

## “Citywide Disbursements - 2002”

Report #0314

April 16, 2003

### Summary

This audit of citywide disbursements covered the period July 1, 2001, through June 30 2002. Total disbursements for that period were \$435,290,862. We tested three separate classifications of disbursements: (1) General Disbursements, (2) Payroll, and (3) Energy Purchases. Disbursements by the Fleet Parts Division were excluded from this audit as they are part of an on-going criminal investigation.

It is our conclusion that, overall, City disbursements tested were proper, authorized, supported, accurately recorded, and made in accordance with established laws, rules, and procedures.

Our testing identified instances where controls could be improved and where City policy was not followed. Those instances are identified for management’s review, resolution, or disposition as follows:

- non-compliance with City Policy #242 in regard to the use of competitive procurement processes,
- use of a “check request” to initiate the payment process when the use of a purchase order would have been more appropriate,
- City departments not forwarding invoices and receiving documents to the Accounts Payable section in a timely manner,
- checks being returned to the requesting employee rather than mailed directly to, or picked up by, the vendor, and
- timesheets not being signed by employees or supervisors.

In addition to those issues, our examination of the timekeeping and payroll process at Taltran showed that:

- there were no documented departmental timekeeping or payroll procedures, and
- employees did not always “clock out” for meal breaks as required by City policy.

During the course of our audit, we also identified a need to enhance the recording and tracking of internal computer components within the City’s fixed asset records.

None of the above issues identified were considered material weaknesses or reportable conditions in internal controls.

### Scope, Objectives, and Methodology

The objectives of this annual audit were to provide assurances that 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 upon by the City’s external auditors and, as a result, reduce the costs associated with the City’s financial statement audit.

The scope of this audit included a review of disbursements made during the period July 1, 2001, through June 30, 2002. All departments except for the Fleet Parts Division (due to an ongoing criminal investigation) were included in the scope of our audit. To address the stated objectives, we sampled disbursements by category and reviewed the related supporting documentation, completed analytical procedures, interviewed applicable City staff, and made observations considered 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, 2001, through June 30, 2002, the City made disbursements of \$435,290,862. For purposes of this audit we classified those disbursements into three categories as shown in the following table:

Category	Number Of Transactions	Amount
General	61,570	\$246,688,693
Payroll	86,889	120,182,322
Energy	130	68,419,847
<b>Total</b>	<b>148,589</b>	<b>\$435,290,862</b>

For each of the above categories, we completed analytical procedures, selected samples, and applied test criteria designed to address our stated audit objectives. In addition to those procedures, we conducted a limited review of the timekeeping and payroll process at the Taltran garage facility.

### General Disbursements

General disbursements include all disbursements not specifically identified as part of another category. For this category we selected a sample of 36 items totaling \$11,885,676. The criteria used to test the sampled items included:

- verifying that the disbursements were authorized, supported, and for purposes consistent with City operations,
- verifying that appropriate competitive acquisition procedures were followed,
- determining if capital assets, when purchased, were properly recorded in the City's financial records,
- 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 no major exceptions to the above stated criteria. Certain issues were identified and are described in the following paragraphs for management's review, determination of the impact on established controls systems, and resolution or disposition, as appropriate.

**One instance was noted where competitive procurement procedures were not utilized as required.** City Policy #242 requires that a competitive procurement process be utilized for purchases greater than \$1,000. We noted that a competitive process was not used for one of the sampled items, the acquisition of training materials in the Equity and Workforce Development Department totaling \$3,500. We recommend that the Equity and Workforce Development Department review and adhere to the City's policy regarding competitive procurement.

**Check requests were used to initiate the payment process when the use of purchase orders was more appropriate.** The City has a check request process whereby City departments can request payment be made to a vendor without going through the formal purchase requisition and order process. This 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 requisition/orders. The use of the purchase requisition/order process for all other purchase types (e.g., acquiring goods and services) ensures that controls (proper authorization and approval) built into that process are not by-passed. Additionally, the use of check requests negates efficiencies built into the PeopleSoft purchase order process. We noted two instances where check requests were used to initiate payments to vendors for equipment repairs and training materials. These acquisitions, made by the Equity and Workforce Development

Department and the Parks and Recreation Department, and totaling \$3,841, should have been made by purchase requisition/order.

The Procurement Services Division of the Department of Management and Administration (DMA) has provided instructions for completing a check request on the City's internal web site "Citynet." Included in those instructions is a listing of when the use of a check request is appropriate. We recommend that the Accounts Payable section return check requests when the purchase requisition/order process is the appropriate acquisition method, unless the Procurement Services Manager approves an exception. In the event that it is not practicable to reject and return such check requests due to the need to ensure timely vendor payment, the Accounts Payable section should document the inappropriate use of a check request. Periodically, the Accounts Payable section should prepare a report of all such instances and forward that report to applicable department managers.

**An instance was noted where the City did not timely pay a vendor.** In this instance, Electric Operations did not forward the vendor invoice to the Accounts Payable section for approximately six months. In response to our inquiry, Electric Operations indicated the delay was attributable, in part, to vendor error in that the invoice indicated the purchased supplies were at a location other than the location where they were sent. However, more timely efforts by Electric Operations to locate the items would have allowed timely processing and payment of the invoice. The invoice totaled \$205. We recommend that Electric Operations make better efforts to timely process and submit vendor invoices for payment. In those instances where delays occur due to extenuating circumstances, appropriate explanation should be attached to the invoice and related payments records.

**For one disbursement there was a notation on the check request form to have the check returned to the City employee requesting the payment.** In this instance, an employee in the Treasurer-Clerk's Risk Management Division used a check request to pay an insurance premium of \$2.4 million. Returning checks for payment of

goods and services to the City employee that requested the check is not a violation of City policy but presents a risk to preferred control procedures. Specifically, requiring submission of a check to the vendor by staff other than the employee initiating and requesting the payment makes it more difficult for fictitious and fraudulent payments to be processed. As such, we recommend that checks not be returned to the requesting employee, and City policies/procedures be amended to that effect. In the event that prompt payment is necessary, arrangements should be made for the vendor to obtain the check (e.g., pick up at City Hall) from someone other than the employee that requested generation of the check.

### ***Payroll Disbursements***

The payroll disbursement category included general salary and retirement payments to individuals or their designated beneficiaries/annuitants. We tested a total of 45 items for compliance with criteria, regulations, and policies applicable to the disbursement type. The criteria included, but were not limited to:

- verifying existence of employees,
- verifying and recalculating payment amounts,
- verifying validity and propriety of deductions,
- verifying eligibility of retirees,
- verifying retirement payments were made only to appropriate persons, and
- verifying disbursements were properly recorded in the financial records.

In addition, we performed certain analytical procedures to identify potential inappropriate payments.

In summary, we found that the disbursements were generally (1) made to legitimate employees, retirees, and beneficiaries, (2) made in the proper amounts, (3) adequately supported, and (4) properly recorded in the City's financial records. We noted one issue that is described below.

**Timesheets were not always signed by the employee or his/her supervisor.** There are two main classifications of employees in the City that

are required to complete timesheets, positive-payment employees and exception basis employees. Positive-payment employees must complete a timesheet every week to positively affirm the hours that were worked. Exception basis employees must complete a timesheet when there is a variance (e.g., overtime, sick leave, or personal leave) from the standard 40 hour work week. During our testing we noted, for two employees, that the records used for recording time were not always signed by the employee or approved by his/her supervisor. These employees worked in Utility Accounting (exception basis employee) and Neighborhood and Community Services (positive-payment employee). The signing of a timesheet represents an employee's confirmation that the time worked and/or leave taken, as applicable, is accurate and complete to the best knowledge of the employee. The approval by the supervisor is a confirmation that the supervisor has reviewed the timesheet and concurs with the employees' assertions as to the time that was worked and/or leave taken. We were unable to identify a City policy that requires the signing of timesheets for time worked or leave taken by the employee or approval of the record by the supervisor. We recommend that City policy be revised to include those requirements.

### **Taltran Garage Facility Timekeeping Process**

In connection with our audit of payroll disbursements, we judgmentally selected one City department for a limited examination of the timekeeping process. The garage facility in Taltran was selected for review. We interviewed the timekeepers, reviewed departmental procedures, and examined source documents (timesheets) and summary reports used for data entry into the PeopleSoft Human Resource (HR) system. Activity for six employees during a five-month period was examined. During our examination, we noted the following issues for management's review, determination of the impact on established controls, and resolution or disposition, as appropriate.

**The department is implementing a new system for the recording of employee time worked.** Taltran is in the process of implementing a

handprint recognition system that will replace the timesheets and "punch clock" system that is now in use. The hand reader records biometric data from an employee's hand to specifically identify each employee. The hand readers are connected to a computer which accumulates the timekeeping data (arrival and departure of employees) and provides summary reports for data entry into the PeopleSoft HR system. We recommend that Taltran inquire as to the feasibility of having the new system interfaced with the PeopleSoft HR system to minimize manual data entry. Appropriate follow-up actions should be taken based on the results of that inquiry.

**Department procedures for timekeeping were not documented.** While there was a process for recording, reporting, and retaining payroll information, that process was not documented or codified into departmental procedures. Documented department payroll/timekeeping procedures provide a framework for the establishment of internal controls over the payroll process at the department level, and help ensure that those controls are consistently applied. Such procedures should include, but not necessarily be limited to:

- instructions as to how employees should record their times of arrival, departure, and breaks from work,
- documentation of the responsibilities of employees and supervisors regarding the recording of time worked, and
- instructions as to how employees responsible for the processing of payroll should accumulate payroll data, record data into the City's PeopleSoft HR system, and store payroll related documentation.

We recommend that Taltran develop and document departmental procedures for payroll and timekeeping.

**Employees did not always take meal breaks as required by City policy.** City Policy 706.03 provides that lunch periods (minimum of 30 minutes for Taltran garage facility employees) may not be accumulated in order to shorten the workday except in unusual circumstances and then with prior approval of the employee's supervisor. In a memorandum dated August 9, 1999, the City's

Human Resource Director clarified that an employee that works six hours or more must take a 30 minute unpaid meal break, and that meal must be taken during the employee's work shift and may not be used to shorten the work day.

During our examination of timesheets, we noted two specific trends where employees were generally not "clocking out" for meal breaks as required by City Policy 706.03. The first trend involved employees working on weekends. During the period examined, the six sampled employees worked a total of 34 weekend shifts where a meal break should have been taken. In those 34 shifts the applicable employees did not "clock out" for meal breaks as required. The other trend involved Fridays. In the sample there were 95 Friday work shifts where an employee should have taken a meal break. In 39 of those 95 instances no break was taken.

In each of the above instances the applicable employee's paid workday was shortened due to not taking the required meal break. We recommend that the department communicate to employees, and include in the departmental procedures, the requirement that meal breaks be taken in accordance with City Policy 706.03.

### **Energy Disbursements**

The City purchases both (1) natural gas and other source fuels to generate power and supply customers, and (2) electricity. For testing purposes we selected five sample items totaling \$6,845,707, from a population of 130 transactions totaling \$68,419,847. For the selected items we applied the following criteria:

- verified that prices paid were in accordance with contractual terms,
- verified that payments were made within time frames established by contractual agreements,
- reconciled quantities paid for to quantities received per supporting documentation, and
- verified that contractually required amounts of energy were purchased.

We found no exceptions in the five sample items that we tested.

### **Other Issues**

**Practices used by the Information Systems Services (ISS) Division within DMA have not adequately reflected the disposition and/or removal of certain information technology (IT) items.** City departments/offices that acquire fixed assets costing \$750 or more are to complete and submit a fixed asset receipt form (FARR) to the Accounting Services section in DMA. Accounting Services staff assigns a FARR tag number to the purchased asset and submits a FARR tag to the applicable department/office. The FARR tag identifies an item as City property and is to be attached to the asset. The FARR tag number is the mechanism used by Accounting Services to record and track the asset in the City's fixed asset records.

For many IT items, such as internal computer and network components, it is not practicable/possible to attach a FARR tag to the item. For those IT assets purchased by ISS, we determined that ISS did not complete FARRs. To ensure that those assets were recorded in the City's fixed asset records, staff in Accounting Services identified the applicable purchases by querying the City's accounting system and then entered the items (in bulk, not by asset) into the fixed asset records. No FARR tag number was assigned to the items. Without a FARR tag number or other identification number assigned to individual assets/components, there was no practicable way to specifically associate those items with the assets as recorded in the fixed asset records. In those instances where such assets (individually or in bulk) were disposed of or replaced, Accounting Services and ISS staff did not always take the actions necessary to ensure that the fixed asset records were properly updated to reflect the disposal/removal. That practice created a situation where the City's IT assets could be overstated in the fixed asset records.

ISS and Accounting Services staff acknowledged these circumstances. They indicated that this issue needs to be further researched to develop a solution that will ensure proper accountability and control and, at the same time, not be burdensome to implement. We recommend that ISS and Accounting Services complete that planned course of action.

### Conclusion

It is our conclusion that, overall, City disbursements tested during the period July 1, 2001, through June 30, 2002, 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. Recommendations have been made for those areas where improvements should be made.

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

### Appointed Official Response

#### City Manager:

I am pleased to see that overall the disbursement process audit indicates that disbursements were in accordance with laws, rules, and procedures.

I appreciate the recommendations made by the City Auditor's staff, and we have provided timelines for implementation of those recommendations.

#### City Treasurer-Clerk:

I have reviewed the Audit of Citywide Disbursements and concur with the recommendation made relative to the disbursement function in the Treasurer-Clerk's Office. I agree that returning checks to employees is not a preferred practice and agree with your recommendation that policies/procedures be changed to prevent this practice. The Asset/Liability division will require that checks be released to someone other than the person approving the check request; the division is now in the process of documenting this procedure. I commend you and your staff for the professional and thorough manner in which the disbursement review was conducted.

Copies of this report #0314 (project #0213) may be obtained at 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 ([dooleym@talgov.com](mailto:dooleym@talgov.com)).

Audit of Citywide Disbursements 2002 was conducted by:  
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 Sam M. McCall, CPA, CIA, CGFM, City Auditor

<b>Action Plan</b>		
<b>Action Steps</b>	<b>Responsible Employee</b>	<b>Target Date</b>
<b><i>A. Equity and Workforce Development</i></b>		
1. Hold a training session with department employees associated with and responsible for the acquisition of goods and services for a review and update on the City's procurement policies. That training session will include, but not necessarily be limited to, competitive procurement requirements and usage of purchase orders and check requests.	Virginia Cannon	8/29/03
2. The department director will periodically review acquisitions of goods and services for compliance with the City's procurement policy.	Sharon Ofuani	8/29/03
<b><i>B. Parks and Recreation</i></b>		
1. Reinforce to department employees responsible for the acquisition of goods and services the need to follow City procedures and guidelines in regard to the usage of the purchase order and check request process.	Ashley Edwards	4/3/03
<b><i>C. Electric Operations</i></b>		
1. Communicate to all employees associated with and responsible for the acquisition of goods and services that invoices and other supporting documentation for purchases must be submitted in a timely manner, and when there are delays an explanation should be included in the supporting documentation.	Betty Armstrong	Completed (2/4/03)
<b><i>D. Accounts Payable</i></b>		
1. Communicate to department managers and ACMS each instance the check request process is used to initiate a vendor payment when another process (i.e., purchase requisition/order or City procurement card) is appropriate pursuant to guidelines issued by Procurement Services.	Cathy Kilpatrick	9/30/03
2. Generate a monthly report of instances where check requests were used for the initiation of payments to vendors but should not have been. (See Step D.1 above.) Submit those reports to the Director of Management and Administration, ACMS, and department managers as applicable.	Cathy Kilpatrick	9/30/03
3. Notify all City departments and offices that payment requests that are not received in a timely manner must have a notation attached that explains the delay.	Cathy Kilpatrick	9/30/03
4. Notify department managers through a memorandum (including supporting documentation as appropriate) whenever explanations provided to explain delays in processing payments are missing or not adequate to justify the delay.	Cathy Kilpatrick	9/30/03

Action Steps	Responsible Employee	Target Date
<b><i>E. Office of the City Treasurer-Clerk</i></b>		
1. Develop a City policy to provide that checks will not be returned to the requesting employee or department. Any exceptions to that requirement should be outlined in the policy.	Jim Cooke	4/30/03
<b><i>F. Neighborhood and Community Services</i></b>		
1. Communicate to all employees required to complete positive payment timesheets that timesheets should be signed by the employee and approved of record by his/her supervisor.	Wanda Whitehead	9/30/03
<b><i>G. Utility Business and Customer Services</i></b>		
1. Communicate to all employees reporting on an exception basis that timesheets should be signed by the employee and approved of record by his/her supervisor.	John Pellino	Completed (3/25/03)
<b><i>H. Human Resources</i></b>		
1. Amend current City policy to require documented employee assertions and supervisory approval for time worked and leave taken as appropriate.	Gloria Hall-McNeil Jeanne Kimball	6/30/03
<b><i>I. Taltran</i></b>		
1. Ensure that internal controls are established as part of the new timekeeping system.	Al Menendez	4/30/03
2. Document the department's timekeeping/payroll process and procedures for employees and timekeepers.	Bob Chamberlain	4/30/03
3. Hold meetings with employees, supervisors, and timekeepers to communicate City Policy 706.03 in regard to required meal breaks during work shifts.	Bob Chamberlain	4/2/03
<b><i>J. Department of Management and Administration</i></b>		
1. Review the current fixed asset records for the computer network and telephone systems to identify any assets that are no longer in service and complete work necessary to have those items removed from the City's fixed asset records.	Terry Baker Chuck Montgomery	6/30/03
2. Develop a plan to ensure accurate and efficient accountability and control over IT assets. That plan will address: <ul style="list-style-type: none"> <li>• The recording of IT assets within the fixed asset records in a manner that will preclude the "double capitalization" of assets. Specifically, measures will be taken to preclude the capitalization of repair/maintenance costs incurred for existing systems.</li> <li>• For those IT assets comprising a system and capitalized in bulk (i.e., as a single system), development of a mechanism to physically control and account for the individual components and spare replacement parts of a high-risk nature.</li> </ul>	Terry Baker Mike Seagraves Chuck Montgomery	9/30/03
3. Implement the plan developed in J.2. above.	Terry Baker Mike Seagraves Chuck Montgomery	12/31/03