

MEMORANDUM

To: Members of the City Commission

From: Sam M. McCall
City Auditor

Date: December 1, 1999

Subject: Disbursements Review (#9905)

We have completed a citywide audit of disbursements for the period October 1, 1998, through June 30, 1999. The external auditors rely on this work, which reduces the costs associated with the City's financial audit.

We randomly selected a sample of 46 checks totaling \$3,669,522, which were issued during the period of our review. We reviewed the supporting documentation for compliance with City policies and procedures. Our objectives were to determine whether:

- competitive bids were obtained as appropriate;
- purchase orders were approved by the appropriate level of management based on the dollar amount of the goods/services acquired;
- invoices were accurate and only items received were paid for;
- component prices on the invoice agreed to the purchase orders;
- receiving reports were available to support quantities paid for;
- disbursements were charged to the correct general ledger account;

- vouchers and documents were canceled upon payment;
- discounts were taken when appropriate; and
- payments were made timely.

The results of our review of 46 checks issued during the period October 1, 1998, to June 30, 1999, are as follows:

- A copy of the departmental purchase order with the signature authorizing the purchase was not available for 15 of 22 checks (68%). Therefore, we were unable to determine if these purchases had been properly authorized.

Only the first two copies of the department purchase order have the signatures; the other copies have the signature area blacked out. The first copy is sent to the vendor, the second copy is sent to Accounts Payable, who reviews the purchase order for accuracy and then throws it away. Unless the department makes a copy of the first page of the purchase order, documentation showing signature authorization is not available within the department.

This finding was discussed with the Manager of the Procurement Services Division. It was agreed that Procurement Services would issue instructions to issuing departments to retain a copy of their purchase orders showing authorized signatures.

- The detail information on three blanket purchase orders was insufficient to determine if the items purchased were the items intended to be purchased.

Our review revealed that departments regularly set up requisitions or purchase orders as blanket purchases. When creating a blanket purchase order, departments should include the quantity of items to be purchased and the purchase price. Instead, the departments input a quantity of one (i.e., one office supplies) and the total dollar amount. As a result, departments record the receipt as a percentage of the order rather than the number of items received.

Detailed requisitions/purchase orders should be used when practical for the purchase of services as well as goods. For example, a purchase

order for alarm monitoring service for one year at \$10 per month should be entered as 12 months of monitoring at \$10 each and not as one unit of monitoring service at \$120. This finding was previously reported in audit #9802, issued on March 2, 1999. In that report the Department of Management and Administration set a target date of September 30, 1999, for establishing criteria for the appropriate use of blanket purchase orders. The target date has been amended to December 31, 1999. The status of this task will be communicated in the follow-up cycle report on audit #9802 that includes the amended date.

- Wages for a temporary employee totaling \$450 were paid as a stipend using a check request instead of through the City's payroll system. These were wages for a temporary employee working under a persons with disabilities program. This program required temporary employees to work at least 20 hours a week for a maximum of six months to provide work experience and training for persons with disabilities.

According to the Federal Tax Code, if a person is working and his/her work provides a benefit to the employer, that person is subject to employment taxes. Paying these wages using a check request results in employment taxes not being withheld from the employee's salary. The City could be held liable for the employment taxes for these workers, who were paid using a check request. This was discussed with the Manager of the Procurement Services Division, who consulted with the City Attorney and determined these employees should be handled as temporary employees in the future and subject to employment tax withholding.

- As previously reported in audit #9802, issued on March 2, 1999, the invoice for one disbursement was not canceled nor stamped paid. This is an internal control practice that prevents the same invoice from being paid twice. Not canceling invoices creates the potential for invoices that have already been paid to be re-submitted to Accounts Payable for payment without being detected.

The above error occurred on September 18, 1998, prior to our previous report. In that report, Disbursements agreed to immediately implement a process to randomly spot check supporting invoices for cancellations.

- Vendor discounts of \$39.54 were not taken on two invoices that totaled \$3,954.52. These invoices allowed a one percent discount if paid within

ten days. Taking vendor discounts reduces the cost of goods/services purchased by the City.

According to Accounts Payable staff, it is the City's policy to take all vendor discounts for which the City qualifies at the time payment is processed. Accounts Payable is implementing a restructuring of the accounts payable process. Part of this new process is to "red flag" all invoices received that offer a prompt payment discount. These invoices are then given priority processing to take advantage of the discount.

Additionally, Accounts Payable has implemented a tracking system to provided monthly statistics on lost discounts. Accounts Payable is to review this data and determine why discounts were not taken. Accounts Payable will use the results of this review to improve their process.

- Three invoices were not paid within 45 days as required by Florida Statutes. This Statute permits the vendor to charge the City interest on payments not received within 45 days after receipt of the invoice.

Accounts Payable, as part of its restructuring of the accounts payable process, has implemented a tracking system to provided monthly statistics on invoices paid late. As stated above, Accounts Payable then reviews this data and determines why invoices were paid late, using the results of this review to improve the process.

- As previously reported in audit #9802, issued on March 2, 1999, there was no supporting documentation for two checks totaling \$6,830.24 in the City's official disbursements file. As a result, the clerical correctness of these checks could not be verified. Both checks were for child support payments that had been deducted from employees' payroll checks.

In the previous report, the Treasurer-Clerk and the Department of Management and Administration indicated that procedures would be established by June 30, 1999, to ensure that copies of supporting documentation in the form of schedules/invoices are retained. This task was completed as of September 30, 1999. Both of the above checks were issued prior to corrective actions taken.

All exceptions noted either have been or are being corrected, and improvements to the internal control systems are being undertaken by Accounts Payable, Procurement, and Records Management.

We thank the staffs of Procurement Services, Disbursements, and Records Management for their assistance in this review. Please let me know if you need further information or wish a briefing on this report.

Respectfully submitted,

Sam M. McCall
City Auditor

SMM/mbd

cc: Members of the Audit Committee
Appointed Officials
Executive Team
Dinah R. Hart, Administrative Services Manager
Cathy R. Kilpatrick, Manager - Procurement Services
Linda B. Smith, Asset/Liability Administrator
Paula G. Cook, Records Administrator