

**REPORT ON THE STATUS OF OUTSTANDING AUDIT
RECOMMENDATIONS FOR JUNE 2010**

JUNE 2010



**CITY AUDITOR'S OFFICE
CITY OF GAINESVILLE, FLORIDA**

City of
Gainesville

Inter-Office Communication

June 29, 2010

TO: Audit, Finance and Legislative Committee
Mayor Craig Lowe, Chair
Mayor-Commissioner Pro Tem Jeanna Mastrodicasa, Member

FROM: Brent Godshalk, City Auditor

SUBJECT: Report on the Status of Outstanding Audit Recommendations for June 2010

Recommendation

The Audit, Finance and Legislative Committee recommend that the City Commission accept the City Auditor's report.

Explanation

City Commission Resolution 970187, *City Auditor Responsibilities and Administrative Procedures*, requires the City Auditor to notify the appropriate Charter Officer of recommendations projected for implementation in the following six months. The responsible department managers prepare a written status report to the appropriate Charter Officer who then provides this information to the City Auditor. The City Auditor's Office verifies that corrective action has been taken and summarizes the results to the Audit, Finance and Legislative Committee.

During the past several months, the City Auditor worked with the appropriate Charter Officers in preparing a status report on 33 outstanding audit recommendations. We have reviewed management's feedback on the implementation of outstanding recommendations and prepared the attached status report summarizing the results of our review.

We would like to express our thanks to the City Manager, General Manager for Utilities and the various departments participating in this review process.

OBJECTIVES, SCOPE AND METHODOLOGY

In accordance with our Fiscal Year 2010 Annual Audit Plan, the City Auditor's Office has completed a Review on the Status of Outstanding Audit Recommendations. The primary objective of this review is to provide the City Commission with reasonable assurance that management has adequately implemented recommendations previously made by the City Auditor's Office and approved by the City Commission.

As for all of our audits, we conducted this performance audit in accordance with 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. Generally, our procedures consisted of the following:

- The City Auditor provided the City Manager and General Manager for Utilities with a detailed listing of recommendations outstanding for six months or more within their departments and requested written updates on the status of each recommendation.
- Upon receipt of written updates and supporting documentation, the City Auditor's Office conducted procedures necessary to verify that adequate corrective actions were taken by management for each outstanding recommendation.

SUMMARY OF RESULTS

We began the current period with 33 outstanding recommendations from 14 prior audits. The results of our review indicate management adequately implemented 16 of the prior period 33 recommendations, leaving 17 recommendations outstanding. An audit by audit summary of implementation progress follows.

Department/Agency	Report Date	Audit Title	Start Of Period	Implemented	Currently Outstanding
Human Resources	Jun 91	Review of Employee Compensation	3	3	0
Economic Development	Nov 03	Review of Small Local Business Development Department	1	0	1
GRU Purchasing	Jan 05	Review of the GRU Purchasing Bid Process	1	1	0
Block Grant	Aug 05	Review of Block Grant Subrecipient Monitoring	1	1	0
GRU Information Systems	Aug 05	Review of Internet Access	1	0	1
Human Resources	Nov 06	2006 Pay Study Review	4	0	4
Gainesville Fire Rescue (GFR)	Feb 07	Review of GFR Overtime	1	0	1
GRU Purchasing	Jun 07	Review of the GRU Small Business Enterprise (SBE) Program	2	1	1
Gainesville Police Department (GPD)	Nov 07	Review of GPD Overtime	4	3	1
Housing Department	Jun 08	Review of Housing Performance Measures	1	0	1
Fleet Management, GPD, GRU, Human Resources	Nov 08	Review of Fleet Fuel Expenses and Charges to Departments	7	5	2
GRU Fuels Management	Jan 09	Review of GRU Fuel/Coal Contracts	2	1	1
GFR	Jun 09	Review of GFR Inspection Fees	4	0	4
GRU Finance Department	Sep 09	Review of GRU Investments	1	1	0
TOTAL RECOMMENDATIONS			33	16	17

Review of Employee Compensation

There were three recommendations originating from a 1991 audit that previously remained open and continued to be relevant to City operations. As reported in previous follow-up reports, City Commission-approved Personnel Policies regarding the different types of employee salary increases remained in place even though actual practice had changed considerably. The Human Resources Department worked with the Charter Officers to develop five classification and compensation policies, which have now addressed our initial recommendations. Items covered in these policies address the City's compensation philosophy for pay increases related to promotions, special merit increases and acting out of class or special assignment pay. Updating and documenting the City Commission approved Personnel Policies should provide increased accountability regarding the approved mechanisms to be used for rewarding employees.

In order to evaluate general compliance with the newly established policies; we reviewed promotions, acting appointments and special merit increases approved and implemented after these policies were approved by the City Commission. We noted six special merit increases provided to individual employees during August and September 2009, shortly after City Commission approval of the new policies in July 2009. The Human Resources Department indicated the increases were initiated prior to the new policy's approval. We are closing these outstanding recommendation but we will continue to monitor compliance with these newly established policies in future employee compensation and payroll verification audits.

Review of Small Local Business Development Department

One recommendation remains open. General Government and GRU staff successfully developed a consistent report format for purchases from small and local businesses. In addition, the Equal Opportunity Office improved efforts to ensure that annual small business enterprise (SBE) activity is adequately monitored and reported to the City Commission. We will hold this recommendation open to allow management additional time to evaluate and implement a process for including purchases made on VISA cards in the annual SBE activity reports.

Review of the GRU Purchasing Bid Process

The final recommendation from this review is now completed. GRU was able to implement a centralized approach to obtaining competitive quotes through the new financial system (SAP). SAP allows GRU Purchasing staff to better monitor purchases and ensure that more than two competitive quotes are obtained when possible. Staff also ensures that all vendors included in the materials group code list are included in purchasing requests. Additionally, when a department indicates a sole source or source justified vendor, GRU Purchasing staff looks for additional available vendors and ensures that a request is sent to those vendors.

Review of Block Grant Subrecipient Monitoring

The final recommendation from this review is now closed. We previously recommended management strengthen oversight procedures for identifying outside agencies with increased financial risks. Management implemented improved financial monitoring procedures that enhance the City's ability to detect financial instability of outside agencies earlier and to reduce the risk of a loss in City funds. The City's Finance Department now includes objective measures of solvency in the financial analysis of outside agencies. In addition, both the Housing & Community Development and Finance Departments have significantly improved communications and documentation of their monitoring practices.

Review of Internet Access

The final recommendation from this audit remains partially open. GRU has developed an enhanced internet usage reporting system and a how-to guide to assist managers in understanding the reports. The reporting system was made available to GRU managers during 2009 and to GRU employees in February 2010. In addition, the Human Resources Department is currently developing a GRU Internet Usage Policy, which is anticipated to be completed by the end of fiscal year 2010. This policy will provide an outline of appropriate internet usage and, combined with the monitoring reports available, should provide the necessary tools to help ensure that internet usage is appropriate.

2006 Pay Study Review

Implementation of three of the four previously issued audit recommendations will be evaluated during the initiation and completion of the next pay study. At that time, management will have an opportunity to implement recommendations presented during this review regarding slotting benchmark positions and adjusting for internal equity considerations, right to audit clauses and cost of labor differentials used. For our fourth recommendation regarding long term cost and equity considerations associated with pay study adjustments, management has developed and provided to the City Commission a report of transitional, general and merit increases paid to the City's various employee groups during fiscal years 2009 and 2010 and will continue to provide this information in future years. Although the percentage increases by employee group provided in these reports is useful information, our original recommendation was for management to develop a mechanism for measuring the rate of change in actual payroll costs and to report this information to the City Commission annually before the budget is established. As a result, we will hold this recommendation open awaiting further enhancements to the reporting process.

Review of GFR Overtime

Prior to our original audit, GFR overtime was \$612,000 in fiscal year 2005 and \$532,000 in fiscal year 2006. Subsequent to our initial report, overtime fell to \$320,000 in fiscal year 2007, rebounding somewhat to \$443,000 in fiscal year 2008. GFR management indicated the FY 2008 increase was primarily due to an increased number of paramedic students and having six vacancies the entire year. The remaining recommendation is focused on helping management to more effectively control overtime costs through improved monitoring of sick leave usage and consideration of restructuring the DROP plan.

Beginning in fiscal year 2009, GFR initiated a new procedure to better monitor sick leave. The department's timekeeper maintains a listing of the number of sick leave incidents by employee. When an employee reaches three sick leave incidences during the fiscal year, the timekeeper generates a sick leave notice, which is provided to the employee upon returning to work. The notice informs the employee of the number of sick leave incidences taken to date and reminds the employee that the current bargaining unit agreement states "from the fourth incident of sickness a doctor's statement verifying the sickness may be required." The notice also includes what the employee will need to do upon returning to work from future sick leave events and the consequences if the employee fails to provide the physician's note.

After implementation of the improved monitoring of sick leave usage, GFR overtime expenditures again fell, to \$344,408 during fiscal year 2009. Although it appears that the new procedure for monitoring sick leave usage and reminding employees what is expected after sick leave incidents has resulted in lower sick leave usage, we will hold this recommendation open to provide management more time to evaluate further revisions regarding how sick leave hours are earned while in the DROP plan and to better evaluate if improved monitoring of sick leave usage continues to help control overtime costs.

Review of the GRU Small Business Enterprise (SBE) Program

One recommendation from this audit is now closed and one remains partially open. GRU management adequately improved controls over maintaining their SBE vendor database and monitoring the SBE qualification process. GRU Purchasing staff sent letters to approximately 2,500 vendors requesting updated SBE information. We sampled vendor applications to verify completeness and believe that sufficient progress has been made in updating and maintaining the SBE database. The SBE database is now published on GRU's intranet providing convenient departmental access and GRU Purchasing monitors the database, updating it semi-annually.

The second recommendation related to improving SBE monitoring and reporting is nearly implemented. In the past, GRU was constrained by software limitations to capture SBE data at the local level. However, the recent conversion to the SAP (Systems, Applications, Processes) Production System provides enhanced ability to include local SBE spending in the reporting process. Staff recently generated data for local SBE spending for the first six months of fiscal year 2010. The local data is important to the City Commission in monitoring the City's economic development program. We will hold this recommendation open in order to provide an opportunity to evaluate annual SBE local spending data for fiscal year 2010.

Review of GPD Overtime

Three recommendations related to improvements in billable overtime scheduling and reporting processes, equity issues and addressing employee issues and concerns related to overtime scheduling have been implemented. During the past year, GPD implemented substantial improvements in the process of scheduling billable overtime, most significantly, the implementation of a computerized process for scheduling. The overtime module effectively integrates a comprehensive set of control features and allows for more efficient utilization of resources in managing daily scheduling tasks, preparing accurate rosters, monitoring overtime hour limitations, documenting waivers and effectively reconciling and monitoring overtime assignments to ensure compliance with applicable policies. The automated system is a significant improvement over prior scheduling methods and fully complies with the criteria set forth in our original audit recommendation.

GPD also incorporated controls to address equity issues in the scheduling process and obtained and evaluated officer feedback regarding the process, conducting a detailed survey in September 2009 in order to measure progress from the previous 2006 survey, conducted by the City Auditor's Office. Survey results indicate significant satisfaction improvements since the earlier survey was conducted, with an 80% overall satisfaction rate regarding the new computerized process for scheduling overtime.

Our fourth recommendation, related to financial management controls, has seen significant improvement related to cost effectiveness. Billable overtime is now accounted for as a special revenue fund, more effectively reflecting the total cost of providing security services. Our analysis of the Billable Overtime Fund indicates a three year average surplus of approximately \$87,000 from fiscal year 2007 through 2009, before administrative costs. This reflects a significant turnaround of average annual losses of nearly \$40,000 experienced from fiscal year 2001 through 2006. Management also completed a review of vendor rates to ensure the City is receiving adequate revenues to cover officer salaries, associated employer fringe benefit contributions and appropriate administrative costs of the program. The final item needing completion is regarding a consistent method of billing and collecting revenues related to support services provided by the City to outside agencies. In 2009, we noted that several outside agencies receiving support services from the City had not been billed for the services, totaling \$26,000. Agency billing requires coordination between several City departments such as GPD, Cultural Affairs, Traffic Engineering and Finance. While improvements have been made, we noted one agency that went unbilled during fiscal year 2010 and another underbilled, and will hold this recommendation open to evaluate whether further improvements in the billing process are needed.

Review of Housing Performance Measures

Management has made significant efforts to address our recommendation from this audit related to improvements in performance measurement data collection, documentation and reporting. Management has established written procedures detailing the job functions responsible for collecting, reviewing and reporting performance measurement data and has prepared a Customer Service Survey to be used as a baseline for establishing on-going measurements of customer satisfaction levels. However, our recommendation will remain open in order to provide additional time necessary to improve data accuracy within performance reports, complete recommended trend analyses of annual performance measurements and implement additional reporting elements to facilitate more effective comparison of performance to peer municipalities. Specific weaknesses in measurement and comparison processes implemented include the following:

- Management Plan data is utilized by management to evaluate key departmental performance measures and report on those measures that focus on management's strategic priorities. These measures are focused on assisting management in assessing program results, identifying areas needing improvement and providing the basis for comparing performance with peer cities. For housing data, the report is provided quarterly, with data for the first three quarters reflecting an estimate of what is occurring based on data prepared for other reports. We noted that final year data simply provides a total of estimated data, rather than providing total year actual data.
- Annual reports of performance measurements are prepared each quarter and include funding dollars and total units for all rehabilitation and roofing activities. This report provides totals but does not provide analytical data to compare activities to other municipalities, such as the number of households provided public assistance per \$100,000, average number of days to complete projects, number of hours by personnel by project type, etc. Implementation of such measures would facilitate more effective comparisons with other municipalities and for internal trend analyses. We also noted data inaccuracies within this report when compared to source documentation.
- An annual report compares SHIP Program strategies with other local governments. Budgeted dollars, projected units, maximum awards and income levels are compared with five other cities and an average cost per unit is calculated. However, there is no reporting utilizing actual funding and projects completed.
- Reporting of Customer Service Survey only includes a sample of over half of the respondents rather than the total population.

Review of Fleet Fuel Expenses and Charges to Departments

Five of the seven recommendations originally issued have been adequately implemented. GRU reduced the number of take-home vehicles during our original audit from 61 to 41, resulting in annual cost savings of approximately \$62,000 and continues to review vehicle assignments annually, as part of the General Manager's focus on operational efficiencies. Fleet Management has:

- Improved accountability over fuel transactions by implementing additional controls serializing and tracking the issuance and replacement of fuel keys.
- Improved the timeliness of weekly fuel rate updates and reduced to acceptable levels overall variances in implementation of an established 15% administrative fee.
- Improved controls related to supervisory review of deleted transactions within the FASTER Fleet Management System and reassigned staff in order to more properly segregate key duties.
- Effectively increased their emphasis to employees on the importance of properly and accurately entering vehicle odometer readings, resulting in a reduction in the number of fuel transactions with no odometer readings measured during our original audit at 22% to 1% during the second half of 2009.

The remaining two recommendations have been partially implemented and will remain open. The Human Resources Department has added a component to annual timekeeper training regarding IRS Publication 15-B, which requires employees using take-home vehicles to claim personal mileage as non-cash fringe benefits on City Form 19B and has included this information in an annual reminder letter to all employees. However, recent testing indicates just over half of a sample of employees with take-home vehicles are completing the required forms. We will work with management to provide better compliance.

GPD management has made significant progress in implementing five action items set forth in our original report recommendation related to GPD controls over fleet fuel transactions. Management has discontinued issuance of fuel cards to individuals who are not GPD employees, deactivated inactive or non-GPD fuel cards, required GPD staff to remove PIN labels from their fuel card upon receipt and implemented controls to ensure that fuel cards are retrieved from exiting employees. GPD management has also implemented additional controls to safeguard fuel, such as maintaining an accurate record of fuel cards, comparing the log periodically to payroll and actual fuel usage reports, and reviewing fuel transactions for reasonableness. However, a few of these control measures have only been recently implemented. Accordingly, we will maintain this recommendation open to allow for an additional review process.

Review of GRU Fuel/Coals Contract

There were two recommendations initially issued. Management now ensures current scale certifications are provided by coal suppliers each year. Since coal is purchased based on tonnage, certified scales provide greater assurance that GRU is accurately invoiced by the coal suppliers.

The second recommendation regarding extensions for short-term contracts has been attempted since the conclusion of our audit. However, the current market conditions for coal have not made it possible for GRU to engage in this type of agreement. The current environment has driven the coal prices to levels that approach the cost of production. Short-term contracts are used to position both the buyer and seller in terms of ensuring GRU will be able to take advantage of more favorable pricing when the market prices stabilizes and the seller is able to make a reasonable profit. Suppliers have been reluctant to enter into longer term contracts under current market conditions. GRU was able to obtain two coal supply agreements with two year contract terms. The base price is fixed for both contracts without an escalation in the second year. The base prices per ton are \$66 and \$66.65. Both contracts allow GRU to extend the contract for one or two years at expiration, but the extensions are open to negotiation, which is essentially negotiating a new contract. GRU will likely be in preliminary contract negotiations when we next follow-up on outstanding audit recommendations and the market conditions at that time may allow us to determine if short-term contracts will be effective.

Review of GFR Inspection Fees

All four recommendations from our original audit remain outstanding. The first recommendation has been partially addressed through the implementation of a new fee structure for fire inspection fees beginning in fiscal year 2010. This action eliminated the previous flat fee of \$50 and restructured fire inspection fees charged based on building square footage. Fire inspection fees for the first six months of fiscal year 2010 totaled approximately \$44,000 with 589 inspections performed. Fire inspections completed during fiscal year 2009 totaled 1,445 and generated \$69,000 in revenues. If the current trend continues, GFR will perform approximately 20% less inspections in 2010 than in 2009, but will generate an additional \$19,000 in revenues. GFR management indicated end of year leave and computer hardware changes attributed to lower productivity during the first six months of 2010 and should improve. There is insufficient data to draw a conclusion on the success of the new fee structure and improvement in covering the costs of fire inspection services. The next follow up cycle will provide us approximately 18 months of data and allow us to better evaluate the effectiveness of the rate change.

Our second recommendation was for management to establish reasonable fees for fire extinguisher training, new construction plan review services, insurance verification letters and investigative report copies. Adequate progress has not yet been made on establishing and implementing these fees and will be reviewed further during our next follow up cycle. GFR has partially implemented our third recommendation through utilization of the Alachua County Property Appraiser's building data for square footage data in calculating fire inspection fees. However, further work is needed in documenting a policies and procedures manual and improving coordination of invoicing and collection processes. Our final recommendation regarding improved utilization of the City's website for public information regarding the GFR inspection process is also partially completed and will require additional efforts to reach full implementation.

Review of GRU Investments

Management has implemented our original audit recommendation to complete periodic reviews of its authorized brokers and brokerage firms utilizing independent monitoring and reporting agencies. GRU staff now utilizes the Financial Industry Regulatory Authority's BrokerCheck module to monitor on a monthly basis broker and brokerage firm registration information and event disclosures, such as sanctions or federal fines. This review process is documented in GRU's monthly investment reports and is reviewed by GRU's investments committee on a quarterly basis.

Future Follow-up Reviews

The recommendations still outstanding, along with new audit recommendations approved by the City Commission since the start of this follow-up process, will be submitted to the appropriate Charter Officers to determine the current status of remaining recommendations. We will report the results of that process to the City Commission through the Audit, Finance and Legislative Committee.