

Audit

Follow-Up

As of January 9, 2012



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City Auditor

Citywide Disbursements 2009

(Report #1013, Issued April 30, 2010)

Report #1206

February 17, 2012

Summary

This report addresses the status of the one action plan step remaining to be completed for issues identified in our initial audit report #1013, Citywide Disbursements 2009. That remaining action plan step pertains to the Treasurer-Clerk's development, and presentation to the City Commission, of a proposed policy addressing participation in the City's health insurance program by certain classes of terminated employees, retirees, and family members of deceased retirees.

In audit report #1013, issued April 30, 2010, we reported that disbursements of City funds were generally proper, authorized, supported, correctly recorded, and made in accordance with established laws, rules, and procedures. However, we identified areas where improvements should be made. A total of six action plan steps were established by applicable City departments and offices to address those areas. In our initial follow-up report (report #1109 dated May 6, 2011) on that audit, we reported those departments/offices timely completed five of the six action plan steps.

The remaining step involves revising City policies to address which terminated employees and family members of terminated employees and deceased retirees will be allowed to participate in the City's health insurance

program. The absence of a policy in the past to address situations when an employee terminates but does not concurrently retire (i.e., commence receiving City pension benefits) resulted in several former City employees receiving City-subsidized health care benefits without apparent expressed or implied authority. As reported in our initial follow-up report (report #1109), the Treasurer-Clerk's Office stopped similar incidents from occurring in the future. As also reported in report #1109, the Treasurer-Clerk consulted with the City Attorney's Office and Human Resources and took actions to address the specific individuals identified in the initial audit (i.e., terminated employees, certain retirees, and certain family members of deceased retirees) that were allowed to participate in the City-subsidized health insurance program without clear authorization for that participation. However, to date, no policy has been finalized and approved by the City Commission.

On March 9, 2011, the City Treasurer-Clerk presented an initial draft of a proposed policy on retiree health care to the City's Financial Viability of the Government Target Issue Committee (Financial Viability Committee). A fiscal analysis and impact statement was not presented during that committee meeting. Minutes of that committee meeting indicated the Treasurer-Clerk's Office was to revisit the draft policy and resubmit the policy to the committee in a subsequent meeting. As of January 9, 2012, this subject has not been included as an agenda item or been discussed in subsequent Financial Viability Committee meetings.

We recommend that the Treasurer-Clerk's Office obtain appropriate final feedback from the City Attorney's Office and Human Resources on the draft policy, prepare a fiscal analysis and impact statement, and resubmit the (revised) proposed policy and statement to the Financial Viability Committee for their further evaluation and recommendations. As recommended by the Financial Viability Committee, the proposed policy and impact statement should be submitted to the full City Commission for their review and approval. Because of the sensitivity of this issue, we will continue to follow up and report on this issue until it is resolved.

Scope, Objectives, and Methodology

This follow up audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This follow up audit addressed activity from May 6, 2011 (date of issuance of follow-up report #1109) through January 9, 2012.

Report #1013

The scope of report #1013 included a review of City disbursements made during the period July 1, 2008, through June 30, 2009, by all City departments. Severance payments made to terminating employees under the City's "voluntary incentive (VSI) program" and the City's approved layoff policy/compensation package, during the quarter ending September 30, 2009, were also included in the scope of this audit.

In addition, our audit included a review of health insurance benefits paid by the City on behalf of certain former employees during the past several years. Those "Other Post Employment Benefits (OPEB)" were addressed as we became aware of them during our planned audit testing.

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

- for 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.

The audit 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.

Report #1206

This is our second follow-up on action plan steps identified in audit report #1013. The purpose of this audit follow-up is to report on the progress and status of the Treasurer-Clerk's efforts to implement the remaining action plan step not completed as of the issuance of our first follow-up report (report #1109) on May 6, 2011. To obtain information, we conducted interviews with key department staff and reviewed relevant documentation.

Background

During the period July 1, 2008, through June 30, 2009, the City disbursed funds totaling approximately \$732 million. For purposes of our initial audit, those disbursements were classified

into three areas: (1) general disbursements totaling approximately \$532 million, (2) payroll disbursements totaling approximately \$161 million, and (3) retirement disbursements totaling approximately \$39 million.

Severance payments, a fourth category of disbursements addressed by our audit, were made to 107 terminating employees during the quarter ending September 30, 2009. Those payments totaled \$1.5 million.

Previous Conditions and Current Status

In report #1013, we identified the need for several improvements. Six action plan steps were developed to address the applicable issues.

As reported in our initial follow-up report (#1109) issued May 6, 2011, five of the six action plan steps had been completed as of March 31, 2011. The remaining action plan step has yet to be completed as of January 9, 2012. **Table 1** below identifies the action plan steps and describes the current status.

Table 1	
Action Plan Steps from Report #1013 and Current Status	
Action Plan Steps (each due to be completed no later than June 10, 2010)	Current Status
Ensure disbursements are in accordance with governing laws, rules, policies, and procedures	
<i>Electric Utility</i>	
<ul style="list-style-type: none"> Appropriate efforts will be made to recover the \$486 overpayment for labor maintenance services. 	✓ Completed in a prior period.
<i>Treasurer-Clerk's Retirement Section</i>	
<ul style="list-style-type: none"> Procedures will be implemented specifying the frequency at which the City's records of active retirees will be updated and uploaded into a vendor database (to search national and state death files to identify deceased retirees). 	✓ Completed in a prior period.
<ul style="list-style-type: none"> Procedures will be implemented that require direct verification by Retirement Section staff of non-City service claimed by City employees for pension credits. 	✓ Completed in a prior period.
<ul style="list-style-type: none"> Procedures will be implemented that require the Retirement Section to retain documentation from Prudential of retiring/retired employees account balances on the effective date of their MAP payments. 	✓ Completed in a prior period.

Ensure the City funds health insurance benefits only for authorized individuals	
<i>Treasurer-Clerk's Office/Human Resources/City Attorney's Office</i>	
<ul style="list-style-type: none"> • The appropriateness of allowing terminated employees, certain retirees, and certain family members of deceased retirees to participate in the City's health insurance program under the circumstances described in the initial audit will be reviewed and determined. For any instances determined not appropriate, that participation will be terminated. 	<ul style="list-style-type: none"> ✓ Completed in a prior period.
<ul style="list-style-type: none"> • A new City policy will be developed and adopted (or existing policies revised) that addresses which terminated employees, and family members of terminated employees/deceased retirees, will be allowed to participate in the City's health insurance program. 	<ul style="list-style-type: none"> ◆ In audit report #1013, issued April 30, 2010, we questioned the appropriateness of allowing certain terminated employees, retirees, and family members of deceased retirees to participate in the City's health insurance program. Those instances were questioned as there was no apparent express or implied authority for the participation. In our initial follow up on this issue (report #1109 dated May 6, 2011), we reported that the Treasurer-Clerk's Office took actions to address the specific instances of questioned participation. Those actions included termination of participation for some of the identified participants and allowed continuation of participation for other participants, as determined appropriate by the City Treasurer-Clerk based on the individual circumstances and after consulting with the City Attorney's Office. As reported in that initial follow-up report, the Treasurer-Clerk's Office, in conjunction with the City Attorney's Office and Human Resources, was in the process of developing a City policy to specifically address the circumstances under which former employees and their beneficiaries will be allowed to participate in the City's health insurance program. We recommended in that initial follow-up report that, if the proposed policy provides for benefits that result in additional costs to the City, the Treasurer-Clerk's Office should prepare and include a fiscal analysis and impact statement with the proposed policy when provided to the City Commission for their evaluation and approval.

	<p>On March 9, 2011, the City Treasurer-Clerk presented an initial draft of a proposed policy on retiree health care to the City’s Financial Viability of the Government Target Issue Committee (Financial Viability Committee). A fiscal analysis and impact statement was not presented during that committee meeting. Minutes of that committee meeting indicated the Treasurer-Clerk’s Office was to revisit the draft policy and resubmit the policy to the committee in a subsequent meeting. As of January 9, 2012, this subject has not been included as an agenda item or been discussed in subsequent Financial Viability Committee meetings.</p> <p>We recommend that the Treasurer-Clerk’s Office obtain appropriate final feedback from the City Attorney’s Office and Human Resources on the draft policy, prepare a fiscal analysis and impact statement, and resubmit the (revised) proposed policy and statement to the Financial Viability Committee for their further evaluation and recommendations. As recommended by the Financial Viability Committee, the proposed policy and impact statement should be submitted to the full City Commission for their review and approval. Because of the sensitivity of this issue, we will continue to follow up and report on this issue until it is resolved.</p>
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Table legend:

- Issue to be addressed from the original audit
- ✓ Issue addressed and resolved
- ◆ Actions initiated but not completed

Conclusion

As noted above in **Table 1**, five of the six issues have been addressed and resolved and actions have been initiated to address the remaining issue. Completion of the remaining action is important to ensure City health insurance benefits are provided only to authorized individuals. Accordingly, we recommend the Office of the Treasurer-Clerk, with assistance from Human Resources and the City Attorney's Office, follow through on plans to finalize development of an appropriate policy with submittal to the City's Financial Viability Committee, and subsequently to the City Commission, for their consideration and approval. If benefit changes are included in the proposed policy that result in additional costs to the City, the Office of the Treasurer-Clerk should prepare and present to the Financial Viability Committee and subsequently to the City Commission a fiscal analysis and impact statement along with the proposed policy for consideration and approval. Because of the sensitivity of this issue, we will continue to follow up and report on this issue until it is resolved.

We appreciate the cooperation and assistance the Office of the Treasurer-Clerk provided in this audit follow-up.

Appointed Officials' Responses

City Treasurer-Clerk:

A policy was developed in late 2010 to address which terminated employees, family members of terminated employees, and family members of deceased retirees will be allowed to participate in the City's health insurance program. The policy was presented to the Financial Viability of the Government Target Issue Committee (FVGITC) in March 2011. A follow-up presentation will be made in the March 2012 FVGITC meeting. The policy has been followed since it was developed, and the March 2012 presentation will provide additional information regarding the costs of the program and will report new participation under these guidelines over the past year. After presentation to the FVGITC, the policy will be adopted as an administrative policy.

City Auditor's Response:

In his response, the City Treasurer-Clerk indicated that the referenced policy would be adopted as an "administrative policy" after presentation to the Financial Viability of the Government Target Issue Committee (FVGITC) in March 2012. Implementation as an administrative policy would not include presentation of the policy to the full City Commission for their consideration and direction. This new administrative policy will address important issues about benefits where no previous policy existed. Also, past practices were at times carried out in an inconsistent and inequitable manner. Because the underlying provisions have a significant and long-term impact on: (1) the City's terminated employees and their families and (2) the City's commitment to fairness to those employees and their families, we again recommend the policy be presented to the full City Commission for their review, consideration, and direction.

Copies of this Audit Follow-Up or audit report #1013 may be obtained from the City Auditor's web site (<http://talgov.com/auditing/index.cfm>), 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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