

# ***Audit Report***



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## ***Citywide Disbursements 2006***

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### ***Summary***

Our audit covered the period July 1, 2005, through June 30, 2006. Total disbursements for that period, \$733,791,823, were segregated, for purposes of our audit, into three broad categories: general disbursements, salary payments, and retirement benefit payments.

Generally, disbursements were proper, authorized, supported, correctly recorded, and in compliance with laws, rules, policies, and procedures. However, we did note instances where controls were not in place or operating effectively to ensure proper, timely, and efficient disbursement of City funds in accordance with City policies and procedures. Those instances, as noted below and identified for management during the course of the audit, have been resolved and corrective action has been taken by applicable City staff.

- Improper bus pass deductions totaling \$110.25 were withheld from one employee's pay for approximately 10 months. Corrective action has been taken and the total amount deducted for the bus pass has been refunded to the individual.
- One new retiree's monthly pension benefit was understated by \$144 because of an error and incorrect application of a pension ordinance. Action has been taken to correctly increase the retiree's future monthly retirement benefits and to make a retro-payment for previously underpaid benefits.

As necessary actions to address the noted issues have been identified and completed by applicable City management, no further action is required. We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit.

### ***Scope, Objectives, and Methodology***

The objectives of this annual audit were to determine whether disbursements of City funds were: (1) for authorized and necessary purposes; (2) made in accordance with governing laws, rules, policies, 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 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, 2005, through June 30, 2006. 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.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and the Standards for the Professional Practice of Internal Auditing, and accordingly included such tests of the records and other auditing procedures as were considered necessary.

### ***Background***

During the period July 1, 2005, through June 30, 2006, the City disbursed funds totaling approximately \$734 million. For purposes of this audit we classified those disbursements into three areas as shown in the following table.

Disbursement Summary		
Category	Transactions	Amount
General	30,788	\$ 553,896,932
Payroll	92,307	\$ 150,894,346
Retirement	12,660	\$ 29,000,545
Totals	135,755	\$ 733,791,823

Note: Excluded from general disbursements is \$49,102,392. The amount excluded represents amounts withheld from salary and retirement disbursements and subsequently remitted to others (e.g., the IRS and insurance providers). This amount was excluded to preclude counting the amount twice as it is also included in the payroll and retirement amounts above.

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

### General Disbursements

General disbursements include all disbursements not specifically identified as part of another category (i.e., salary and retirement). Examples of disbursements audited as part of the general disbursement category included, but were not limited to:

- Payments for the acquisition of services, supplies, materials, parts, fuel, equipment, land, and postage;
- Contractual payments;
- Purchases of goods and services using City purchase cards;
- Payments to other governmental entities (e.g., sales and use taxes and gross receipts taxes);
- Disbursements under City programs (e.g., grant payments); and
- City energy purchases made for both (1) natural gas and other source fuels to generate power internally and to supply customers and (2) externally-generated power.

We selected 35 sample items from the general disbursements category totaling \$31,386,194. Test criteria applied to the general disbursements sampled items included verifying that:

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

We found that general disbursements were (1) supported and for authorized and reasonable purposes, (2) made in proper amounts, (3) properly recorded, and (4) made in compliance with established laws, rules, policies, and procedures. No reportable issues were identified related to general disbursements items tested.

### Salary Payments

Salary disbursements represent payments to individuals for services performed as employees of the City. As of June 30, 2006, there were 2,785 City employees working in authorized positions. In addition, the City employs individuals in temporary positions, with the number of temporary employees varying throughout a given period. During the period July 1, 2005, through June 30, 2006, the City employed and paid 1,075 temporary employees.

We selected and tested a sample of 20 salary disbursements totaling \$30,476. These 20 disbursements pertained to 20 employees, 18 of whom were full time regular employees filling authorized positions. Two of the 20 employees were classified as temporary employees. Audit criteria applied to the salary disbursements included, but were not limited to verifying that:

- Employees existed and were employed during the sampled pay periods;
- Employees’ gross and net pay were properly authorized, calculated, and supported by appropriate leave and attendance records;
- Payroll deductions were proper and supported by appropriate employee authorizations where applicable; and
- Disbursements were properly recorded in the financial records.

Overall, we found that the salary disbursements were (1) made to employees that existed and that were employed during the sampled pay periods, (2)

made in the proper amounts, (3) authorized and supported by adequate documentation, and (4) properly recorded in the financial records. However, as described below, one inconsistency in payroll processing was noted in our testing of payroll disbursements.

In one instance it was noted that improper amounts were deducted from an employee's pay. The City offers employees many benefits in which they may participate and have resulting fees/charges deducted from their pay. Among those benefits are free City bus passes for the City's downtown employees. In our tests of salary disbursements, we noted the following instance of improper deductions for participation in this City-provided benefit.

City bus passes are available to City employees. Free City bus passes are provided to City employees working downtown. City employees not working downtown may obtain City bus passes for a \$5.25 biweekly fee. One downtown employee, working in the Gemini building, requested a bus pass December 20, 2005. At the time of that request, an improper deduction of \$5.25 was inadvertently started from the employee's biweekly pay, continuing until her termination on October 27, 2006. The improper deductions totaled \$110.25.

Upon notification of this issue by City Auditor staff, the Payroll staff took prompt corrective action and the total amount deducted for the bus pass, \$110.25, was refunded to the employee from whom the deductions were improperly made.

This issue has been investigated and corrected by Payroll staff. We recommend that the Payroll staff continue their efforts to ensure that payroll deductions are proper and timely.

## **Retirement Benefit Payments**

Retirement benefit payments represent pension disbursements to retired employees and their designated beneficiaries/annuitants. This category also includes disability and pre-retirement benefits that are paid to disabled employees or to employees' designated beneficiaries in the event an employee is disabled or dies while employed with the City. In addition, refunds of pension contributions to terminating employees are included in the category. At June 30, 2006, retirement benefits were being paid to 1,287 individuals, a 12.5% increase over the 1,144 individuals receiving retirement benefits at June 30, 2005.

For the retirement disbursements category, we selected and tested pension disbursements pertaining to 14 individuals during the period July 1, 2005, through June 30, 2006. The tested payments totaled \$257,368 and were comprised of:

- Payments from the City's defined benefit pension plan, totaling \$39,723, to two individuals that retired during the audit period;
- Payments from the City's defined contribution plan, totaling \$98,720, on behalf of two individuals that retired during the audit period;
- Payments from the City's defined benefit pension plan, totaling \$15,519, to seven individuals that retired prior to the audit period;
- A survivor death benefit, totaling \$35,793, paid on behalf of a deceased City employee's minor children; and
- Two pension refunds, totaling \$67,613, paid to a terminating employee.

Test criteria typically applied to these sampled transactions included verifying that:

- Retirees had completed the minimum years of City service required to be eligible for retirement benefits (defined benefit and defined contribution plans);
- Pension/benefit payments were made in proper and accurate amounts based on the former employees' years of service, salary histories, pension plan types, payment options selected by the retirees, and other factors (defined benefit plan);
- Amounts contributed to eligible retiring employees' defined contribution accounts were correct in amount and based on the proper factors (defined contribution plan);
- Cost of living adjustments were properly determined and applied to retirement benefits (defined benefit plan);
- Deductions from retirees' pension payments were authorized and proper (defined benefit plan); and
- Benefit payments were made only to the eligible retirees/disabled employees or their designated beneficiaries/annuitants (defined benefit and defined contribution plans).

Overall, pension benefits were properly and accurately calculated and properly paid to the sampled retirees. However, we did note one instance of a benefit amount being calculated at an incorrect amount.

For one new retiree, an error and incorrect application of a pension ordinance resulted in the applicable retiree's monthly pension benefit of \$5,587 being understated by \$144. That understatement was attributable to the following:

- In identifying the salary amount to use in determination of the retiree's pension benefit, Retirement Section staff inadvertently included the retiree's payout for unused personal leave twice. After application of all other factors, the net effect of that error was an overstatement of the pension benefit of \$200
- As the retiree selected early retirement, his base pension benefit was subject to a reduction based on "early retirement" provisions established in City ordinances and state statute. According to those provisions, the amount of the reduction should be based on the difference between the retiree's age at early retirement and what his/her age would be had he/she continued to work until eligible for "normal" retirement. Due to an incorrect determination of what would have constituted "normal" retirement for this retiree, the reduction in the pension benefit was not correctly calculated.

Specifically, City ordinance 14-4.313 provides that a firefighter is eligible for normal retirement when the firefighter reaches his/her 55<sup>th</sup> birthday and has at least five years of service, or upon attaining 25 years of service regardless of age. As this retiree's age after 25 years of service would have been 52 years, he would have been eligible for normal retirement at that age (i.e., prior to reaching age 55 years). However, Retirement Section staff incorrectly determined that 55 years of age was the retiree's normal retirement age. As a result, the retiree's pension benefit was understated by \$344. Retirement Section staff indicated that this understatement was attributable to a misinterpretation of the noted early retirement provisions.

Upon notification of this issue by City Auditor staff, Retirement Section staff took prompt corrective action by (1) increasing the retiree's monthly benefit by \$144, including making a retro-payment of \$814 for previously underpaid benefits, and (2) reviewing retirement benefits calculated for other recent "early retirees" to determine whether other benefits were

similarly understated. Retirement Section staff indicated that review disclosed no additional instances. We recommend that Retirement Section staff continue their efforts to properly and accurately determine benefits.

## Conclusion

It is our opinion that, overall, City disbursements during the period July 1, 2005, through June 30, 2006, were (1) for authorized and necessary purposes; (2) made in accordance with established laws, rules, policies, and procedures; (3) supported by appropriate documentation; and (4) properly recorded in the City's financial records. Given the complexities and diversity of City business, we commend City staff for their efforts in ensuring that disbursements of City funds were proper.

As issues noted in this report have been corrected and resolved, no action plan will be prepared for this audit. We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit.

## Appointed Officials' Responses

### City Manager Response:

We have reviewed the City Auditor's report related to the Citywide Disbursements 2006 Audit and are pleased to see that citywide disbursements are properly authorized, supported, correctly recorded and in compliance with laws, rules, policies and procedures. We have taken note of the one comment related to payroll deductions and have already taken steps to ensure that these are properly processed in the future. We would like to thank the City Auditor's staff for their time and effort on this audit.

### City Treasurer-Clerk Response:

We are very pleased that the Citywide Disbursements 2006 audit found that the Treasurer/Clerk's Retirement Division had sufficient internal controls in place to properly monitor and issue retiree benefit payments. We also appreciate the professional manor and spirit of cooperation demonstrated by the Audit staff in conducting the disbursements review.

Copies of this Audit Report #0712 (project #0611) may be obtained from the City Auditor's website (<http://talgov.com/auditing/index.cfm>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([auditors@talgov.com](mailto:auditors@talgov.com)).

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