

Audit Follow-Up

As of May 31, 2015



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City Auditor

Citywide Disbursements 2013

(Report #1420, Issued July 7, 2014)

Report #1511

June 17, 2015

Summary

Fifteen of the 18 action plan steps established to address issues identified in audit report #1420 have been completed as of May 31, 2015. Actions have been initiated but not completed for the three remaining steps. As applicable, we will follow up on efforts to complete those remaining action plan steps in our subsequent follow-up engagement.

In audit report Citywide Disbursements 2013 (report #1420), issued July 7, 2014, we concluded that disbursements during the period October 1, 2011, through March 31, 2013, were (1) for authorized and necessary purposes; (2) made in accordance with established laws, rules, policies, and procedures; (3) supported by appropriate documentation; and (4) properly recorded in the City's financial records. We also identified several issues that were indicative of the need for enhancement of existing procedures and controls. A total of 18 action plan steps were developed by applicable City departments to address the identified issues. Twelve of those 18 steps were reported as completed in our initial follow-up engagement (report #1504).

In regard to the six remaining action plan steps, each of which was due for completion no later than March 31, 2015, we determined during our second follow-up engagement that three had been completed and efforts were ongoing to complete the other three steps. Specifically, as of May 31, 2015:

Completed Steps:

- For applicable retirement options, new controls were placed into operation to help prevent generation of retirement benefits

beyond allowed termination dates (one action plan step – completed).

- New controls were placed into operation to help prevent improper multiple retirement payments to individuals with related identification numbers (one action plan step – completed).
- Retirement Division staff obtained a copy of a retiree's birth certificate that validated the related benefit calculations and retirement eligibility (one action plan step – completed).

Ongoing Efforts:

- Underground Utilities continued efforts to ensure sole source justification forms were approved by appropriate authorities as required by City policy; however, those efforts were not always successful as some forms still were not being approved until after the applicable purchases were made (one action plan step – turned over to City management to ensure planned actions are completed).
- Efforts to complete implementation of the new citywide time and attendance system are ongoing, with completion now planned by September 19, 2015 (one action plan step – to be followed up on in our subsequent engagement).
- A supplemental agreement incorporating the final two years addressed in the applicable sales quotation had not yet been executed with the entity implementing the new citywide time and attendance system (one action plan step – to be followed up on in our subsequent engagement).

Table 2 within this report provides additional details of the status for the six action plan steps addressed by this follow-up engagement.

We appreciate the cooperation and assistance provided by applicable City departments during this follow-up audit.

Scope, Objectives, and Methodology

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

Original Report #1420

The scope of report #1420 included a review of City disbursements made during the period October 1, 2011, through March 31, 2013.

The objectives of the audit were to determine whether the disbursements of City funds were:

- Disbursed for only authorized and necessary purposes;
- Made in accordance with governing laws, rules, policies, and procedures;
- Supported by appropriate documentation; and
- Properly recorded within the City’s financial records.

To address the stated objectives, we selected samples of disbursements by category and reviewed the related supporting documentation, completed analytical procedures, interviewed applicable staff, and made observations as necessary.

The audit report disclosed that, generally, disbursements were proper, authorized, supported, correctly recorded, and made in accordance with

established laws, rules, and procedures. However, we did note instances where controls were not in place or operating effectively to ensure proper disbursements of City funds in accordance with City policies and procedures. Recommendations were made accordingly.

Report #1511

This is our second follow-up on action plan steps identified in audit report #1420. The purpose of this audit follow-up is to report on the progress and status of the efforts by the applicable departments as of May 31, 2015, to complete or resolve action plan steps due for completion as of March 31, 2015. To determine the status of those action plan steps, we interviewed applicable staff and obtained and reviewed relevant records and reports.

Background

During the period October 1, 2011, through March 31, 2013, the City disbursed funds totaling approximately \$1 billion. We classified the disbursements into three areas as shown in the following table.

**Table 1
Disbursement Summary**

Category	Transactions	Amount
General	156,651	\$611,356,428
Salary	165,906	\$338,159,128
Retirement	30,041	\$93,872,062
Totals	352,598	\$1,043,387,618
Note: Excluded from general disbursements is \$133,218,516, which represents disbursements of salary and retirement payroll withholdings/deductions to applicable entities (e.g., IRS and insurance providers). This amount was excluded to preclude counting that amount twice as it is also included in the payroll and retirement amounts above.		

Previous Conditions and Current Status

In report #1420, we identified the need for several improvements within ten City departments. Management of those departments developed 18 action plan steps to address the identified issues and recommendations. Each of those 18 action

plan steps was due for completion as of March 31, 2015. As shown below in Table 2, as of May 31, 2015, 15 of those 18 steps had been completed and efforts were ongoing to complete the three other steps.

**Table 2
Action Plan Steps from Audit Report #1420
Due as of March 31, 2015, and Current Status as of May 31, 2015**

Action Plan Steps Due	Current Status as of May 31, 2015
Ensure disbursements are proper, authorized, supported, recorded, and made in accordance with governing laws, rules, policies, and procedures	
<i>EPER</i>	
<ul style="list-style-type: none"> • EPER will make appropriate efforts to recover from the applicable vendor the inappropriate payment of state taxes in the amount of \$346. In addition, EPER staff will be reminded that the City is exempt from payment of state sales taxes and to ensure charges for state sales taxes are properly excluded from future amounts approved for payments. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – Completed in the prior period.
<ul style="list-style-type: none"> • Competitive procurement methods will be properly applied for applicable purchases exceeding established thresholds (i.e. where there is more than one vendor capable of providing the goods and/or services). 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – Completed in the prior period.
<ul style="list-style-type: none"> • Formal contracts will be executed for each future purchase of goods or services equal to or greater than \$50,000 in accordance with the City’s purchasing manual. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – Completed in the prior period.
<ul style="list-style-type: none"> • Staff will be reminded and efforts will be enhanced to ensure the most appropriate coding and classification of disbursements within the PeopleSoft Financials System. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – Completed in the prior period.
<i>Electric Utility</i>	
<ul style="list-style-type: none"> • Staff will be reminded to apply the most appropriate competitive procurement method for all future acquisitions of power plant accessories. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – Completed in the prior period.

<ul style="list-style-type: none"> Staff will be reminded to prepare, and have approved by the appropriate authority, sole source justification forms for each purchase where the amounts are above the thresholds requiring competitive procurement procedures but the needed goods or services are available only from one vendor (as defined in the City’s procurement manual). 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – Completed in the prior period.
<p><i>Underground Utilities</i></p>	
<ul style="list-style-type: none"> Sole source justification forms will be approved by the appropriate authority as required by City policy. 	<ul style="list-style-type: none"> ❖ <u>In Progress: Turned Over to Management</u> - In our initial follow-up engagement (report #1504), we reported Underground Utilities had reminded staff that sole source forms must be approved by an appropriate level of management, but noted that our follow-up tests showed sole source forms were not being approved in a timely manner. During our current follow-up review, we again noted that, while sole source forms were being completed and approved by an appropriate level of management, they were not always being completed and/or approved in a timely manner. Specifically, the forms were prepared and/or approved after the related goods and services were ordered and/or paid for. To properly and adequately demonstrate that items were acquired only after proper management approval, sole source forms should be prepared and approved prior to the purchase. <u>We again recommend</u> Underground Utilities management take appropriate action to ensure sole source forms are timely prepared and approved for future applicable purchases. Responsibility for ensuring that recommended action is taken is turned over to management.
<ul style="list-style-type: none"> Staff will be reminded and efforts will be enhanced to ensure the most appropriate coding and classification of disbursements within the PeopleSoft Financials System. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – Completed in the prior period.
<p><i>Procurement Services</i></p>	
<ul style="list-style-type: none"> Appropriate planning will be conducted to ensure contractual agreements for citywide services are timely executed such that needed services are not acquired outside appropriate contracts and without application of appropriate competitive procurement procedures. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – Completed in the prior period.

Public Works	
<ul style="list-style-type: none"> As applicable, commencement and completion dates will be established in future task orders for engineering design services. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – Completed in the prior period.
Department of PLACE	
<ul style="list-style-type: none"> Staff will be reminded and efforts will be enhanced to ensure the most appropriate coding and classification of disbursements within the PeopleSoft Financials System. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – Completed in the prior period.
Tallahassee Police Department	
<ul style="list-style-type: none"> Applicable staff will be reminded to ensure supplements paid to TPD officers are properly and accurately determined based on provided documentation. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – Completed in the prior period.
Department of Management and Administration	
<ul style="list-style-type: none"> The new citywide time and attendance system will be implemented to require assertions from employees and their supervisors as to the time worked. 	<ul style="list-style-type: none"> ➤ <u>In Progress</u> - In our initial audit, we reported instances where employee timesheets were not signed by the sampled employees and/or the employees’ supervisors or their designees. Similar findings were noted by the City’s external auditors in their recent audit of the City’s fiscal year 2014 financial statements. Signatures by City employees on their timesheets are required by City administrative policy as the employees’ assertion of their time worked and leave taken. Similarly, signatures by the employees’ supervisors (or designees) on those employee timesheets are required by City policy as documentation of their validation as to the correctness and accuracy of the recorded employee work time and/or leave taken. As reported in our initial audit, the City was currently in the process of implementing a new citywide time and attendance system, one aspect of which would require each employee and his/her supervisor to electronically assert and confirm the accuracy and correctness of the time worked and leave taken for each pay period. Once implemented, the new system should help ensure employee assertions as to time worked and leave taken are consistently and correctly completed and approved by applicable supervisors. As noted in our initial audit, the Department of Management and Administration

	<p>(DMA) planned for the new system to be implemented by October 1, 2014.</p> <p>During our current follow up efforts, we determined implementation of the new citywide time and attendance system had not been completed as of May 31, 2015, eight months after the initially planned completion date. DMA indicated the implementation delay was attributable to several factors, to include:</p> <ul style="list-style-type: none">- The ambitious implementation schedule (22 weeks) initially established by the contractor (Kronos, Inc.) was not realistic given the complexities of City operations.- Difficulties were experienced in creating the software programming for importing data on an ongoing basis from the City’s PeopleSoft Human Resources System (PSHR) into the new time and attendance system. (Those imports are necessary to keep the new system updated for changes to the status of City employees.)- Difficulties were experienced in establishing workarounds to address unique aspects of individual City departments, to include, for example, determinations of the most appropriate type device needed to allow employees to enter their work time and leave taken, and determinations of the most appropriate locations for those devices.- Additional time was required to resolve compatibility issues between the City’s infrastructure and that of the new time and attendance system; specifically, certain City computers were initially unable to access the new time and attendance system (which is a cloud based system that must be accessed through the Internet) because of software incompatibilities (<i>e.g., Java and Internet Explorer versions on some City computers could not access the new time and attendance system</i>). <p>Furthermore, based on a DMA request, additional funds were authorized by the City Commission on May 13, 2015, to pay for additional services (i.e., system testing),</p>
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	<p>licenses, time clock devices, and training, which had not been foreseen at the time of the initial contract. The additional funds total \$671,756 to be paid over a five-year period.</p> <p>DMA staff indicated that, due to the above issues and circumstances, implementation of the new time and attendance system is not expected to be completed until September 19, 2015; approximately one year after the initially planned completion date. Until the new time and attendance system is successfully implemented, <u>we recommend</u> City managers enhance their oversight efforts of the current process to ensure timesheets are properly and correctly completed by City employees and signed by their supervisors (or supervisors' designees). We will follow up on the City's efforts to implement the new system in our subsequent follow-up engagement.</p>
<ul style="list-style-type: none"> • A supplemental agreement will be executed with Immix Technology and Kronos, Inc. to cover the last two years addressed in the sales quotation. That supplemental agreement will provide the costs for those services will not exceed \$680,004. 	<ul style="list-style-type: none"> ➤ <u>In Progress</u> - As noted in the status reported for the previous action plan step, DMA is in the process of implementing a new citywide time and attendance system. In our initial audit, we reported the City Commission had authorized DMA to enter into a contract with the applicable vendor (Immix Technology, Inc.) to implement that new system (Kronos Timekeeper Software). The vendor proposal and related agenda item presented to and approved by the City Commission provided for the vendor to be paid \$2,111,246 over five years. That cost was to cover license and subscription fees, implementation, and training, with the majority of the cost to be paid over the first three years. <p>Although the vendor proposal and related agenda item considered and addressed costs (including fees) over the first <u>five</u> years of operation, we reported in our initial audit that DMA executed an agreement with the vendor that only addressed implementation and operational costs for the initial <u>three</u> years of operation. The contracted costs for that initial three-year period totaled \$1,431,242, which we reported was reasonable in relation to the vendor proposal for that period. DMA indicated that staff oversight had resulted in the initial agreement covering three years instead of the</p>

	<p>five years contemplated in the initial vendor proposal and agenda item presented to the City Commission for authorization. To ensure the City obtained the price established by the vendor proposal, we recommended in our initial audit that DMA execute a supplemental agreement (or contract amendment) with the vendor for the remaining two years. As reported, the costs for those two years should not exceed \$680,000 based on the vendor proposal.</p> <p>Our current follow-up review showed that this action plan step has not been completed, in large part due to a turnover in a key management position within DMA, whereas the former manager no longer employed by the City was knowledgeable of the described circumstances but the current manager was not made aware of the circumstances until we commenced our follow-up engagement. As noted in the status reported for the previous action plan step, DMA has subsequently obtained authorization to fund additional services that were not foreseen at the date of the initial vendor proposal and contract. Based on the approved authorization, those additional funds of \$671,756 are to be paid over a five-year period. Accordingly, at this point <u>we recommend</u> that DMA execute a supplemental agreement that addresses both (1) the last two years of the initial vendor proposal and related authorization and (2) the additional funds of \$671,756 to be paid over a five-year period.</p>
<p><i>Retirement Division</i></p>	
<ul style="list-style-type: none"> • Automated system controls will be established and implemented to preclude generation of retirement benefits beyond PeopleSoft Human Resources System (PSHR) required termination dates. These system dates will be based on retirement option selected and will be required before benefits are initiated. Alternatively, manual monitoring procedures will be enhanced to ensure retirement payments to beneficiaries are terminated when designated payout periods end. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – In our initial audit we reported one instance where overpayments occurred when retirement benefits for a surviving beneficiary were not terminated at the end of the prescribed ten-year benefit period. As reported, the overpayments occurred because a termination date for the benefits had not been entered into the City’s PeopleSoft Human Resource (PSHR) System, which is used to administer retirement benefits as well as employee salary and payroll. To preclude future instances of that nature, the Retirement Division enhanced the existing coding structure within the PSHR System to more accurately identify those surviving

	<p>beneficiaries that should receive benefits only for a prescribed period (e.g., remainder of a specified ten-year, fifteen-year, or twenty-year period). Additionally, Retirement Division staff created a system query to generate periodic reports from the PSHR System for the purpose of (1) identifying those surviving beneficiaries and (2) verifying the termination dates for the surviving beneficiaries were properly entered into the PSHR System (i.e., based on review of applicable retirement records to include the specific retirement option selected by the retiree and the date initial retirement benefits started). As of the date of our follow-up fieldwork in mid-May 2015, Retirement Division staff had generated the initial reports using the system query. That initial report identified three instances where retirement staff research was needed to ensure information recorded in the PSHR System was accurate and correct (i.e., for the purpose of ensuring proper and timely termination of surviving benefits). Accordingly, this action plan step is completed.</p> <p><u>Audit Comment:</u> While the system query had been properly created and run at the time of our audit follow-up fieldwork in mid-May 2015, the report had not been timely reviewed nor had the identified concerns been researched to ensure proper information was recorded in the PSHR System. <u>We recommend</u> the system query be run on a systematic basis (as planned by the Retirement Division) and any identified concerns be timely researched with appropriate corrective actions taken.</p>
<ul style="list-style-type: none"> • Efforts will be made to develop and employ PSHR system controls to prevent improper multiple retirement payments to individuals with related identification numbers. Alternatively, an enhanced and formal manual review process will be developed and used to detect and preclude/stop improper multiple retirement benefits to individuals with related identification numbers. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – In our initial audit we reported one instance where retirement payments continued for eight months after a retiree’s death, resulting in the surviving beneficiary incorrectly receiving duplicate retirement payments; i.e., one payment to the designated surviving beneficiary and a second payment that was incorrectly continued on behalf of the deceased retiree. As reported, Retirement Division staff detected this instance and recovered the overpayments prior to our initial audit. To help preclude future overpayments due to similar circumstances, Retirement Division staff created

	<p>a system query on May 19, 2015, to identify instances where retirement payments are being made to both a retiree and a surviving beneficiary of the retiree. If any such instances are identified, the Retirement Division stated that appropriate corrective actions will be taken. This step is now considered completed.</p> <p><u>Auditor comment:</u> To ensure any similar overpayments are timely addressed and corrected, <u>we recommend</u> the Retirement Division run this query on a periodic basis (i.e., monthly) as planned, with immediate corrective action taken as appropriate based on the query results.</p>
<ul style="list-style-type: none"> • The birth and marriage certificate for the retiree in question will be obtained and used to validate the retirement calculations and benefits. Staff will be reminded to always obtain copies of birth and marriage certificates whenever applicable to determinations of and eligibility for retirement benefits. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> - As noted in our initial follow-up report (#1504), management reminded Retirement Division staff to ensure marriage and birth certificates were obtained and used to determine retirement eligibility and benefits. As also noted in report #1504, Retirement Division staff was successful in obtaining the applicable marriage certificate for the retiree in question. During this current follow-up engagement, Retirement Division staff successfully obtained the birth certificate for that retiree. Those documents (marriage and birth certificates) validate the eligibility for and amount of the retiree’s benefits. Accordingly, this step is now completed.
<p><i>Fleet Division</i></p>	
<ul style="list-style-type: none"> • Generated Veeder Root tickets will be retained by the Fleet Division to support quantities of fuel received from vendors. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – Completed in the prior period.

Table legend

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| <ul style="list-style-type: none"> • Issue to be addressed from original audit. | <ul style="list-style-type: none"> ✓ Issue addressed and resolved. ➤ Action in progress but not completed. ❖ Action in progress – responsibility to ensure completion turned over to City management. |
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Conclusion

As noted above in Table 2, 15 of the 18 action plan steps established to address issues identified in audit report #1420 have been successfully completed. Efforts are ongoing to complete the remaining three action plan steps. Those three steps pertain to the implementation of a new citywide time and attendance system (two steps) and properly justifying sole source purchases (one step). We will follow up and report on those remaining action plan steps, as applicable, in our subsequent follow-up engagement.

We appreciate the cooperation and assistance of applicable City staff during this audit follow-up engagement.

Appointed Officials' Responses

City Manager:

I am pleased to see that the second follow-up on the Audit of Citywide Disbursements indicates that 15 out of the 18 steps have been completed and action steps are on-going to complete the three remaining steps. Three of those 18 steps were completed during this follow-up period, while twelve steps were completed in the previous follow-up period. Additionally, I am extremely pleased that the overall scope of the audit indicated that disbursements were made in accordance with established laws, rules, policies, and procedures. I would like to thank the City's Auditor's Office as well as all of the departments for their work and follow-up on this audit.

City Treasurer-Clerk:

We are pleased that all action plan steps for the Retirement Division have been satisfactorily completed. We are also pleased that the queries established in the action plan are now functioning properly and have identified no instances of inappropriate payments. Finally, we would like to thank the City Auditor for conducting a professional audit that prompted steps to provide additional automated controls over the assets of the City's pension plan.

Copies of this Follow-Up Audit Report #1511 or the initial audit report #1420 may be obtained from the City Auditor's web site (<http://www.talgov.com/auditing/auditing-auditreports.aspx>), 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).

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