

# **Audit**

## **Follow-Up**

**As of March 31, 2010**



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City Auditor

### **Citywide Disbursements 2009**

**(Report #1013, Issued April 30, 2010)**

**Report #1109**

**May 6, 2011**

#### **Summary**

City departments have completed five of the six action plan steps developed as the result of our previously issued audit report #1013, *Citywide Disbursements 2009*. Actions have been initiated but not completed for the remaining action plan step. Completion of that remaining step is important to ensure retiree health insurance benefits are provided only to authorized individuals.

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. We are pleased to report that those departments/offices have timely completed five of the six action plan steps.

The Office of the Treasurer-Clerk has initiated actions to complete the remaining step. That 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) has resulted in several former City employees receiving City-subsidized health care benefits without apparent expressed or implied authority. The Treasurer-Clerk's Office indicated it has stopped similar incidents from occurring in the future. Furthermore, the Treasurer-Clerk has consulted with the City Attorney's Office and Human Resources and taken 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.

We recommend the Office of the Treasurer-Clerk, with assistance from Human Resources and the City Attorney's Office, complete development of an appropriate policy with subsequent submittal to the City Commission for their consideration and approval. In the event the proposed policy includes benefits changes that may result in additional costs being incurred by the City, the Office of the Treasurer-Clerk should prepare and present to the City Commission a fiscal analysis and impact statement along with the proposed policy for consideration and approval.

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

The original audit and this subsequent follow up were 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 was for the period since the issuance of the initial audit report (April 30, 2010) through March 31, 2011.

#### **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 #1109**

The purpose of this audit follow-up is to report on the progress and/or status of the efforts to implement the recommended action plan steps due for completion as of March 31, 2011. This is our first follow-up on action plan steps identified in audit report #1013. 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 of March 31, 2011, five of the six action plan steps had been completed. As of that date, actions to complete the remaining action plan step had been initiated but not completed. **Table 1** below identifies the action plan steps and describes the current status.

<b>Table 1 Action Plan Steps from Report #1013 Due as of March 31, 2011, and Current Status</b>	
<b>Action Plan Steps Due as of March 31, 2011</b>	<b>Current Status</b>
<b>Ensure disbursements are in accordance with governing laws, rules, policies, and procedures</b>	
<i>Electric Utility</i>	
<ul style="list-style-type: none"> <li>• Appropriate efforts will be made to recover the \$486 overpayment for labor maintenance services.</li> </ul>	√ Our follow-up review showed the Electric Utility recovered the overpayment through credits provided by the applicable vendor on subsequent invoices billed to and paid by the City.
<b>Treasurer-Clerk’s Retirement Section</b>	
<ul style="list-style-type: none"> <li>• 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).</li> </ul>	√ Our follow-up review showed the Retirement Section now periodically (quarterly) uploads a file of current retirees to the vendor’s database. These periodic updates will help ensure timely detection and reporting of retiree deaths to the City. This process will, in turn, help ensure City pension

	<p>benefits are appropriately and timely terminated or redirected upon the deaths of City retirees.</p>
<ul style="list-style-type: none"> <li>Procedures will be implemented that require direct verification by Retirement Section staff of non-City service claimed by City employees for pension credits.</li> </ul>	<p>√ Current procedures in place require documentation and evidence of prior non-City service with an eligible employer (e.g., a state or federal agency) to be obtained directly from the applicable employer. Our follow-up review showed recent purchases of such prior non-City service for pension credits was properly verified directly with the applicable prior employing agencies.</p>
<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>√ Our follow-up review showed the Retirement Section has implemented a procedure whereby detailed records of retiring/retired employees' account balances are obtained from Prudential. The account information obtained is sufficient to allow verification by Retirement Section staff of the appropriateness of City MAP payments to the employees' accounts. That documentation is retained as part of the retiring employees' retirement records.</p>
<p><b>Ensure the City funds health insurance benefits only for authorized individuals</b></p>	
<p><i>Treasurer-Clerk's Office/Human Resources/City Attorney's Office</i></p>	
<ul style="list-style-type: none"> <li>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.</li> </ul>	<p>√ The initial audit questioned participation in the City's subsidized health insurance program by 12 former employees and 22 spouses of former employees. A description of that questioned participation and the current status is described in the following:</p> <p><b><u>Circumstance #1</u></b> – As reported, 10 former employees who terminated their employment after vesting in the City's defined benefit pension plan were allowed to commence participation in the City's health insurance program as retirees after they terminated their employment but before they started receiving pension benefits. To further explain, employees become vested in the City's defined benefit retirement programs after completing five years of service. For these 10 former employees, at the time they terminated employment, they had worked for the City for periods ranging from 8 to 23 years. Accordingly, at the time they terminated they were vested but were not retired (i.e., they had not started receiving pension benefits). Because they did not retire (start receiving pension benefits) immediately upon their employment termination, there was no apparent authority for their participation in the City's health insurance program. As reported in the initial audit, several of those individuals participated as former employees for periods ranging from 2.5 to 16 years after they terminated but before they "retired" and started receiving their pension benefits. As reported, the participation during those periods was subsidized by the City.</p> <p>As of the time of our follow up fieldwork:</p> <ul style="list-style-type: none"> <li>– Six of these 10 former employees had retired and started</li> </ul>

receiving their pension benefits. Those six individuals have continued their participation in the City's health insurance program as retirees, with the City subsidizing that participation.

- Participation in the City's health insurance program by two more of the 10 former employees had stopped based on actions initiated by those two former employees. (In one of those two instances, the former employee stopped participation as a retiree and commenced participation as a spouse of a different retired City employee, which is allowable under City policy.)
- The remaining two employees continued participation in the City's health insurance program although they had not retired and started receiving their pension benefits. That participation continued to be subsidized by the City.

In response to this issue, the Treasurer-Clerk's Office discontinued this option for future former employees. Specifically, employees that are vested in the City's defined benefit retirement program and who terminate their employment but do not immediately commence receiving pension benefits, are no longer allowed to participate in the City's health insurance program with the City subsidizing that participation. In regard to the six former employees that have since retired (started receiving their pension benefits) as noted above, the Treasurer-Clerk's Office decided to allow that participation to continue. In regard to the two former employees that were still participating as described above, the Treasurer-Clerk's Office, after consultation with the City Attorney's Office, submitted letters in March 2011 notifying the two former employees that they could continue participation in the City's health insurance program, but that participation would no longer be subsidized by the City.

**Circumstance #2** – As reported, two additional former employees that terminated their employment after vesting in the City's defined benefit plan were allowed to commence participation in the City's health insurance program as retirees after they started receiving their pension benefits several years after their employment termination. Those two former employees did not participate in the City's health insurance program during the periods between their employment termination and commencement of pension benefits. Those periods between termination and retirement were 7.5 and 13 years, respectively. As reported, there was no apparent authority to allow former employees, who did not retire and immediately start receiving pension benefits upon their termination of City employment, to commence City subsidized participation in the health insurance program at the subsequent date they started receiving their

	<p>pension benefits.</p> <p>Based on consultations with the City Attorney’s Office, the Treasurer-Clerk’s Office decided to allow these two employees to continue their City subsidized participation in the City’s health insurance program.</p> <p><b>Circumstance #3</b> – As reported, 22 spouses of former retirees were allowed to continue participation in the City’s health insurance program when the retirees died and there was no continuing pension benefit to those surviving spouses. <i>(NOTE: In many instances retirees select pension payment options whereby the surviving spouse receives a continuing {often reduced} pension benefit upon the death of the retiree; in those instances the surviving spouse may elect to continue participation in the City’s health insurance program with the City subsidizing a portion of the premium. In other instances retirees did not elect those options for various reasons and/or the options were not applicable at the dates of their retirements. In those latter instances there was no clear authority for the surviving spouses to continue participation in the City’s health insurance program with the City paying a portion of {subsidizing} the full premium costs.)</i> As similarly noted above, that participation by the spouses of the 22 former (deceased) retirees was subsidized by the City, as the City paid the “City share” of the full premium cost.</p> <p>In response to an inquiry from the Treasurer-Clerk’s Office, the City Attorney’s Office determined this circumstance was not contrary to City policy. Based on that response, the Treasurer-Clerk’s Office determined that no further actions would be taken in regard to the participation by these 22 spouses.</p> <p><b>Summary</b> – As reported in the initial audit, there was no clear authorization for the participation for the three circumstances described above. Specifically, policies appear to only provide for participation in the City’s subsidized health insurance program as a retiree when a terminating employee is vested and is eligible for and elects to receive an earned pension benefit immediately upon employment termination. At our request, the Treasurer-Clerk’s Office determined, for the 10 former employees addressed in circumstance #1 above, the total City-subsidized premiums paid on their behalf from the dates their questioned participation started through January 2011(or through their “retirement date” if occurring prior to January 2011). That calculated amount was \$76,430. If the questioned participation by those former employees had not been allowed, the City would not have incurred those costs.</p> <p>After consulting with the City Attorney’s Office, the Treasurer-Clerk’s Office made decisions and took applicable actions deemed appropriate under the current</p>
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	<p>circumstances. Additionally, it is the intention of the City Treasurer-Clerk’s Office to address participation in the City’s health insurance program under these and similar circumstances in a revised (or new) City policy, as described further in the following action plan step.</p>
<ul style="list-style-type: none"> <li>● 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.</li> </ul>	<ul style="list-style-type: none"> <li>◆ The Treasurer-Clerk’s Office, in conjunction with the City Attorney’s Office and Human Resources, is currently 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. The Treasurer-Clerk’s Office indicated that policy will address participation in the City’s health insurance program under the circumstances identified in the initial audit.</li> </ul> <p>If the proposed policy provides for a change in benefits that results in additional costs to the City, the City Auditor’s Office recommends a fiscal analysis and impact statement be prepared to accompany the proposed policy provided to the City Commission for their evaluation and approval.</p>

**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 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 City Commission a fiscal analysis and impact statement along with the proposed policy for consideration and approval.

We appreciate the cooperation and assistance the applicable City departments and offices provided in this audit follow-up.

**Appointed Officials' Responses****City Manager:**

I am pleased to see the action plan addressed by the Electric Utility. I want to thank the City Auditor's Office and Electric Utility staff for their efforts in addressing the action item in a timely manner.

**City Treasurer-Clerk:**

We appreciate the professional work conducted by the City Auditor and his staff in his follow-up of the audit of Citywide Disbursements 2009. We are pleased that the majority of the previously identified action steps have been addressed satisfactorily. Through consultation with the City Attorney's Office and Human Resources, substantial work has been completed on the remaining item, and we anticipate completing this action step in the near future.

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](mailto:auditors@talgov.com)).

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