



CITYWIDE DISBURSEMENTS

AUDIT REPORT #0117

FEBRUARY 2001



Copies of this audit report #0117 (project #0007) may be obtained 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@mail.ci.tlh.fl.us).

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MEMORANDUM

To: Mayor and Members of the City Commission

From: Sam M. McCall, City Auditor

Date: February 21, 2001

Subject: Audit Report on Citywide Disbursements (#0117)

We have completed an audit of Citywide Disbursements (#0117). We submit this report that contains our audit issues and recommended actions and the responses from the City Manager and the Interim City Treasurer-Clerk. 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,

Sam M. McCall
City Auditor

SMM/mbd
attachment

Copy: Members of the Audit Committee
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Gloria Hall-McNeil, Director, Human Resources
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An All-America City

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“Citywide Disbursements”



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

Report #0117

February 21, 2001

Executive Summary

Generally, Disbursements Were Proper, Authorized, and Made in Accordance With Established Laws, Rules, and Procedures.

However, Certain Exceptions Were Noted.

Of City Disbursements Totaling \$456,128,884, We Selected and Tested 244 Transactions Totaling \$19,264,146.

The City Improperly Deducted From Employee Salaries and Remitted to an Insurance Provider \$53,212.

Contractors/Vendors Were Overpaid \$4,392.

Generally, disbursements were proper, authorized, and made in accordance with established laws, rules, and procedures. However, instances were noted where controls were not in place or operating effectively to ensure that City funds were disbursed only for authorized purposes and in appropriate amounts. Applicable City departments should take actions to recover amounts inappropriately disbursed and to establish and comply with controls that preclude such unauthorized disbursements.

City disbursements during the period July 1, 1999, through June 30, 2000, totaled \$456,128,884. We classified those disbursements into four categories: (1) payroll, (2) general disbursements, (3) retirement benefits, and (4) purchase card disbursements. We tested a total of 244 disbursements totaling \$19,264,146 from these categories. Overall, our test results showed that disbursements were proper, authorized, and made in accordance with established laws, rules, and procedures. However, we noted instances of inappropriate payments and areas where improvements should be made.

Our test of payroll disbursements disclosed instances of deductions from employee salary payments that were not proper or documented as authorized by the applicable employees. In regard to employees participating in the City’s term life insurance plan, the City improperly deducted from salary payments and submitted to an insurance provider \$53,212 over a six-year period.

In our test of general disbursements, we determined that a contractor rendering elevator maintenance services was paid \$4,072 in excess of the amounts established pursuant to contractual terms. Duplicate payments, totaling \$918, for maintenance services were also made to that contractor. Additionally, an amendment to the contract was not properly documented. Equipment purchased from another vendor was not timely recorded in the City’s property records, thereby increasing the susceptibility of that equipment to

Additional Analyses of Retiring Employees' Salary Histories Should Be Made.

unauthorized use or undetected theft. That vendor was also overpaid \$320.

Our test of pension disbursements showed that retirement benefits were generally properly calculated and paid to retirees and their designated beneficiaries/annuitants. However, to ensure that retirees and their designated beneficiaries/annuitants receive the full benefits to which they are entitled, the retirement section should conduct and document additional analytical procedures of retiring employees' salary histories.

Purchase Card Disbursements Were Generally Proper, Supported, and Recorded.

Purchase card disbursements were generally adequately supported and made in accordance with established guidelines. No control deficiencies or reportable exceptions were noted.

Applicable City Departments Should Take Corrective Actions.

With regard to the above, applicable City Departments should take actions to recover amounts inappropriately disbursed. Those Departments should also establish and comply with controls that ensure City funds are disbursed only for authorized purposes and only in appropriate amounts.

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

“Citywide Disbursements”



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

Report #0117

February 21, 2001

Objectives, Scope, and Methodology

The objectives of this audit were to determine whether the 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, 1999, through June 30, 2000.

To address the above objectives, we selected samples of disbursements by category, reviewed the related supporting documentation, interviewed applicable City staff, and made observations as necessary. This audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Background

During the period July 1, 1999, through June 30, 2000, the City made disbursements of \$456,128,884. For purposes of this audit, we classified those disbursements into four categories as shown in the following table:

*The City Disbursed Over
\$456 Million During the
Period July 1, 1999,
Through June 30, 2000.*

CATEGORY	TRANSACTIONS	AMOUNT
Payroll	92,367	\$102,340,762
General	41,249	\$333,066,157
Retirement	9,075	\$14,503,306
Purchase Card	24,733	\$6,218,659
TOTAL	167,424	\$456,128,884

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

**Payroll
Disbursements**

*We Tested 79 Payroll
Disbursements Totaling
\$83,150.*

Payroll disbursements represent payments to individuals for services performed as employees of the City. Currently, there are approximately 2,700 full-time City employees. 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 750. Test criteria applied to selected payroll 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.

We selected and tested a sample of 79 payroll disbursements totaling \$83,150.33. These 79 disbursements pertained to 77 employees, of whom 64 were in full-time positions and 13 were classified as temporary employees. Overall, we found that the sampled disbursements (1) were made to legitimate employees and in the proper amounts, (2) were supported by adequate documentation, and (3) were properly recorded in the financial records. However, as described in the following paragraphs, we noted instances where funds were not properly disbursed and areas where improvements should be made.

*Over a Six-Year Period
the City Submitted to an
Insurance Provider
\$53,212 That Had Been
Improperly Deducted
from Salary and Pension
Payments of Individuals
Participating in the
City's Term Life
Insurance Plan.*

Deductions from salary and pension payments were not proper for those City employees, retirees, and retirees' surviving spouses participating in the term life insurance plan made available by the City. We determined that over almost a six-year period, the City had submitted to the insurance provider overpayments totaling \$53,212 that had been improperly deducted from salary and pension payments.

One of many benefits made available by the City to employees and retirees is participation in a group term life insurance plan. The City's current provider for that plan is Metropolitan Life Insurance Company (Metlife). Metlife has been the provider since September 1994, the date that Metlife acquired the Travelers, Inc., who had been the City's provider since 1986. In addition to selecting coverage for him or herself, the City's plan allows an employee to select coverage for his or her spouse. Furthermore, upon retirement, an employee may elect to continue the selected coverage. When a retiree has spouse coverage, the spouse may also elect to continue that coverage upon the death of the retiree.

Plan participants pay their premiums through the payroll deduction process. Premiums are based on several factors, including the amount of coverage selected, age of the covered individual, and whether the covered individual is a smoker. For each pay period, the applicable premiums are deducted from participating employees'/retirees'/surviving spouses' salary and pension payments. The deducted amounts are accumulated and remitted to Metlife.

In response to our inquiry, staff in the City's Human Resources Department determined that the City's agreement with Metlife for term life insurance does not provide for charging of administrative fees in addition to the premium amounts. Such administrative costs are considered "built" into the premiums. However, prior to our inquiry and contrary to that agreement, a four percent administrative fee was added to the premiums deducted from plan participants' salary and pension payments. That amount was accumulated and

remitted to Metlife with the premiums. As shown in the following table, the result was that \$53,212 has been improperly deducted from the salary and pension payments of City employees, retirees, and surviving spouses over the approximately six-year period that Metlife has been the plan provider.

Year	Amounts Improperly Deducted - Employees	Amounts Improperly Deducted - Retirees and Surviving Spouses	TOTAL
1995	\$5,975.74	\$290.22	\$6,265.96
1996	\$7,134.90	\$456.29	\$7,591.19
1997	\$7,911.30	\$777.64	\$8,688.94
1998	\$8,544.85	\$950.77	\$9,495.62
1999	\$9,235.19	\$1,456.89	\$10,692.08
2000 (1)	\$9,201.27	\$1,277.61	\$10,478.88
TOTAL	\$48,003.25	\$5,209.42	\$53,212.67

Note (1): Through November 17, 2000

All of the current and former employees, retirees, and surviving spouses impacted by these improper deductions have not yet been identified by the Human Resources Department. However, for the period January 1999 through November 17, 2000 (a 23½ month period), City payroll records indicate that 1025 such individuals were affected.

The City’s Human Resources Department indicated that unfortunately these improper deductions and resulting overpayments to Metlife resulted from a misinterpretation of guidelines and information provided by Metlife. Specifically, prior to our inquiry, staff incorrectly interpreted that the four percent administrative fee was to be applied to premiums for both of the

Metlife life insurance plans, one for term insurance and the other for universal (or whole life) insurance. However, additional research conducted as the result of our inquiry disclosed that the administrative fee was applicable only to the universal coverage.

Staff of the Human Resources Department indicated that recovery of the overpaid amounts from Metlife will be pursued, and that affected employees (former and current), retirees, and surviving spouses will be identified and reimbursed the applicable amounts. Furthermore, they indicated that, effective January 1, 2001 (i.e., the start of the new coverage year), administrative fees will no longer be applied to the premiums for participants in the term life insurance plan.

Instances were noted where records of employee authorizations for payroll deductions were not always retained. The lack of such records precludes a verification that amounts deducted from employees' salary and wage payments are proper and authorized.

Records of Employee Authorizations for Payroll Deductions Were Not Always Available.

City employees may participate in the City's "Matched Annuity Pension Plan" (MAP), a tax-deferred retirement savings plan. Under MAP, employees may make voluntary contributions on a tax-deferred basis throughout their working career and choose how those contributions are invested. In addition, the City makes a contribution to the employees' personal investment accounts each pay period. The retirement section within the Office of the Treasurer-Clerk is responsible for enrolling employees in MAP and ensuring that proper amounts are deducted based on contribution levels selected by participating employees.

To participate in MAP, employees must complete two forms. The first is an enrollment form where the employee agrees to participate, acknowledges the terms and conditions of the plan, and indicates the desired investment allocation of deferred funds. In the second form, titled the "Contribution Change Form" (change form), the employee indicates and authorizes the amount of funds (i.e., as a

percentage of salary and/or a specific dollar amount) to be deducted from his/her salary per pay period. At any time, an employee may change the amount of funds deducted from his/her salary per pay period. Employees may decide to increase their contributions (i.e., as long as amounts deducted do not exceed a maximum amount prescribed by law) or decrease their contributions. To make such contribution changes, an employee must complete another change form that specifies and authorizes the revised amount to be deducted and indicates the pay period that such revised deductions should commence.

As part of our review of sampled payroll disbursements, we attempted to verify that the amounts deducted for employee MAP contributions agreed to the applicable change forms. Specifically, we compared the amounts deducted to the change form completed by the applicable employees and relating to the sampled pay periods. We noted that for 5 of the 64 sampled employees for which MAP deductions were made, change forms authorizing the amounts deducted were not available.

In response to our inquiry on this matter, retirement section staff indicated that change forms, completed by employees to revise their initially selected contribution levels, were retained for a one-year period. Therefore, in those instances where more than a year had elapsed since an employee completed a form revising his/her deductions, the form was discarded. Retirement section staff indicated that the one-year retention schedule was initiated due to the large volume of records that were accumulating as a result of numerous employee-generated contribution level changes.

Notwithstanding that explanation, the lack of applicable change forms precludes a verification that amounts deducted from employees' salary and wage payments are proper and authorized. Furthermore, not retaining such forms for an appropriate period of time is in violation of record retention requirements established for state and local government agencies by the Florida Department of State. Those requirements, which were established pursuant to

Chapter 257, Florida Statutes, state that payroll deduction authorizations should be retained for two years, provided that applicable audits have been released. Accordingly, an employee payroll deduction authorization should only be discarded when at least two years have elapsed since that authorization impacted the employee's salary payments (i.e., a subsequent authorization(s) was made that superceded the former authorization), and all applicable audits covering those impacted periods have been completed and the resulting reports issued.

Our test of 79 payroll disbursements disclosed four additional instances where employee authorizations (pertaining to three employees) for payroll deductions were not available for our review. In these instances, maintaining records of the applicable payroll deduction authorizations was the responsibility of the Human Resources Department. In two of the four instances, the employees' deduction authorizations for accidental death and dismemberment insurance coverage were not available in City records. In another instance, an employee's deduction authorization for cancer insurance coverage was not available. In the last instance, an employee's deduction authorization for legal insurance coverage was not available. Such records are needed to substantiate that the deductions were proper and authorized, and to comply with record retention requirements established by the Florida Department of State.

***General
Disbursements***

*We Tested 90 General
Disbursements Totaling
\$19,146,847.*

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, and payments using approved City purchase cards. For example, this category included, but was not limited to, payments for the acquisition of equipment, supplies, parts, travel, training, contractual services, energy, and land, and utility refunds to City customers. For this category we selected a sample of 90 disbursements totaling \$19,146,847.43. 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,
- 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, as described in the following, instances were noted where overpayments occurred and where improvements should be made.

A Contractor Was Overpaid \$4,072; a Contract Amendment Was Not Documented.

Over a three-year period, a contractor rendering elevator maintenance services was paid \$4,072 in excess of amounts established by applicable contractual terms and provisions. Also, a contract amendment was not documented. On September 7, 1995, the City executed a contract with Miami Elevator Company for elevator maintenance services. The contract covered the five-year period June 15, 1995, through June 14, 2000, and was for services to 16 City elevators located at the Police Department, City Airport, Purdom and Hopkins Generating Stations, Utilities Operations Center, and Senior Citizen Center. On February 28, 2000, the contract was extended for an additional year (i.e., through June 14, 2001).

Miami Elevator Company (contractor) was selected to provide the maintenance services through competitive acquisition procedures. Specifically, the contractor was determined to have submitted the

best proposal in response to a request for proposals (RFP) issued by the City. Terms in that City RFP issued to prospective vendors on February 17, 1995, provided that all proposals must include firm prices for the first 24 months of the contract period. For the period subsequent to that initial 24-month period, proposals could provide for escalated prices in accordance with the conditions established in the RFP.

The executed contract specified that the contractor would meet all requirements and conditions imposed by the City's RFP and the contractor's response thereto (i.e., their proposal), dated April 27, 1995. The contractor's proposal indicated that the prices quoted within would not be escalated. Therefore, the prices stated in the proposal were the prices that should have been charged throughout the initial five-year period of the contract.

One of our sampled disbursements was the monthly maintenance payment (April 2000) to the contractor for the two elevators located at the Purdom Generating Station. Our review disclosed that the sampled payment of \$569.26 was \$59.26 more than the stated contract price of \$510 for those two elevators. Upon further analysis, we determined that during the period September 1997 through November 2000 (approximately three years), the City had paid the contractor a total of \$4,690.74 in excess of the amounts that should have been paid pursuant to established contract terms. Each overpayment comprising that total was the result of the contractor invoicing and the City approving/paying amounts greater than the documented contractually established prices. These apparent overpayments pertained to each of the City's 16 elevators serviced pursuant to the contract.

In response to our inquiry, Procurement Services staff acknowledged that, during the payment approval process, invoices had not been compared to the prices established by contractual terms. Of the \$4,690.74, overpayment total noted above, \$4,072.40 was attributed to this reason. That amount pertained to 14 of the 16 applicable elevators.

Procurement Services staff also indicated that for the two remaining elevators (i.e., Hopkins Generating Station), the City and contractor had verbally agreed to increase the monthly service charges due to significant rebuilds and replacements. Accordingly, the remaining \$618.34 of the \$4,690.74 overpayment total did not represent overpayments but was instead the result of an undocumented contract amendment agreed to by the Electric Department (i.e., Hopkins Generating Station).

As evidenced by the noted overpayments, the lack of reviews to ensure that invoiced amounts are in accordance with established contractual terms and conditions increases the risk that inappropriate amounts will be paid to contractors and vendors. Furthermore, verbal amendments to existing contractual terms and conditions (e.g., prices) do not adequately document that such amendments were approved, authorized, and otherwise valid.

Procurement Services issued a letter to the contractor on December 27, 2000, requesting repayment of the \$4,072.40.

*Duplicate Payments
Totaling \$918 Were
Made to a Contractor.*

Duplicate payments totaling \$918 were made to the contractor rendering elevator maintenance service. In determining amounts paid to Miami Elevator Company in excess of contractually established amounts, we analyzed payments made during the period January 1997 through November 2000. (See preceding audit finding.) Our review disclosed two instances where the City paid for the same services twice. These duplicate payments totaled \$918.15.

In both instances, the elevator company submitted duplicate invoices to the City. In the first instance, the City received invoice #113660 on October 6, 1999, for maintenance services rendered to the Airport elevators during September 1999. The amount of that invoice was \$830.27. On November 1, 1999, the City received another invoice, also #113660, for maintenance services to those elevators for the same period. The second invoice was also for \$830.27. In the second instance, invoice #94281 in the amount of

\$87.88 for services rendered in July 1999 to the Senior Citizen Center elevator was submitted and paid twice, once in July 1999 and again in September 1999.

Reviewing invoices to ensure that duplicate payments are not processed is the responsibility of the accounts payable section within Procurement Services. Such reviews are essential to preclude inappropriate disbursement of City funds. In a letter to the contractor dated December 27, 2000, Procurement Services requested repayment of the \$918.15.

*Purchased Equipment
Was Not Timely
Recorded in the City's
Property Records; the
Applicable Vendor Was
Paid \$320 More Than
the Quoted Price.*

Lawn mowers purchased for use at outlying fire stations were not timely recorded in the fixed asset accounting records. In addition, the City paid a total of \$320 more than the price initially quoted by the supplying vendor. Section 662 of the City's Administrative Procedures Manual requires that fixed assets, the cost of which is \$750 or more and the normal expected life of which is greater than one year, shall be recorded in the City's property records (fixed asset management system). Furthermore, tags are to be placed on the assets so as to identify the items as City property.

One of the sampled disbursements represented the acquisition of four riding lawn mowers, at \$1,460 each, for use at City fire stations located outside City limits (i.e., fire stations #10, Tower Road; #11, Centerville Road; #13, Woodville; and #14, Highway 20). The City obtained the lawn mowers on March 6, 2000. However, as of October 23, 2000, the date of our audit inquiry and over seven months after the acquisition, the lawn mowers had not been recorded in the City's property records and had not been marked with fixed asset tags. Not timely recording fixed assets in the property records and marking them in a manner that identifies the assets as City property results in an understatement of the fixed asset records and increases the risk of loss or misuse.

Additionally, since the total cost of these lawn mowers and related equipment was between \$1,000 and \$10,000, City procurement

policy provided that the acquiring department obtain verbal or written quotes from a minimum of three vendors. In accordance with this policy, Fire Department staff obtained verbal quotes from three vendors and made the purchase from the vendor that quoted the lowest price. However, that vendor invoiced the City at a cost that was higher than the amount quoted. Specifically, the vendor quoted a price of \$1,380 per mower but invoiced the City \$1,460, or a difference of \$80 per mower. The result was that the City overpaid the vendor \$320. In response to our inquiry on this matter, Fire Department staff stated that procedures that were established to preclude such overpayments had not detected the error in this case. Furthermore, in response to our inquiry, the Fire Department contacted the vendor who refunded the City for the \$320 overcharge.

**Retirement
Benefit
Payments**

*We Tested 15 Pension
Payments Totaling
\$24,804.*

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. Retirement benefit payments are currently made to approximately 750 individuals. Retirement disbursements are governed by the approved City pension plans. Retirement benefit calculations are made by retirement section staff within the Office of the Treasurer-Clerk. Those calculations are based on various factors and options specified in the City's approved pension plans and on records provided by the Human Resources Department and the payroll section within Accounting Services.

For the retirement category, we selected 15 payments made to retirees or their designated beneficiaries during the period July 1, 1999, through June 30, 2000. The 15 sampled payments totaled \$24,804.19. Test criteria applied to these sampled payments included the following:

- verifying that retirees had completed the minimum years of City service required to be eligible for retirement benefits,

- 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,
- verifying that cost of living adjustments were properly determined and applied to retirement benefits,
- verifying that deductions from retirees' pension payments were authorized and proper, and
- verifying that benefit payments were made only to the eligible retirees or their designated beneficiaries/annuitants.

Overall, we found that procedures and controls were adequate to ensure that retirement payments were made only to eligible individuals and in proper amounts. However, we noted the following areas where improvements should be considered.

An analysis of each retiring employee's entire salary history should be completed to ensure that retired employees receive the maximum benefits to which they are entitled. The determination of a retiring employee's pension payment is based on several factors. Two of the critical factors are the employee's years of service and the salary earned by the employee. Generally, the pension payment to which an employee will be entitled will increase as his number of years worked increases and as his/her salary increases. As noted above, the retirement section within the Office of the Treasurer-Clerk calculates and determines pension payments. Salary records used in this process are compiled and provided to the retirement section by the payroll section within Accounting Services.

Complete Salary Histories of Retiring Employees Were Not Analyzed in the Determination of Retirement Benefits.

Pursuant to the City's pension plans, the salary used in an employee's pension payment determination should be the salary earned during that employee's "best 36-month period." The best 36-month period is defined as the higher of (1) the base salary (or

compensation) earned during his final 36 months of employment or (2) the salary earned during any consecutive 36-month period escalated to the date of retirement at an annual rate of three percent. For example, the base salary earned by an employee during a particular 36-month period worked several years prior to his retirement, when escalated to his retirement date at the rate of three percent, may be greater than the employee’s base salary earned during his final 36 months of employment. In that circumstance, the escalated salary amount should be used in determining the employee’s pension payment.

As part of our audit we reviewed 15 pension payment determinations for retiring employees or their designated beneficiaries/annuitants. Fourteen of those pension payment determinations involved 12 employees who retired or died during calendar years 1998, 1999, or 2000. Nine of those 12 employees had actually retired during that three-year period. Our review of the pension payment determinations for those nine employees disclosed that the retirement section staff did not obtain, review, and analyze the entire salary histories when identifying those employees’ best 36-month periods. As shown in the following table, periods not obtained and analyzed ranged from 4.5 to 21.8 years.

<u>Employee No.</u>	<u>Years Analyzed</u>	<u>Years Worked</u>	<u>Difference</u>
1	13	26.2	13.2
2	5	25	20
3	5	17	12
4	12	24	12
5	5	26.8	21.8
6	5	26.5 (1)	21.5
7	11	31.7	20.7
8	7.5	24.9	17.4
9	8	12.5 (1)	4.5

Note (1): These 2 employees actually had worked more than the number of years indicated; however, only the years indicated could be counted for pension purposes.

In response to our inquiry on this matter, staff in the retirement section stated that experience and knowledge regarding individual employee work histories and overall employee raises and pay rates for the last few decades, as well as specific analytical procedures conducted for individual retiring employees (not always documented), provided adequate information to enable a determination of an employee's best 36-month period without obtaining the employee's entire salary history. Our analytical procedures confirmed that the retirement section's staff had properly identified the best 36-month periods for the nine sampled employees using the described process.

However, the retirement section's staff acknowledged that unique circumstances could result in the described process not identifying a retiring employee's best 36-month period. For example, an employee may have worked and been paid for extensive overtime during a period when such overtime should be included in the salary history for purposes of determining that employee's best 36-month period. The period in which that extensive overtime was worked could represent the employee's best 36-month period (when the salary is escalated to the retirement date at the rate of three percent). In the event that period was not included in the salary history obtained and used to identify the best 36-month period, that employee's pension payment would be based on a lower salary amount. As a result, that employee's pension payment would be less than it should be.

Notwithstanding the possibility of incorrect pension payments as described above, staff has asserted that it is not practicable or efficient for the retirement section staff (and payroll section staff) to obtain, review, and analyze the entire monthly salary histories for retiring employees. To reduce the possibility of incorrect pension payments and to demonstrate positive actions to comply with pension plan criteria, an alternative would be for the retirement section staff to use readily available annual salary histories, dating back to 1973, to analyze retiring employees' salaries. Analyses of those annual salary histories could be used to determine the years

for which detailed monthly salary histories should be obtained for purposes of identifying employees' best 36-month periods. Such analyses and resulting conclusions could be documented and maintained in the applicable retirees' files located in the Office of the Treasurer-Clerk.

*A Pre-retirement
Benefit of \$317
Was Improperly
Paid to an
Individual Who
Did Not Qualify
for That Benefit.*

A pre-retirement death benefit of \$317 was improperly paid to a child of a deceased employee when the child was no longer eligible for those benefits. Pre-retirement death benefits are payable to designated beneficiaries of eligible employees who die while employed by the City. For example, if a general employee (employees other than sworn police officers or firefighters) dies as the result of a job-related occurrence at any time after the commencement of his employment, or as a result of any occurrence on or after the second anniversary of his commencement of employment, the legal spouse and legally dependent children of the deceased employee will be entitled to benefits. A legally dependent child is defined by the City's pension plan as a natural or adoptive child or unborn child of the deceased employee who is less than 18 years of age or less than 22 years of age and a full-time student in an accredited educational institution. If there are one or two legally dependent children, each child is entitled to a monthly annuity equal to ten percent of the deceased employee's monthly base salary at the time of death. If there are three or more legally dependent children, the monthly annuities are a lesser amount.

Our test of 15 pension payment determinations included one instance where pre-retirement death benefits were paid to a deceased employee's spouse and legally dependent child. At the time of the employee's death, the child was under age 22 and enrolled full-time in an accredited educational institution. Accordingly, the child was entitled to and received a monthly annuity of \$317 commencing September 1, 1999. During the spring semester year 2000, the child enrolled part-time instead of full-time at a university because of a medical injury. Due to these circumstances, the retirement section staff decided to continue the monthly annuity until the time that the child recovered from the

injury and resumed full-time status in school. However, we noted that the child was no longer enrolled at the university effective the fall semester 2000. Instead, the child was enrolled in a real estate school. In response to our October 16, 2000, inquiry, retirement section staff determined that the noted real estate school was not an accredited educational institution. Accordingly, the child was no longer eligible for the monthly benefit. As the payment for September 2000 had already been made, the child was overpaid \$317. The retirement section staff stopped the payment for October 2000. (Note: As the child turned age 22 on October 16, 2000, payments would not otherwise have extended beyond October 2000.)

***Purchase Card
Disbursements***

*We Tested 60 Purchase
Card Acquisitions
Totaling \$9,345.*

Purchase card disbursements represent purchases of supplies and services by authorized City employees using a City of Tallahassee credit card (purchase card). The purchase card program was established to provide for a more efficient and effective method of procuring supplies and services costing less than \$10,000. To ensure that the City’s purchase cards are used only for authorized purposes, the Department of Management and Administration issued “Cardholder Guidelines” (guidelines) on November 2, 1998. Those guidelines were followed by written procedures (Administrative Procedures Manual, Section 603), effective May 1, 2000.

Both the guidelines and the procedures provide that documentation should be maintained to support acquisitions using purchase cards were for authorized and official City business. That documentation is to be maintained at the individual City department in which the applicable employee making the purchases works. Appropriate documentation should, at a minimum, identify the items purchased and the amounts charged.

As part of our audit, we selected and tested 60 purchase card acquisitions, totaling \$9,345.79, made during the period July 1, 1999, through December 31, 1999. Test criteria applied to these sampled transactions included:

- verifying that documentation was available to support the procurement,
- verifying that the procurement was for an authorized purpose and properly approved,
- verifying that applicable laws, rules, and procedures were followed, and
- verifying that the purchase was properly recorded in the accounting records.

Purchases Were Generally Proper, Supported, and Recorded.

We found that the 60 sampled purchase card disbursements generally were (1) properly supported, (2) approved and for authorized purposes, (3) made in accordance with established laws, rules, and procedures, and (4) properly recorded. No control deficiencies or reportable exceptions were noted.

Recommendations

To reduce the risk of subsequent improper disbursements and to ensure that such disbursements are made only for authorized purposes and in accordance with established laws, rules, and procedures, we recommend that certain corrective actions be taken. Our recommendations are presented below.

Recommended Actions in Regard to Payroll Disbursements.

The following actions should be taken in regard to payroll disbursements:

- The Human Resources Department should continue efforts to identify and reimburse employees (former and current), retirees, and surviving spouses for whom amounts were improperly deducted from their salary and pension payments. In addition, the Human Resources Department should consult with the City Attorney as to what action should be taken to recover the \$53,212 improperly withheld and paid to Metlife.
- The retirement section within the Office of the City Treasurer-Clerk should revise its record retention policy to ensure that MAP Program Contribution Change Forms are

retained for the periods specified by the Florida Department of State.

- The Human Resources Department should obtain appropriate employee authorizations for the four instances noted where such authorizations for employee insurance coverage were not available. Efforts should be continued to ensure that all authorizations are retained in the applicable employee benefit records.

*Recommended
Actions in Regard to
General
Disbursements.*

The following actions should be taken in regard to general disbursements:

- Procurement Services within the Department of Management and Administration should continue appropriate efforts to recover the \$4,990 overpaid to the Miami Elevator Company. In addition, steps should be taken to ensure that payments for contractual services are made in amounts established by the applicable contractual agreement. Such steps should include the assignment to specific individuals (i.e., contract administrators) the responsibility for (1) reviewing vendor invoices and comparing them to contractual terms and conditions and (2) reviewing invoices to ensure that duplicate payments are not made. Furthermore, all amendments to existing contractual terms and conditions should be documented through a written and properly executed contract amendment.
- The Fire Department should take the steps necessary to have the purchased lawn mowers recorded in the City's property records and to attach fixed asset tags to the mowers. Steps should also be taken to ensure invoiced amounts agree with quoted prices and property items are timely tagged and recorded in the City's property records for future equipment acquisitions.

*Recommended
Actions in Regard to
Retirement Benefits.*

Actions that should be taken in regard to retirement benefits include the following:

- The retirement section within the Office of the City Treasurer-Clerk should use available annual employee salary histories to analyze retiring employees' salaries. Those analyses should be used to determine the years for which detailed monthly salary histories should be obtained for purposes of identifying amounts to use in calculating pension benefits. Documentation of such analyses should be maintained in the applicable retirees' files located in the Office of the City Treasurer-Clerk.
- The retirement section within the Office of the City Treasurer-Clerk should ensure that pre-retirement benefits are paid only to legally dependent children who meet the eligibility requirements established by the pension plan rules.

Conclusion

It is our opinion that, overall, City disbursements during the period July 1, 1999, through June 30, 2000, 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. However, we did note instances where disbursements exceeded the amounts that should have been paid and areas where improvements should be made to ensure compliance with governing laws, rules, and procedures. 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:**

Each year the internal audit staff conducts the cash disbursements audit as part of the external audit. I appreciate the thoroughness of this review and I am pleased with the excellent results. In all cases where concerns were pointed out, staff is already in the process of addressing those concerns.

Interim City Treasurer-Clerk:

I would like to thank you and your staff for taking the time to meet with us to review the recently completed Citywide Disbursements audit. We are pleased that the audit determined that the Retirement Division has proper controls and procedures in place to ensure that accurate payments are made to participants.

In calculating a City employee's retirement benefits, the City Treasurer-Clerk's Retirement Division determines an employee's highest earnings for a 36-month period. The audit confirmed that the Retirement Division's staff had properly identified the 36-month period for all employees sampled using their current review procedures. You recommended that these procedures be expanded to include a detailed analysis of earnings for each retiring employee back to 1973. Although we believe that our current review procedures are sufficient to determine retiree benefits, we agree that the current procedures will be strengthened by including a detailed analysis of pay history back to 1973.

The audit questioned the one-month payment of a death benefit to the child of a deceased employee who was not eligible for those benefits because the child was not enrolled in an "accredited" educational institution. The child was enrolled in a vocational program that was offered by a non-accredited educational institution. We believe our ordinance is in conflict with our objective. This provision was put into place in 1987 and was designed to help the survivors of a deceased employee to become capable and employable adults. We believe that the provisions of

the ordinance do not accurately reflect this objective; therefore, we will be recommending an amendment to the ordinance.

We will revise our procedures to maintain MAP Program Contribution Change Forms for periods specified by Department of State requirements.

We appreciate the effort and professionalism of your staff in conducting the review of the Retirement Division.

Copies of this audit report #0117 (project #0007) may be obtained 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@mail.ci.tlh.fl.us).

Audit conducted by:
Dennis Sutton, CPA, Senior Auditor
Bert Fletcher, CPA, Audit Manager
Sam M. McCall, CPA, CIA, CGFM, City Auditor

Appendix A - Action Plan

Action Steps	Responsible Employee	Target Date
<i>A. Human Resources</i>		
1. Identify employees (current and former), retirees, and surviving spouses for whom amounts were improperly deducted for term life insurance premiums remitted to Metlife.	Catherine Spears	2/15/01
2. Determine the amounts improperly withheld from each applicable employee (former and current), retiree, and surviving spouse.	Catherine Spears	2/15/01
3. Reimburse applicable current employees for amounts improperly deducted.	Cathy Kilpatrick (Procurement)	6/30/01
4. Reimburse applicable former employees for amounts improperly deducted.	Cathy Kilpatrick (Procurement)	6/30/01
5. Reimburse applicable retirees and surviving spouses for amounts improperly withheld.	Cathy Kilpatrick (Procurement)	6/30/01
6. Consult with the City Attorney as to what action should be taken to recover amounts improperly withheld and paid to Metlife.	Catherine Spears	3/1/01
7. Take appropriate action to recover overpaid amounts from Metlife.	Catherine Spears	6/30/01
8. Hold training sessions with applicable Human Resources staff that provide an understanding of terms and conditions of agreements with existing benefit providers that relate to employee payroll deductions.	Glory Parton	2/15/01
9. Determine and document specific requirements to be incorporated into each subsequent written contractual agreement with employee benefit providers that will provide a clear basis for the determination of amounts employees must pay for the applicable benefits.	Catherine Spears	4/30/01
10. Obtain appropriate employee authorizations for those employees where payroll deduction authorizations were not on record.	Catherine Spears	2/15/01

11. Hold training sessions with applicable staff that address the requirements to maintain on record authorizations for employee payroll deductions.	Glory Parton	2/15/01
<i>B. Procurement Services</i>		
1. Take appropriate steps to recover the \$4072.40 paid to Miami Elevator Company in excess of contractually established prices.	Joseph Love	9/30/01
2. Take appropriate steps to recover the \$918.15 from the Miami Elevator Company that represented duplicate payments.	Joseph Love	9/30/01
3. Establish written contract administration procedures for reviewing contract payment requests to ensure compliance with contractual terms and conditions and to preclude duplicate payments.	Cathy Kilpatrick	9/30/01
4. For contracts involving periodic payments for multiple units/services over an extended period, develop a system to track payments by unit/service and by period for purposes of ensuring that (1) each payment is in accordance with contractual terms and conditions and (2) duplicate payments are not made.	Cathy Kilpatrick	9/30/01
5. Hold training sessions to educate applicable staff of the procedures for properly and adequately administering contracts.	Cathy Kilpatrick	9/30/01
6. Assign contract administration responsibilities for each contract to specific individuals, in a manner that ensures only one individual administers each contract.	Cathy Kilpatrick	9/30/01
7. Establish procedures to ensure that amendments to existing contracts are properly executed and documented.	Cathy Kilpatrick	9/30/01
8. Execute a written amendment to the contract with Miami Elevator Company that reflects the revisions made pursuant to the verbal agreement for services rendered to the elevators at the Hopkins Generating Station.	Cathy Kilpatrick	9/30/01
9. Hold training sessions with applicable staff that identify when and how documented amendments to existing contracts should be executed.	Cathy Kilpatrick	9/30/01

C. Fire Department		
1. Take necessary steps to record the purchased lawn mowers in the City's property records.	Dennis Vickers	Complete 11/29/00
2. Take the necessary steps to attach fixed asset tags to the lawn mowers.	Dennis Vickers	Complete 1/25/01
3. Hold training sessions with applicable staff that address the importance of taking timely actions to have fixed assets recorded in the City's property records and to attach fixed asset tags to applicable items.	Pat Wescott	Complete 1/26/01
4. Review and revise current internal procedures as necessary to ensure that invoiced prices agree with prices quoted by vendors.	Pat Wescott	Complete 1/26/01
5. Hold training sessions with applicable staff that address and emphasize the importance of ensuring that invoiced prices are in accordance with quoted prices.	Pat Wescott	Complete 1/26/01
D. Retirement Section		
1. Revise procedures to maintain MAP Program Contribution Change Forms for periods specified by Department of State requirements.	Julie LaRocque	3/31/01
2. Hold training sessions with applicable staff that address the requirements and revised procedures regarding the retention of the contribution change forms.	Julie LaRocque	3/31/01
3. Establish procedures to perform and document analyses of annual salary histories for retiring employees.	Julie LaRocque	2/28/01
4. Train applicable staff how to perform and document analyses of annual salary histories.	Julie LaRocque	2/28/01
5. Review and revise as necessary internal procedures for ensuring that pre-retirement benefits are paid only to legally dependent children meeting eligibility requirements established in the approved pension plan rules.	Julie LaRocque	9/30/01
6. Hold training sessions with applicable staff that address the determination of whether children of deceased employees meet the eligibility requirements for legally dependent children, as defined in the approved pension plan rules.	Julie LaRocque	One month after passage of the amendment.

