the period July 1, 2002, through June 30, 2003, totaled \$504,064,771. We classified those disbursements into five categories: (1) general disbursements, (2) salary, (3) retirement benefits, (4) energy purchases, and (5) contracted legal services. We tested a total of 126 disbursements totaling \$57,392,923 from these five categories. We also performed analyses to determine the validity and propriety of other payments, especially within the payroll category.

Overall, disbursements were proper, authorized, supported, accurately recorded, and made in accordance with established laws, rules, and procedures. However, instances were noted where controls were not operating effectively to ensure that (1) City funds were disbursed only for authorized purposes, in appropriate amounts, and in accordance with controlling City policies and contractual provisions and (2) disbursements were properly supported and recorded in the City's accounting records. Recommendations and corrective action plans have been developed to address these areas.

Testing of items in the general disbursements category showed expenditures were generally properly recorded, for authorized City business, and in accordance with controlling laws, rules, and procedures. However, instances were noted where:

- payments were not in accordance with the terms of applicable contracts or other legal documents;
- the public purpose or direct benefit to the City was not documented or otherwise apparent;
- sufficient support was not available to substantiate a payment's validity;

- improvements to a storage building were not capitalized;
- a City Commission agenda item did not indicate that local preference provisions impacted the selection of a vendor; and
- a \$412,000 down payment to an entity was not adequately protected through a written agreement.

Salary disbursement controls were generally adequate and disbursements were proper; however, some issues were identified.

Our test of salary disbursements disclosed that, overall, payments were made to employed individuals in the proper amounts and were adequately supported. However, we noted:

- an employee on workers' compensation was overpaid \$3,074 due to a department's administrative error;
- inefficient and incorrect timekeeping/payroll practices were used for a temporary employee at Forestmeadows Park and Athletic Center; and
- the salary of the interim superintendent in the Fleet Division was funded by another department.

We also identified the need for documented City procedures addressing (1) prorating salaries of firefighters when they start/terminate employment in the middle of a workweek and (2) documenting the authorization and approvals for year-end lump sum payments. In addition, due to potential overtime implications, the secondary employment of a fulltime driver for the Fire Department as a Taltran coach operator was discontinued after it was determined that secondary employment was not sporadic and occasional.

Retirement benefit controls were adequate and disbursements were proper; one minor exception was noted.

Our test of pension disbursements showed that retirement benefits were generally properly calculated and paid to retirees and their designated beneficiaries/annuitants. One instance was noted where an employee retiring in the middle of a month was overpaid in the initial pension payment.

Energy purchase controls were adequate, and no reportable issues were identified.

Our tests of energy purchases, which include both natural gas and electricity, showed that purchases and disbursements were properly documented and recorded.

Overall, contracted legal service disbursements were proper and reasonable; however, some issues were identified.

Overall, we found that disbursements relating to selected legal contracts were proper and reasonable. Testing of contracted legal services showed that reviews of some billings for services can be improved. We noted that hourly rates paid for legal services were not always in accordance with the terms of the applicable contract and/or properly supported by approved amendments to contractual rates. Invoices for legal services were not always timely processed and paid. Conversely, one firm did not always bill the City in a timely manner for its services.

Corrective actions to address issues identified have been developed and initiated.

Actions to address the noted instances have been identified and developed in conjunction with applicable City management. Some of these actions have already been initiated.

We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit. We also commend City staff for their efforts in ensuring that disbursements of City funds are proper.

“Citywide Disbursements - 2003”



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

Report #0410

April 15, 2004

Objectives, Scope, 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, and procedures; (3) supported by appropriate documentation; and (4) properly recorded within the City’s financial records. The results of this audit are relied on 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 disbursements made during the period July 1, 2002, through June 30, 2003. To address the stated audit objectives, we selected samples of disbursements by category and reviewed the related supporting documentation, completed analytical procedures, interviewed applicable City 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 applicable.

Background

During the period July 1, 2002, through June 30, 2003, the City disbursed funds totaling \$504 million. For purposes of this audit, we classified those disbursements into five categories as shown in the following table:

The City disbursed over \$504 million during the period July 1, 2002, through June 30, 2003.

CATEGORY	TRANSACTIONS	AMOUNT
General	30,700	*\$228,471,885
Salary	89,398	\$129,463,957

Retirement	**11,157	**\$22,615,328
Energy Purchases	303	\$122,408,843
Contracted Legal Services	193	\$1,104,758
TOTAL	131,751	\$504,064,771
*Excluded from this total is \$39,356,964 representing disbursements of payroll and retirement deductions to applicable entities (e.g., IRS, insurance providers). This amount was excluded to preclude counting that amount twice as it is also included in the payroll and retirement totals above.		
**Includes 57 payouts, totaling \$1,196,434.29, made to retiring employees under the City's Matched Annuity Pension (MAP) Program.		

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

We tested 40 general disbursements totaling \$34,624,566. We found controls adequate and disbursements proper; however, some issues were identified.

The category of general disbursements included all City payments other than disbursements for employee payroll, retirement benefits paid to former employees and their beneficiaries/annuitants, energy purchases, and contracted legal services. Furthermore, although reimbursements to the applicable bank for the accumulation of monthly purchase card acquisitions were included in this population, individual purchase card disbursements were excluded from the scope of this audit. (They were addressed in a separate audit issued September 22, 2003; see Audit Report #0326.) Examples of disbursements audited as part of this 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., advanced funding of road projects);
- disbursements under City loan programs (e.g., energy loans);
- payments of various fees;
- payments of amounts garnished from employee salaries to appropriate entities;
- payments of risk management claims;
- deposit refunds, including utility refunds to City customers; and
- purchases of food for City events.

For this category we selected a sample of 40 disbursements totaling \$34,624,566. 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, 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, and procedures. However, certain issues were identified as described in the following paragraphs.

Competitive procurement practices were not always followed, and/or exceptions to those practices were not properly documented.

Instances were noted where documentation did not support why competitive procurement practices were not followed. City policy provides for the use of competitive procurement practices (Invitations to Bid, Requests for Proposals, obtaining bids from contracted parties, etc.) when acquisitions are anticipated to exceed certain thresholds and/or meet specific criteria. The purpose of competitive procurement practices is to help ensure that the City obtains the most favorable price for the desired goods and services. City policy provides for certain exceptions including, for example, purchases of goods or services determined to be available from only one vendor and purchases made under emergency circumstances. In addition, considerations other than price may impact the decision as to which vendor goods or services will be purchased from. As an example, preferences may be given to local vendors.

During our testing of general disbursements we noted the following:

- Competitive procurement practices required by applicable contract terms were not followed for an acquisition of electrical services. During the audit period, City procurement contracts were in effect for the acquisition of electrical services. Those contracts were with three different vendors. The applicable contract terms provided that for any single project not exceeding \$100,000, firm-fixed price quotes were to be obtained from each of the three contractors for needed electrical services. The contractor offering the best price was then to be selected for the work. Contrary to those provisions, the Stormwater Division solicited and obtained a written quote from only one of the three contractors for a small project at a City water treatment plant. That vendor performed the work and was paid \$999, the quoted price. Reasons for obtaining just one quote were not documented. Notwithstanding that the City is currently considering revising this particular procurement process such that multiple quotes will not be required for purchases of less than \$10,000 from contracted vendors, at the time of this purchase the Stormwater Division did not comply with contractual terms and conditions.

- An acquisition of private investigative services by the Risk Management Division was not documented as a single source acquisition. One sampled payment of \$2,499 represented the acquisition of private investigative services for surveillance activities relating to workers' compensation cases. As the applicable policies and procedures do not exempt the acquisition of such services from competitive procurement practices, we inquired as to why competitive bids or proposals were not solicited for this purchase. In response to our inquiry, the Risk Management Division indicated that the selected vendor had been determined to be the only party qualified to perform the desired work. However, contrary to City policy, a sole (single) source justification form was not completed and approved for this acquisition. Such forms should be completed prior to applicable purchases to document that a proper determination was made that the desired goods/services are available from only one vendor.

We recommend that acquisitions of goods and services be made in accordance with controlling contractual terms and conditions and that required documentation be prepared and retained to support compliance with applicable procurement regulations.

A few payments to a contractor for vehicle towing services were not in accordance with the terms of the applicable contract.

One sampled payment was to a vendor contracted to provide towing services for City-owned vehicles that break down and private vehicles as directed by the Tallahassee Police and Fire departments (e.g., illegally parked vehicles). The payment of \$8,759 by the Fleet Division was for 16 separate invoices, with each invoice representing a different service. While the majority of the charges were proper, we noted the following:

A few payments for vehicle towing services were not in accordance with applicable contract terms.

- One instance where an additional \$24 was paid for mileage in connection with an in-county tow, when the contract only provides for such charges when a tow is from outside the county.

- One instance where \$250 was paid for “labor” in addition to the tow charge. The contract did not provide for such additional labor charges, and available documentation did not substantiate that additional charge by the vendor.
- One instance where \$45 was paid for a tow when the contract provided for a \$40 charge. Documentation was not available to substantiate the additional \$5.

In response to our inquiry on these charges, the Fleet Division acknowledged these instances and indicated that monitoring of vendor invoices has subsequently been enhanced to identify improper or questionable charges before payment is approved. We recommend that those enhanced monitoring efforts be continued.

The direct benefit to the City and public purpose served was not documented for the sponsoring of a bowling league team with City funds.

The Electric Transmission and Distribution Division did not document the direct benefit to the City and the public purpose served by sponsoring a bowling league team with City funds. One sampled disbursement was a \$100 payment to sponsor a team in a bowling league (not a City funded league). In response to our inquiry, management indicated that the team was comprised of City employees and that the sponsorship boosted employee morale, provided advertisement for the Electric Utility, and was a means to participate in the community. Those stated reasons were not included as part of the documented support for this disbursement. In those instances where the direct benefit to the City and the public purpose served by a disbursement is not apparent based on the nature of the item, appropriate support should be documented demonstrating those benefits and purposes. (Because of the potential for similar expenditures by other City departments and offices, we recommend that the City Manager provide further guidance as to these type expenditures.)

The Electric Utility paid the County for overdue landfill fees although the County could not substantiate the overdue amounts.

The Electric Utility paid Leon County for landfill services without adequate documentation that the services were provided. The Electric Utility used the Leon County landfill for the dumping of wood, logs, trash, and debris. For each truckload dumped, the County provided a receipt indicating the poundage/tonnage and associated fee. During the audit period, the County billed the Electric Utility for these fees monthly (i.e., all fees incurred during the month were accumulated and billed on a monthly invoice). The monthly invoice itemized the individual services such that the Electric Utility could verify/match those services to the individual receipts obtained by the truck drivers.

One sampled disbursement for these landfill services included \$1,033 for overdue amounts. The applicable County invoice indicated that the \$1,033 had been delinquent for more than 90 days. The Electric Utility properly followed up and requested support for the overdue amount, and the County responded that it could not provide the specific receipts comprising that amount. The County response indicated, in part, that some of the overdue amount pertained to invoices submitted before October 1998 (four years prior to the current invoice) and that they no longer had those invoices. Notwithstanding that the County could not substantiate the overdue amounts, the \$1,033 was paid. The Electric Utility indicated the payment was made based upon the County's assertion that the amount was owed and to maintain positive relations with the County. In future similar circumstances, the Electric Utility should require adequate support prior to making a payment or, absent such support, should consult the City Attorney.

Minor errors were noted in garnishments of retiree pension payments for court-ordered child support.

Minor errors were noted in the garnishments of pension payments for court-ordered child support. One of our sampled payments represented the disbursement to the State of Florida of amounts withheld (garnished) from pension payments for court-ordered child support. The \$4,362 disbursement consisted of 13 court-ordered payments pertaining to 11 former employees (retirees). We determined that errors were made in the monthly amounts garnished for four of those retirees. The errors in those

monthly amounts ranged from \$.60 to \$13.75. While the reasons for most of these errors were not determinable (likely attributable to clerical errors), one error was the result of the incorrect application of administrative fees when the pay cycle changed from weekly to monthly (i.e., due to the employee's retirement).

A similar error was noted during our tests of payroll disbursements. In that instance, a Water Utilities employee was underpaid \$4.79 per pay period when the incorrect amount was withheld from his wages for a child support order. That error was attributable to incorrect application of the court order's instructions when the employee transitioned from a weekly to a biweekly payroll.

The Payroll Division initiated corrective actions when the errors were brought to their attention. We recommend that the Payroll Division continue efforts to accurately apply court orders and related fee regulations.

Improvements to a portable storage building were not capitalized in the fixed asset records.

Improvements made to a portable storage building were not capitalized. The Stormwater Division wired a portable storage building for electricity and then installed a ventilation fan in that building. Those tasks were performed by an electrical contractor at a cost of \$999. Since that amount exceeded the City's \$750 capitalization threshold, the improvements should have been capitalized in the City's fixed asset records. However, since the disbursement was coded to a construction services account (52 series) instead of a capitalization account (55 series), the improvements were not capitalized. The City has controls in place that should ensure that material asset acquisitions and improvements are capitalized as fixed assets (i.e., through project accounting). However, staff needs to correctly code disbursements to ensure proper accounting for all assets, including acquisitions and improvements not funded through projects.

Purchase orders should be used rather than check requests to ensure proper controls and efficiencies.

Check requests were sometimes used to initiate the payment process when the use of purchase orders was more appropriate; corrective actions were planned/initiated in response to a similar finding noted in the previous annual disbursement audit. The City has a check request process whereby City departments can request payment to a vendor without going through the formal purchase requisition and order process. The check request process is designed to facilitate payment for legal settlements, employee pension refunds, insurance premiums, real estate purchases, registration fees, and other type activity that does not warrant the use of formal purchase requisitions/orders. The use of the purchase requisition/order process for all other purchase types ensures that controls (proper authorization and approval) built into that process are not bypassed. Additionally, the use of check requests negates the efficiencies built into the PeopleSoft purchase order process.

Out of the 40 sampled payments, we noted three instances where check requests were used to initiate payments to vendors for janitorial services for Information Systems Services (\$350), sporting goods for the Parks and Recreation Department (\$2,501), and tool repairs for the Electric Transmission and Distribution Division (\$2,494). These acquisitions should have been made through the PeopleSoft purchase requisition/order process.

Similar instances were noted in the prior annual disbursement audit (Report #0314, issued April 16, 2003). Each of the three instances noted above occurred prior to the release of that previous audit report. Corrective actions have since been planned and initiated to address this issue. Our follow up work on this audit and the previous audit will address the success of those corrective actions.

An agenda item for the acquisition of refuse trucks did not acknowledge that local preference provisions impacted the selection of the vendor.

An agenda item should have acknowledged that local preference provisions impacted the selection of a vendor. The bid file and City Commission agenda item for the acquisition of nine refuse trucks for \$1,398,681 indicated that the purchase was made from the vendor that bid the lowest responsive price. However, our review of the bid file and related records showed that the purchase was awarded to the vendor that submitted the next-to-lowest responsive price. The lowest price was \$1,385,892, a difference of \$12,789. Awarding the purchase to the vendor with the next-to-lowest responsive price in this instance was appropriate based on City Ordinance 2-109, which provides that certain preferences shall be given to local vendors. Notwithstanding that the purchase was in compliance with City procurement policy, it would have been more appropriate to prepare an agenda item that accurately stated the vendor was selected after considering local preference provisions as well as best (lowest) responsive price. We recommend that agenda items be prepared that provide the most accurate description of applicable circumstances.

A \$412,000 down payment to Sterling Planet was not adequately protected through a written agreement.

A written agreement was not executed with Sterling Planet to protect the City's \$412,000 down payment. The City partnered with another entity, Sterling Planet, to develop and market a green power program. The goals of the program are the production of power (energy) from renewable resources, such as solar projects (thermal and/or photovoltaic), for sale to customers, thereby providing environmental benefits.

In July 2000, the City Commission approved the purchase of a 126-kilowatt photovoltaic (PV) system to be installed on a rooftop of an office building (Summit East office park) owned by Mainline Global Systems (Mainline). Pursuant to the initial plans:

- The City was to loan funds to Mainline to pay for the installation and operation of the solar PV system.
- The City would purchase the energy produced by the PV system and eventually take ownership of the system.

- Mainline would hire Sterling Planet as project manager to develop the Summit East PV system.
- As project manager, Sterling Planet would obtain proposals and award the contract to a vendor for the actual PV system. Sterling Planet selected PowerLight Solar Electric System (PowerLight) as the vendor for this project.

Subsequent activities and events relating to this project are described in the following table:

DATE	ACTIVITY/EVENT
December 2002	Because the City was not able to reach agreement with Mainline as “owner,” an agenda item was prepared proposing (1) City as owner of system with Mainline as “host,” (2) a \$412,000 down payment to Sterling Planet to secure a place in PowerLight’s manufacturing queue, and (3) the possible use of Utility Operations Center as an alternative location if agreement with Mainline is not reached. In addition, the agenda item indicates that an agreement was being negotiated with Sterling Planet, with one of the intended provisions protecting the City’s \$412,000 down payment. The agenda item was approved, and the \$412,000 paid to Sterling Planet.
July 2003	After negotiations with Mainline to host the project were unsuccessful, an agenda item was prepared proposing that the program funds (including the \$412,000 down payment) be used to support alternative solar projects. Four tentative locations were identified. The agenda item was approved.
September 2003	Initial audit inquiry was made as to existence of an agreement (i.e., as addressed in the December 2002 agenda item) protecting the City’s \$412,000 down

	payment to Sterling Planet.
October 2003	A letter of agreement was executed with Sterling Planet providing options regarding the disposition of the \$412,000 down payment; the agreement did not provide for return of the funds to the City without negotiations.
December 2003	A determination was made that \$110,000 of the \$412,000 down payment was to be reallocated from the initially planned 126 kilowatt PV system to a solar system that is to be integrated into the Jack L. McLean (JLM) Park Recreational Aquatic Center.
January 2004	Final agreement for the development of a photovoltaic system (including the system planned for JLM Park) still has not been reached. Utility Services continues to investigate additional alternative sites and projects. Sterling Planet continues to retain the \$412,000 down payment.

As described above, efforts were made and are continuing to develop systems that will produce power from renewable (solar) resources. As part of those efforts, a \$412,000 down payment was made to Sterling Planet with expectation that an agreement would soon be finalized that, among other things, protected the City's down payment. However, as of our initial inquiry on this matter in September 2003, no such agreement had been reached and executed. Subsequent to our initial inquiry, Utility Services executed a letter of agreement with Sterling Planet on October 14, 2003, that provided the City various options regarding the \$412,000. Those options included: (1) applying the funds along with any interest accrual to alternative projects and (2) enter into negotiations with Sterling Planet to return the funds to the City.

The lack of a written agreement protecting the down payment prior to the advance of the funds increased the City's risk that the funds

would not be used as intended and/or that any interest earnings would not be credited to the City. Furthermore, the October 14, 2003, letter of agreement does not provide for the return of the funds without negotiations with Sterling Planet and does not specifically provide for the return of any interest accrual if the funds are refunded to the City. Based on an approximate market rate of two percent, interest earned on the \$412,000 would be approximately \$8,900 as of January 2004 (13 months after the payment was made).

In future similar circumstances, we recommend that the funds be properly protected through written agreements with the party to whom the funds are advanced. Such agreements should be executed prior to the advance of the funds and should provide, for example: (1) immediate return of the funds in the event the reason/purpose of the advance does not materialize and (2) credit to the City for any interest earnings.

Salary Disbursements

Salary disbursements represent payments to individuals for services performed as employees of the City. As of June 30, 2003, there were approximately 2,816 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 1,200.

*We tested and/or analyzed
salary payments to
employees.*

We selected and tested a sample of 20 salary disbursements totaling \$21,779. These 20 disbursements pertained to 20 employees, of whom 12 were in full-time positions, and eight 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; and
- verifying that the disbursements were properly recorded in the financial records.

In addition to the test applied to those disbursements, we also performed various analyses of salary disbursements. Specifically, we:

- analyzed the propriety of payments to 10 terminated employees; and
- analyzed payments to employees from more than one job position.

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 paragraphs, we noted certain exceptions and areas where improvements should be made.

Generally, controls were adequate and disbursements proper; however, some issues were identified.

An employee receiving workers' compensation benefits was overpaid \$3,074 due to a departmental administrative error.

Due to a departmental administrative error, a parking enforcement technician within the Tallahassee Police Department (TPD) was overpaid \$3,074 while receiving workers' compensation benefits. Employees are eligible to receive workers' compensation benefits due to job-connected injuries resulting in an inability to work. The amounts of those benefits represent a pre-determined percentage of the employee's base salary. Pursuant to City Personnel Policy and Procedure 706.05, employees can use available leave balances (i.e., sick other than catastrophic, compensatory, then personal leave) to make up the difference between the workers' compensation payment and the employee's base salary. That policy allows an employee unable to work due to a job-related injury to continue receiving an amount equal to their base salary.

Workers' compensation benefits are paid to eligible employees outside of the City's payroll system. Specifically, checks are generated and sent to the employees by the Risk Management Section in the Treasurer-Clerk's Office. Any difference funded by the employee's accumulated leave is, however, processed through the City's payroll system as either a separate check or direct deposit.

Due to an administrative error by a TPD timekeeper and oversight by the supervisor, an employee out on workers' compensation was overpaid \$3,074 over a nine-week period. In this case the employee correctly received workers' compensation benefits directly from the Risk Management Section in an amount equal to two-thirds of the employee's base salary. However, the TPD timekeeper charged the employee's entire absence from work (i.e., 40 hours per week) to improper leave categories (catastrophic sick leave or administrative leave with pay). As a result, the employee was paid the entire base salary in addition to the workers' compensation benefits. The proper action would have been to pay the employee: (1) the workers' compensation benefit equal to two-thirds of the base pay and (2) the difference between that amount and the base pay, funded from the employee's accumulated sick, compensatory, and/or personal leave balance.

TPD administrative staff detected this error subsequent to our request for the applicable records for audit purposes. Upon identification of the error, TPD took the following corrective actions:

- counseled the employee and set up a plan for the employee to repay the City over a two-year period;
- re-informed TPD timekeepers and supervisors of procedures and policies for workers' compensation; and
- initiated an internal review of the TPD payroll processing system.

In addition, the error was discussed with the Payroll Office in Accounting Services, the Risk Management Section in the Treasurer-Clerk's Office, and the City Human Resources Department. Our discussions with the staffs of these areas indicated that infrequent but similar instances have occurred in the past. Accordingly, management should consider:

- establishing citywide procedures for timekeepers as to how leave and attendance should be recorded and coded for employee's on workers' compensation;
- holding training sessions with department/office timekeepers on those procedures and the basics of workers' compensation law;
- using unique codes in the PeopleSoft payroll system to identify payments to individuals on workers' compensation; and
- developing queries to identify and review, on a periodic basis, payments to employees receiving workers' compensation benefits.

The above actions should be coordinated by the Risk Management Section, Human Resources Department, and Payroll Office.

A timekeeping/payroll process used by Forestmeadows Park and Athletic Center for a temporary employee was not correct, increasing the risk of improper payroll disbursements.

The timekeeping and payroll process used by one Parks and Recreation division was inefficient and incorrect; the result was that hours worked were not always properly reflected in the City's payroll system, and employees were sometimes paid improper amounts. Our review disclosed that temporary employees hired at the Forestmeadows Park and Athletic Center were sometimes paid at different rates for different assignments. One of our sampled employees was hired as a cashier at \$6.28/hour based on the personnel action form. However, based on the sampled timesheets prepared by the employee and completed by her supervisor, she was paid \$5.53/hour, \$6.26/hour, or \$6.28/hour for her cashiering assignment; \$10/hour to work events; and \$8.24/hour for other administrative assignments. During the sampled biweekly

pay period the employee's timesheet showed that she worked 63 hours as a cashier, 5 hours at an event, and 2 hours performing administrative duties. For those hours, the timesheet showed that she would be paid as follows:

- \$268.21 for 48.5 hours worked as a cashier (equates to \$5.53/hour);
- \$68.83 for 11 hours as a cashier (equates to \$6.26/hour);
- \$21.98 for 3.5 hours as a cashier (equates to \$6.28/hour);
- \$50 for 5 hours worked at an event (equates to \$10/hour); and
- \$16.48 for 2 hours of administrative duties (equates to \$8.24/hour).

The above amounts totaled \$425.50, with 70 hours worked. However, to determine the hours worked for entry into the City's payroll system, the timekeeper divided that total amount by the \$6.28/hour (rate of pay in the payroll system). The calculation by the timekeeper resulted in 67 hours worked, which was entered in the payroll system at \$6.28/hour. As a result, the employee was paid a gross salary of \$420.76 for that period. The actual and potential effects of this process are as follows:

- actual hours worked are not correctly recorded in the payroll system;
- overtime worked may not be properly considered. For the described pay period the employee worked more than 40 hours in one week but was not compensated at the overtime rate for those hours in excess of 40; and,
- it is not administratively efficient to hire temporary employees and pay them multiple rates for the same task. The process creates opportunities for errors.

In addition to the above, we noted errors by the timekeeper when determining actual hours worked based on the employee's timesheet. Those errors resulted in an understatement of two hours. As a result, the employee was underpaid.

We recommend that the Parks and Recreation Department enter actual hours worked in the payroll system. In the event that the employee is to be compensated at different rates for different tasks, the hours worked at each rate should be entered for those rates. This process will ensure that the proper hours and pay are reflected in/determined by the system. In addition, the Parks and Recreation Department should ensure that all work performed by the same employee and relating to the same task (e.g., cashiering) is paid at the one rate established for that task.

The secondary employment of a full-time driver for the Fire Department as a Taltran coach operator was discontinued as that employment was determined not to be sporadic and occasional.

An individual worked as both a driver with the Fire Department and a coach operator with Taltran, thereby raising concerns regarding compliance with overtime regulations. We tested the reasonableness and compliance with applicable payroll provisions for individuals paid through more than one position. One of those individuals was a fire driver (e.g., drove firefighting vehicles in response to emergency calls) in a full-time position who was also employed in a temporary position as a coach operator for Taltran. The individual worked as a coach operator on a regular basis, with hours worked ranging from 22.5 hours to 63 hours per pay period. Those hours worked as a coach operator were not paid at overtime rates. However, because: (1) that work at Taltran was not occasional and sporadic and (2) neither the fire driver position nor the Taltran position was exempt from overtime provisions, it appears that overtime pay could be due for the hours worked at Taltran. This issue was brought to the attention of Human Resources, the Fire Department, Taltran, and the City Attorney's Office. As a result, a determination was made to terminate the individual's secondary employment with Taltran.

Although intercepted and cancelled prior to issuance, a departmental oversight allowed a payroll check to be generated subsequent to an individual's termination from City employment.

Although intercepted and cancelled prior to issuance, a payroll check was improperly generated subsequent to an individual's termination from City employment. One of our sampled employees terminated City employment effective October 19, 2002. A personnel action form (PAF) for the termination was prepared by Neighborhood and Community Services (NCS) and submitted to Human Resources. However, Human Resources did not process the PAF prior to the completion of the next payroll. In addition, due to an oversight, NCS did not record the necessary code in the payroll system to preclude the generation of a payroll check for that employee. The improper check was identified and cancelled after it had been forwarded with other payroll checks to the applicable office (Animal Service Center) for distribution to employees. We recommend that NCS continue efforts to review and record necessary data in the PeopleSoft payroll records to preclude generation of checks for terminated employees.

United Way payroll deduction forms were not retained by the City to document the validity of amounts withheld from employees' pay.

United Way contribution forms were not retained by the City. The City participates in the annual United Way campaigns. Employees are allowed to contribute through payroll deductions. Those employees complete standard United Way payroll deduction forms (contribution forms) that designate the amount they authorize for deduction each pay period. Those forms are retained by and available from United Way in the event of a question or dispute and, as a result, the City has traditionally not retained copies of the forms. We recommend that the City consider maintaining a copy (e.g., via electronic imaging) of those authorization forms as documentation of those payroll deductions.

The salary of an interim director was funded from another department's budget for the 2003 fiscal year.

The salary of the Fleet Division interim superintendent was funded by the Electric Utility for the 2003 fiscal year. Based on generally accepted budgeting and accounting methodologies, the salary of an employee should be funded from the sources budgeted for the activities on which that employee works. Accordingly, the salary of the interim superintendent, totaling \$80,878 should have been funded in fiscal year 2003 from the Fleet Division's budget instead of the Electric Utility's budget. We noted that changes were

made for the 2004 fiscal year such that the interim superintendent's salary is now funded from the Fleet Division budget (i.e., the salary is initially charged to Utility Services funds, but a transfer is made from Fleet funds to reimburse Utility Services).

Discussions with Department of Management and Administration staff disclosed that several instances might occur in any year where an employee in one department or division is temporarily loaned to another department or division. Reasons for those loans include, for example: (1) temporary staff shortages in a department, (2) special projects that increase the need for resources, and (3) interim supervision/management due to a vacancy. Because such loans are generally short-lived, budgetary transfers are usually not made to change the funding sources of the loaned employees' salaries. In the instance noted above, management did not initially think that the "loan" would be for an extended period. As a result, the charge to the benefiting division did not occur until it became apparent that the loan would be for an extended time period. Management also indicated that, since the amount involved was not material compared to the total budget for the Fleet Division and the Electric Utility, no adjustment for the 2003 fiscal year would be made.

In future circumstances where "employee loans" extend beyond a reasonably brief period, we recommend that management charge funding to the division benefiting from the loaned activity.

Applicable guidelines should be revised to require documentation of the authorization and approval for lump sum payments to employees at fiscal year-end.

Guidelines for year-end lump sum payments to employees for special accomplishments should be revised to require documentation of the authorization and approval for such payments. The City has a policy allowing department/office heads to award lump sum payments to employees that perform duties beyond those reasonably associated with the employees' job classifications and which produce results that add value to the City/department. Those lump sum payments are often made at fiscal year end. To authorize those payments at fiscal year end, the Human Resources Department provides on-line an Access database to which all departments can enter the recommended lump sum

payments. Information that must be entered includes: (1) employee name, (2) amount of recommended lump sum payment, and (3) reasons justifying the payment. That required information is entered into the Access database by staff (e.g., administrative assistant) designated by the applicable department/office heads. Each designated staff is given a unique password by Human Resources to enter the data. Human Resources enters the information on that spreadsheet into the City payroll system.

The existing guidelines and instructions do not specify that documentation must be prepared and maintained to show that the applicable department/office head authorized and approved the lump sum payments entered on the spreadsheet. Requirements for such documentation would help ensure that all lump sum payments were properly authorized prior to payment. Human Resources was reviewing the City's lump sum payment guidelines at the end of our audit fieldwork. In connection with that review, we recommended that requirements for documentation by the authorizing department/office heads be incorporated into the guidelines.

The City procedure for prorating salaries of firefighters that start/terminate employment in the middle of a workweek should be documented.

The City procedure for prorating salaries payable to firefighters that start or terminate employment in the middle of a week should be documented. The standard firefighter work schedule is 24 hours on duty followed by 48 hours off. Based on that schedule and planned days off, a firefighter will work over a year's period an average of 53 hours per week. To provide consistent pay to firefighters, the City pays an equal amount each week; that amount is determined by multiplying 53 hours times the firefighters' hourly rates. The hourly rates are reflected in the agreement executed between the City and the firefighters' union, and are based on annual salaries and a standard 53-hour workweek.

Firefighters may start or terminate their employment in the middle of a workweek. In those instances, it has been City practice to prorate the amounts paid the firefighter based on the number of days worked that week. During the audit period amounts were prorated based on a 5-day workweek. Therefore, terminating employees

were paid 10.6 hours (53 hours/5 days) for each weekday (Monday through Friday) employed during that partial week, regardless of which of those weekdays were worked or not worked. The employees were not paid for any weekend days (Saturdays or Sundays) during that partial week, even if they worked one of those days. Subsequent to the audit period, the method was changed so that amounts were prorated based on a 7-day workweek. As a result, a terminating firefighter was paid 7.57 hours (53 hours/7 days) for each day of that partial week the firefighter was still employed, regardless of which days were worked or not worked. Unlike the previous method, that revised process paid for weekend days that the firefighter was still employed. The revised process was enacted based on concerns expressed by terminating firefighters, after City staff (i.e., Payroll Office, Fire Department, and Human Resources) determined the revised prorating method to be fair and more equitable.

This process is complex and currently not addressed in existing documented procedures. Accordingly, we recommend that the procedure for prorating firefighter salaries in the described circumstances be documented. Documented procedures will substantiate the process used by the City in the event of dispute and help ensure consistent treatment for similar circumstances.

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.

*We tested pension
disbursements totaling
\$468,417.*

For the retirement disbursements category, we selected and tested pension disbursements pertaining to 18 individuals during the

period July 1, 2002, through June 30, 2003. The tested payments totaled \$468,417 and were comprised of:

- payments from the City's defined benefit pension plan, totaling \$98,377, to five individuals that retired during the audit period;
- payments from the City's defined contribution plan, totaling \$91,489, on behalf of three individuals that retired during the audit period;
- payments from the City's defined benefit plan, totaling \$15,653, to seven individuals that retired prior to the audit period;
- pension contribution refunds totaling \$55,615 to two individuals that terminated their City employment during or immediately prior to the audit period; and
- a pre-retirement benefit totaling \$207,283 paid the beneficiary of a City employee who died during the audit period.

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, procedures were adequate and disbursements proper.

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 overpayment as described in the following.

The initial pension payment for one employee retiring in the middle of a month was not properly prorated, resulting in a \$485 overpayment.

A retiring employee was overpaid \$485 in his first pension payment. Pension payments under the defined benefit plan are made monthly. For employees that retire in the middle of a month, the initial benefit payment should be prorated based on the number of days employed and retired in that month. When establishing the benefit in the PeopleSoft payroll system for one individual that retired during the middle of a month, the Payroll Office did not prorate the initial benefit. As a result, the retiree was overpaid \$485. Upon notification of this error, the Payroll Office recovered the overpayment by withholding the applicable amount from a subsequent pension payment to this retiree.

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)

We tested energy purchases totaling in excess of \$21 million.

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 15 energy purchases totaling \$21,903,952. Test criteria applied to these sampled transactions included the following:

Controls were adequate, and no reportable issues were identified.

- 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.

**Contracted
Legal Services**

We tested 33 disbursements totaling \$350,041 that pertained to three contracts for outside legal counsel.

Section 29 of the City Charter provides that the City Attorney “shall act as legal advisor to, and attorney and counselor for, the municipality.” As part of those duties, the City Attorney’s Office reviews and approves all payments for outside counsel. During the audit period, contracts with 19 firms were in effect for outside counsel. Among those 19 firms were 32 separate agreements for work on specialized issues such as, but not limited to, bankruptcy matters, general liability, workers’ compensation, and pension and retirement matters. Generally, these firms provide services directly to other City departments that need specialized legal work or perform work that the City Attorney’s Office is not staffed to accommodate.

Our testing of legal contracts involved the review of payments during the audit period under three judgmentally selected contracts. Thirty-three payments totaling \$350,041 were examined. The following table provides a description of the selected contracts.

Number	Contracted Firm	Services Provided	Payments (1)
1	Henry, Buchanan, Hudson, Suber & Carter	Eminent Domain and General Liability Issues	\$86,774
2	Hopping Green & Sams	Contamination Issues at the Purdom Power Plant	\$106,883
3	John & Hengerer	Electric Regional Transmission Organization Issues	\$156,384
TOTAL			\$350,041
NOTE (1) Total payments during the period July 1, 2002, through June 30, 2003.			

Factors we considered in selecting contracts for review included: (1) the contractual funding amounts, (2) type of services received, and (3) number of contracts with the respective firms. Criteria applied to the related payments included:

- verifying the mathematical accuracy of invoices;

- verifying services rendered were provided by and pursuant to contractual terms and conditions;
- verifying billings were in accordance with the terms of the contract;
- verifying amounts billed were reasonable based on the description of the services rendered; and
- verifying payments were approved by individuals with the appropriate level of authority.

Overall, the disbursements were proper and reasonable.

Overall, we found that the disbursements relating to the selected legal contracts were (1) properly approved and mathematically correct, (2) pursuant to and in accordance with contracted terms and provisions, (3) reasonable based on the description of the services rendered, and (4) properly recorded in the financial records. However, as described in the following paragraphs, we noted certain areas where improvements should be made.

Documentation was not provided to demonstrate that rates charged by one firm were correct.

Documentation was not prepared, obtained, and/or retained by the City Attorney's Office to demonstrate that rates charged by one firm were correct. The contract for Electric Regional Transmission and Organization (RTO) issues was executed October 16, 2000. The contract provided for billing rates ranging from \$100 to \$240 per hour, depending on the level of the staff performing the work. The contract was for an indefinite period and had no provision for annual escalation of the stated billing rates.

Our review showed that during the audit period the firm charged the City rates that were higher than those provided by the contract. For example, services that the contract provided should be billed at \$100/hour were instead billed at \$160/hour. Another example was charges of \$275/hour when the contract provided for billings at \$240/hour. Based on our review of 11 payments, totaling \$156,384, made during the audit period, it appeared that the firm was paid \$16,827 more than provided for by contract.

We brought this to the attention of the City Attorney's Office. They researched the issue and responded that:

- It is standard procedure for private law firms to increase their rates annually and send those rates to their clients. For the contract in question, the standard language for annual rate increases was omitted. However, rate increases were enacted by the firm and agreed to by the City Attorney's Office, although documentation of the rate increases and/or related approval was not prepared and retained.
- Some of the work billed by the law firm was not intended to be billed at the rates provided by the contract in question. Those services related to matters involving a group of municipalities, of which the City is a part. Services provided for those matters are charged at the firm's standard rates (i.e., opposed to discounted rates provided by the contract in question).

The City Attorney's Office indicated that the above explained \$15,558 of the \$16,827 that we initially questioned as overpayments. The City Attorney's Office acknowledged that the balance of \$1,269 did represent over-billings for which recovery would be sought through credits on future invoices.

Based on these circumstances, we recommend the City Attorney's Office:

- Amend the contract to contain language regarding annual rate increases;
- Ensure that all future rate changes approved by the City Attorney's Office are documented and filed with the City Treasurer-Clerk's Office;
- Request a credit on future invoices for the \$1,269 over-billed; and
- Continue efforts to ensure that individual invoices are clearly delineated as to whether they are pursuant to a contract; and, if

pursuant to a contract, delineate the specific contract to which they pertain.

The City Attorney's Office plans to clarify responsibilities for reviewing invoices from outside legal counsel.

The responsibility for reviewing invoices from contracted legal firms is not clearly delineated. As noted above, those services are often performed on behalf of City departments/offices other than the Office of the City Attorney. The related invoices are received and processed by those departments/offices and must also be approved by the City Attorney's Office prior to submission to Accounts Payable for payment. Approval by the departments consists of verification that funds are available for payment of the invoices and that services charged were actually rendered. The City Attorney's Office then reviews the invoices for reasonableness (e.g., number of hours billed for services rendered). Based on the previous issue, it appears that each department/office thought that the other was responsible for verification of rates charged for services. According to the City Attorney's Office, they assumed the departments receiving the services were verifying the rates because the money was coming from their budgets, and the departments assumed the City Attorney's Office was verifying the rates because they monitor legal contracts.

In response to this matter, the City Attorney determined that his office would (henceforth) assume responsibility for ensuring that amounts invoiced for use of outside legal counsel are in accordance with governing contractual terms and conditions. The City Attorney's Office will prepare and distribute a memorandum to all City departments/offices using outside legal counsel to inform them of their responsibilities and the City Attorney's responsibility in reviewing and processing invoices for outside legal counsel.

Applicable departments and the City Attorney's Office should timely process and forward invoices for payment.

Invoices were not always processed and paid in a timely manner. Our review showed that 19 invoices from one firm were paid for periods ranging from 51 to 149 days after City staff received the invoices. Documentation indicates that these invoices were initially received by Energy Services or the Electric Utility and then forwarded to the City Attorney's Office for additional review

and approval prior to submission to the Accounts Payable Office for payment. While this process is different from most invoice processing in that two departments/offices must review and approve the invoices before sending to Accounts Payable for payment, invoices should be paid in a timely manner (e.g., within 45 days of first receipt by a City department/office).

Based upon date stamps on the invoices, the delays for the 19 invoices in question were primarily attributable to the departments (Energy Services and the Electric Utility), with some additional delay occurring in the City Attorney's Office. The invoices were generally timely processed and paid by Accounts Payable when received in that office.

We recommend that the applicable departments and the City Attorney's Office timely process and submit invoices for payment. In those instances where delays occur due to extenuating circumstances, appropriate explanation should be attached to the invoice and related payment records.

Law firms should submit timely invoices for services.

One firm was often delinquent in billing the City for services. Current contracts for legal services include a provision that requires the contracted firms to bill the City on or before the 15th of each month for all legal services rendered in the preceding month. One of the three firms selected for review regularly billed the City well beyond this period. For example, one invoice included services that were rendered seven months prior to the invoice date. The non-timely invoicing of legal services may make it difficult for the City to complete an accurate and thorough review for the purpose of ensuring the reasonableness and propriety of the billed services.

In response to this matter, the City Attorney's Office indicated that it would: (1) amend all outside counsel contracts to provide the firm 30 days to bill the City for legal services rendered in the preceding month, and (2) advise the firms that if timely billings are not received, the contract is subject to termination.

Conclusion

Overall, disbursements were proper and for necessary purposes; areas were identified where improvements can be made.

It is our opinion that, overall, City disbursements during the period July 1, 2002, through June 30, 2003, were (1) for authorized and necessary purposes; (2) made in accordance with established laws, rules, 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 properly and in compliance with governing laws, rules, and procedures. 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 believe the proposed action steps will improve and enhance our internal controls over disbursements. I appreciate the cooperative efforts of the City Auditor's staff and the efforts of my staff to improve our processes.

City Treasurer-Clerk:

I have reviewed the Audit of Citywide Disbursements-2003 and am pleased that the areas related to the Treasurer Clerk's Office were in overall compliance with our assigned responsibilities. I commend

you and your staff for the professional manner in which they conducted the audit and the quality of their findings.

City Attorney:

We appreciate the thoroughness and professionalism exhibited throughout this audit process. With the help of your objectivity and recommendations, we are able to appreciate the need to improve and tighten our control areas to assist in alleviating any potential risk. Staff is already in the process of addressing many of these concerns, and the others will be implemented within the next couple of weeks.

Copies of this audit report #0410 (project #0311) 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).

Audit conducted by:
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Appendix A - Action Plan

Action Steps	Responsible Employee	Target Date
<i>A. Department of Management and Administration</i>		
1. Re-emphasize with applicable staff (Stormwater, Fleet, and Electric Utility), procedures used when procuring services from a contractual agreement and reinforce the requirement to follow contractual provisions, review invoices for compliance, and obtain support for deviations from the stated terms and conditions prior to approval for purchase/payment.	Cathy Davis	6/30/04
2. Reinforce the significance of complying with City policies and procedures for procurement with applicable staff (Risk Management and Electric Utility) and emphasize documentation requirements and approvals for single (sole) source acquisitions and for any purchase/disbursement when the purpose/direct benefit to the City is not readily apparent based on the nature of the disbursement.	Cathy Davis	6/30/04
3. Reinforce with applicable staff (Stormwater) the proper coding of expenditures that should be capitalized within the City's fixed asset records.	Cathy Davis	6/30/04
4. Place emphasis on preparing agenda items that provide the most accurate and proper descriptions.	Cathy Davis	6/30/04
<i>B. Risk Management</i>		
1. In conjunction with the Department of Management and Administration and the Human Resources Department, develop a clarifying memorandum that informs both timekeepers and supervisors as to the proper method of recording employee's time when they are receiving workers' compensation benefits.	Gail Shuffler Corlis Hill	9/30/04
2. Attach the clarifying memorandum developed in step B1 above to the notification that is transmitted to timekeepers and supervisors whenever an employee is on workers' compensation leave.	Gail Shuffler Corlis Hill	9/30/04

<i>C. City Manager's Office</i>		
1. Prepare and distribute guidelines that address disbursements of City funds for items such as sponsorships of events or activities that directly benefit City employees (i.e., outside the Employee Reward and Recognition Program).	Marlon Brown	6/30/04
<i>D. Payroll Office</i>		
1. Verify court documents in the payroll file with the deduction amounts being withheld on current garnishment orders.	Dianna Williams	6/30/04
2. In conjunction with the Risk Management Division of the Treasurer-Clerk's Office and the Human Resources Department, develop a clarifying memorandum that informs both timekeepers and supervisors as to the proper method of recording employees' time when they are receiving workers' compensation benefits.	Dianna Williams	9/30/04
3. Obtain verification that the local chapter of the United Way will provide copies of our payroll deduction contribution authorization forms as needed and that they retain them for the required four years, pursuant to applicable record retention requirements.	Dianna Williams	3/31/04
<i>E. Utility Services</i>		
1. Place emphasis on securing future advances and down payments of City funds through written agreements prior to the advancement of funds.	Gary Brinkworth	4/30/04
2. Clarify and/or amend the October 14, 2003, letter of agreement with Sterling Planet to: <ol style="list-style-type: none"> a. Provide for the return of accrued interest for the period that Sterling Planet held the funds in the event the down payment is returned to the City, b. Specify the method and manner that accrued interest will be determined, and c. Address the substance of the negotiations necessary to provide for the return of the funds. 	Gary Brinkworth	4/30/04
3. Process, review, and submit to the City Attorney's Office invoices received for legal services within 15 working days of their receipt.	David Byrne	3/31/04

<i>F. Tallahassee Police Department</i>		
1. Complete the recovery of \$3,074 overpayment made to the applicable employee on workers' compensation.	Gary Williams	9/30/05
<i>G. Human Resources</i>		
1. In conjunction with the Department of Management and Administration and the Risk Management Division of the Treasurer-Clerk's Office, develop a clarifying memorandum that informs both timekeepers and supervisors as to the proper method of recording employees' time when they are receiving workers' compensation benefits.	Jan Estevez	9/30/04
2. Revise guidelines for lump sum payments to employees for special accomplishments to require documentation of the authorization and approval of those payments at the department/office level.	Jan Estevez	9/1/04
3. Codify the existing practice for prorating the salary payable to newly hired or terminating Fire personnel who work a partial schedule during the pay period. Salary pro-ration is based on the percentage of time they are on the payroll during the biweekly pay period, not the actual hours worked.	Glory Parton	4/1/04
<i>H. Parks and Recreation</i>		
1. For a given task, pay the single established rate of pay for all work relating to the task.	Ashley Edwards	9/30/04
2. Properly and accurately record time worked by temporary employees in the PeopleSoft HR system.	Ashley Edwards	9/30/04
<i>I. Neighborhood and Community Services</i>		
1. Remind administrative staff of the importance of reviewing and recording necessary data in the PeopleSoft payroll records to preclude generation of paychecks for terminated employees.	Wanda Whitehead	9/30/04
<i>J. Taltran</i>		
1. Terminate the temporary employment of the fire driver employed as a part-time coach operator.	Al Menendez	9/30/04

<i>K. City Attorney</i>		
1. Request a credit on future invoices for the \$1,269 over-billed.	Lisa Barlowe Pat Hurley	4/1/04
2. Amend the applicable contract with the firm for RTO issues to address the language regarding annual rate increases.	Lisa Barlowe Pat Hurley Jim English	4/30/04
3. Obtain and retain documentation to substantiate any changes to rates as provided by an initial contract. Reflect the approval of the City Attorney's Office of those rate changes on that documentation.	Lisa Barlowe Pat Hurley	4/30/04
4. For each payment for legal services, reflect on the related invoice whether it is pursuant to a contract. If pursuant to a contract, reflect the specific contract to which the services and payment pertain.	Lisa Barlowe	3/31/04
5. Assume responsibility for verifying that rates charged for outside counsel legal services are in accordance with contractual terms and provisions.	Lisa Barlowe	3/31/04
6. Prepare and distribute a memorandum to all departments/offices using outside legal services, informing them of their responsibilities and the City Attorney's responsibilities in reviewing and processing invoices for outside legal counsel.	Lisa Barlowe Jim English	4/30/04
7. Process, review, and submit invoices to Accounts Payable for payment within 15 days of their receipt by the City Attorney's Office.	Lisa Barlowe	3/31/04
8. Document extenuating circumstances for all invoices that cannot be processed, reviewed, and submitted in a timely manner.	Lisa Barlowe	3/31/04
9. Notify law firms that the period for billing is being extended from 15 days to 30 days following the month services are rendered, and advise law firms that if timely statements are not received, the contract is subject to termination.	Lisa Barlowe Jim English	4/30/04