

Final Audit Follow Up

As of March 31, 2007



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City Auditor

Selected City Revenues

(Report #0703, Issued November 16, 2006)

Report #0719

June 1, 2007

Summary

Real Estate Division and MSC staffs have been responsive in addressing issues identified in audit report #0703. Four of the five action plan steps developed for this audit have been successfully completed. The remaining step, involving properly and accurately recording surplus property sales proceeds in the correct accounts and funds, has been substantially completed.

In audit report #0703, we selected and reviewed revenues generated from the sale of burial lots in City cemeteries and the sale of surplus property through an Internet-based (online) auction process. In addition, we reviewed controls in place to identify and address any instances where fees for non-metered services (fire, stormwater, refuse, and sewer) were not assessed and collected.

Overall, we found that adequate controls were in place. However, several issues were identified for burial lot sales and online surplus property sales. Those issues included the need for:

- Clearly documented reconciliations that collections from burial lot sales are properly recorded in the City's PeopleSoft Financials System;
- Periodic independent reconciliations of unsold burial lots reflected in City records to available lots at the cemeteries;
- Payment of commission fees for online sales of surplus property from the funds that receive the corresponding sale

proceeds;

- Recording of proceeds from sales of surplus property in the correct accounts and funds; and
- Proper assessment and collection of state sales taxes on applicable surplus property sales.

A total of five action plan steps were established to address those issues. Management has successfully completed four of those action plan steps and substantially completed the remaining action plan step. Management indicates that it plans to ensure that remaining step is fully completed in the future.

Scope, Objectives, and Methodology

The audit and subsequent follow up engagement were 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.

Original Report #0703

The scope of report #0703 included a review of revenue activity pertaining to (1) the sale of burial lots in City cemeteries by the Real Estate Division and (2) the sale of surplus property items through online (Internet) auctions by the Municipal Supply Center (MSC). Our review focused primarily on revenue activity occurring during the period January 2002 through March 2006. In addition, this audit included a limited review over system controls and queries established to identify and address instances where residential non-metered services (fire, stormwater, refuse, and sewer)

were not properly billed through the City's utility billing system.

The objectives of the audit were to determine if:

- Amounts charged for burial lots in City cemeteries were appropriate.
- Records showed that surplus property items sold through online auctions were sold to the highest bidders.
- Revenues for cemetery lot and online auction surplus property sales were properly collected, processed, accounted for, and deposited.
- Internal controls were adequate in regard to revenue and collection activities pertaining to cemetery lot and online surplus property sales.
- Controls (e.g., system queries) were established to assist Utility Accounting staff in identifying and addressing instances where non-metered services were not properly billed to residential customers.

Report #0719

The purpose of this follow up is to report on the progress and status in completing the action plan steps due for completion as of March 31, 2007. To obtain information, we conducted interviews with key staff, made observations, and reviewed relevant documentation.

Previous Conditions and Current Status

In report #0703 we found that, overall, adequate controls were in place to ensure that burial lot sales, online surplus property sales, and non-metered service revenues were properly collected, processed, accounted for, and/or deposited. However, several issues were identified for burial lot sales and online surplus property sales. Those issues included:

- Adequate documentation was not always prepared to show that Real Estate staff reconciled revenues collected from burial lot

sales to amounts recorded in the City's PeopleSoft Financials System. That reconciliation provides evidence that funds transferred to the Treasurer-Clerk's Office for deposit are actually transferred and deposited.

- Independent reconciliations were not performed of available (unsold) burial lots reflected in the City's records to available burial lots at the cemeteries. Such reconciliations are necessary to ensure that staff, selling lots to the public and also collecting the related sales proceeds, properly reports those sales and remit the collected funds for processing and deposit.
- In regard to online sales of surplus property items, the City's General Fund subsidized other City funds as it paid the fees associated with sales proceeds deposited into those other funds. A more equitable methodology would be for each benefiting fund to pay its respective commission fees.
- Several instances were noted where proceeds from online auctions of surplus City property items were incorrectly recorded in the PeopleSoft Financials System. Those instances increased the likelihood that those proceeds would not be used for the intended or required purposes.
- Instances were noted where state sales taxes applicable to two surplus property sales were not assessed and collected.

Five action plan steps were developed to address the identified issues. Only four of those steps were due for completion as of March 31, 2007. However, as applicable City staff had completed four steps and substantially completed the remaining (fifth) step as of the end of our follow up audit fieldwork, we addressed the status of all five action plans steps in this initial and final follow up engagement. Table 1 on the next page provides a summary of those five action steps and their current status.

**Table 1
Action Plan Steps from Report #0703
and Current Status**

Action Plan Steps	Current Status
REAL ESTATE DIVISION	
Ensure cemetery lot sales are properly accounted for and collections are deposited	
<ul style="list-style-type: none"> Assigned Real Estate Division staff will clearly document the reconciliation of collected funds to revenues recorded in the City's PeopleSoft Financials System. 	<ul style="list-style-type: none"> ✓ Monthly reconciliations, prepared by assigned Real Estate Division staff, of collected revenues to revenues recorded in the City's PeopleSoft Financials System are now clearly and adequately documented.
<ul style="list-style-type: none"> Periodically (at least annually), a random sample of available (unsold) burial lots as recorded in the cemetery lot database will be selected. Staff independent of the collection and custodian functions will make site visits to the related cemeteries to ensure that the sampled lots are unused. Any discrepancies will be researched and resolved. 	<ul style="list-style-type: none"> ✓ With the assistance of City Auditor staff, the Real Estate Division administrator selected a random sample of 30 unsold burial lots from the cemetery lot database. The administrator, who oversees but does not participate in the collection and custodian functions, visited the applicable cemetery and observed the sampled lots to ensure that they were unused. Twenty-eight of the sampled lots were observed as unused. For the two sampled lots found used for burials, the administrator verified that the applicable lot sales and corresponding burials occurred after the initial sample selection in February 2007. This annual reconciliation was adequately documented.
MUNICIPAL SUPPLY CENTER	
<ul style="list-style-type: none"> Commission fees paid to GovDeals (vendor) for online sales of surplus property will be charged to the funds into which the related sales proceeds are deposited. 	<ul style="list-style-type: none"> ✓ The City check generated and sent to GovDeals for commission fees continues to be paid from the General Fund. However, for sales where the proceeds are deposited into a fund other than the General Fund (e.g., such as the Fleet Management Reserve Fund for sales of surplus City vehicles), an amount equal to the 7.5% commission fee is now deducted from total sales proceeds and recorded as a receipt of the General Fund. As a result, each fund, in essence, pays the General Fund an amount equal to the commission fee. The effect of this process is that each applicable fund pays its proportionate share of the total commission fee.
<ul style="list-style-type: none"> Management will emphasize to staff the importance of recording surplus property sales in the proper funds and accounts. 	<ul style="list-style-type: none"> ◆ Our follow up efforts showed that MSC staff were generally recording surplus property sale proceeds in the correct funds. However, our review of six recent online sales showed three instances where state sales taxes charged and collected for sales of surplus assets were not correctly recorded in the City's accounting system. As a result, the amounts recorded as payable (and likely actually paid) to the state for sales taxes for those three sales were incorrect (i.e., net understatement of \$145.41). Discussions with MSC disclosed those errors were attributable, in part, to a lack of understanding by staff in the proper completion of a new internal form used to account for surplus property sales collections. MSC management indicated that the form would be properly completed for future sales.

<ul style="list-style-type: none"> Staff will be reminded to charge and collect state sales taxes on applicable sales of surplus property. 	<ul style="list-style-type: none"> √ Our follow up efforts showed that state sales taxes are being properly charged and collected on applicable sales of surplus property.
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Table Legend:

- Issue addressed in the original audit
- √ Issue addressed and resolved
- ◆ Issue partially resolved; turned over to management to ensure final completion

Conclusion

Real Estate Division and MSC staffs have been responsive in addressing issues identified in audit report #0703. Four of the five action plan steps have been successfully completed. The remaining step, involving properly and accurately recording surplus property sales proceeds in the correct accounts and funds, has been substantially completed.

We appreciate the cooperation and support of the Real Estate Division and MSC staffs during this follow up.

Appointed Official's Response

City Manager:

I am pleased that issues addressed in this audit have been resolved or are in the process of being resolved. I would like to thank City Auditor, Real Estate Division, and Municipal Supply Center staff for their work on this audit.

Copies of this audit follow up or audit report #0703 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).

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