



Sam M. McCall, CPA, CGFM, CIA, CGAP
City Auditor

HIGHLIGHTS

Highlights of City Auditor Report #0703, a report to the City Commission and City management.

WHY THIS AUDIT WAS DONE

Different City departments and offices collect various revenues from multiple sources. The Office of the City Auditor periodically selects some of those revenues for review to ensure their proper collection and processing and to assist management in identifying and mitigating risks associated with the revenue process.

For this audit, we selected and reviewed revenues generated from the sale of burial lots in City cemeteries and the sale of surplus City property through an Internet-based (online) auction process. We also reviewed controls used by management to identify and address instances where fees for non-metered services (fire, stormwater, refuse, and sewer) billed through the City's utility billing system are not assessed and collected.

WHAT WE RECOMMEND

Real Estate Division staff should clearly document their verification that amounts collected for burial lot sales are properly recorded in the PeopleSoft Financials system. In addition, the Real Estate Division should periodically conduct independent reconciliations, at least on a sample basis, of unused burial lots as reflected in City records to unused burial lots at the City cemeteries.

Municipal Supply Center (MSC) staff should (1) pay commission fees for the sale of surplus property items from the funds that receive the corresponding sale proceeds, (2) ensure that proceeds from sales of surplus property are recorded in the correct accounts and funds, and (3) ensure that state sales taxes are properly assessed and collected on applicable surplus property sales.

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Audit Conducted by Stephanie Jones

November 16, 2006

AUDIT OF SELECTED CITY REVENUES

Overall, adequate controls were in place, but issues were identified for which corrective actions are recommended.

WHAT WE FOUND

Overall, our review showed that adequate controls were in place to ensure that burial lot sales, online surplus property sales, and non-metered service revenues are 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:

Sales of burial lots in City cemeteries. Adequate documentation was not always prepared to show that appropriate Real Estate Division staff reconciled revenues collected and processed from burial lot sales to amounts recorded in the PeopleSoft Financials system. That reconciliation step provides evidence that amounts documented as transferred to the Treasurer-Clerk's Office for deposit are actually transferred and deposited. In addition, we noted that independent reconciliations were not performed of available (unused) burial lots reflected in the City's records to available burial lots at the cemeteries. Such reconciliations are necessary to help ensure that staff, selling lots to the public and also collecting the related sales proceeds, properly report those sales and remit the collected funds for processing and deposit.

Online sales of surplus City property. Commission fees paid to the vendor providing online auction fees were all paid from the City's General Fund. As a result, the General Fund is subsidizing other funds (Fleet Management Reserve and ISS Funds), as it is paying fees associated with sales proceeds deposited into those other funds. A more equitable methodology would be for each benefiting fund to pay their respective commission fees. In addition, we noted several instances where the sales proceeds were incorrectly recorded in the PeopleSoft Financials system. And lastly, we identified instances where state sales taxes applicable to two surplus property sales were not assessed and collected.

Non-metered service. No issues were identified in our review of controls relating to non-metered services.

Office of the City Auditor

Audit Report



Sam M. McCall, CPA, CGFM, CIA, CGAP
City Auditor

Selected City Revenues

Report #0703

November 16, 2006

Summary

Different City departments and offices collect various revenues from multiple sources. The Office of the City Auditor periodically selects some of those revenues for review to ensure proper collection and processing of those revenues and to assist management in identifying and mitigating risks associated with the revenue process. For this audit, we selected and reviewed revenues generated from the sale of burial lots in City cemeteries and the sale of surplus City property through an Internet-based (online) auction process. In addition, we reviewed controls used by management to identify and address instances where fees for non-metered services (fire, stormwater, refuse, and sewer) billed through the City's utility billing system are not assessed and collected.

Overall, our review showed that adequate controls are in place to ensure that burial lot sales, online surplus property sales, and non-metered service revenues are properly collected, processed, accounted for, and/or deposited.

Several issues were identified for burial lot sales and online surplus property sales. Recommendations to address those issues are as follows:

- Real Estate Division staff should:
 - Clearly document their verification that collected amounts are properly recorded in the

PeopleSoft Financials system.

- Periodically conduct independent reconciliations, at least on a sample basis, of unused burial lots according to City records (the cemetery lot database) to unused burial lots at the cemeteries.
- Municipal Supply Center (MSC) staff should:
 - Pay commission fees for the sale of surplus property items from the funds that receive the corresponding sale proceeds.
 - Ensure that proceeds from sales of surplus property are recorded in the correct accounts and funds.
 - Ensure that state sales taxes are properly assessed and collected on applicable surplus property sales.

We would like to acknowledge the cooperation and support of the staffs from the Real Estate Division, MSC, Utility Accounting Division, and Growth Management Department during this audit.

Scope, Objectives, and Methodology

The scope of this audit 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. To assist in that review, we performed a limited analysis of activity occurring from August 1, 2005, through August 7, 2006.

The objectives of this 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 surplus property sales were properly collected, processed, accounted for, and deposited;
- Internal controls were adequate in regard to revenue and collection activities relating to cemetery lot and online surplus property sales; and
- 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.

To address the stated objectives, we selected samples of items sold and reviewed related supporting documentation, completed analytical procedures, interviewed applicable staff, and made observations and inspections as necessary.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and the Standards for the Professional Practice of Internal Auditing.

Background

Burial lots in City cemeteries

The City owns and maintains five cemeteries. Those five cemeteries are (1) Roselawn, (2) Greenwood, (3) Oakland, (4) Old City, and (5) Southside. The Real Estate Division within the Public Works Department manages those five cemeteries. Currently, the only burial lots available for sale to the public are at Southside. Burial lots in the other four cemeteries are only available for sale in the event that an individual who previously purchased a lot elects to sell the lot back to the City. (Individuals no longer wanting or needing a purchased lot may only sell the lot back to the City. Such persons cannot sell the lot to another individual.)

Lots may be purchased either for immediate or future (pre-need) burials. The current prices are \$400 for a standard lot and \$75 for an infant lot. In addition, \$40 is charged per lot for perpetual care. Furthermore, purchasers must reimburse the City for fees charged by the Leon County Clerk of Courts for recording the cemetery lot deed.

During the period January 2002 through March 2006, the Real Estate Division sold 858 burial lots. Revenues collected for those sales totaled \$339,272. As of September 30, 2006, the City had 1,899 remaining burial lots available for sale.

Online sales of surplus property

In June 2001, the City executed a contract with a private party (GovDeals, Inc.) to provide a means for the City to sell surplus property items through an Internet-based (online) auction system. For the period January 2002 through March 2006, the City consummated 1,619 online sales transactions through GovDeals. Proceeds generated by those transactions totaled \$2,980,470.

Under the online auction process, Municipal Supply Center (MSC) staff list the surplus items for sale on GovDeals online auction service and complete the sales transactions with the applicable party upon notification by GovDeals of the highest bid received during the online auction. The purchasing party must make payment for the acquired property directly to MSC and make arrangements with MSC staff to pick up the acquired property.

Pursuant to the contractual arrangement, GovDeals is paid a fee by the City for its services. The current fee is 7.5 percent of the winning bid. The City pays those fees monthly.

Non-metered services

City utility customers may be billed for metered and non-metered services. Metered services include electric, water, and gas, while non-metered services include fire, stormwater, refuse, and sewer services. In general, customers located inside the City limits are billed for applicable metered and non-metered services, while customers residing outside the City limits are billed only for applicable metered services. Exceptions to that general rule occur when the City has extended a non-metered service to a specific area outside the City limits. In those cases, customers residing in those areas outside the City limits will be billed for the applicable non-metered services (e.g., sewer).

Individual customer accounts (as well as the related premises and utility service points) should be properly established in the City's PeopleSoft Customer Information System (CIS) to ensure the customers are correctly billed for the applicable non-metered services. In the event that a determination is made that a customer receiving services (metered or non-metered) has not been billed for those services, it is appropriate for the City to

back-bill the customer in accordance with the City's back-billing policy.

Issues and Recommendations

Burial lots in City cemeteries

We selected and tested a random sample of 40 of the 858 sales made during the period January 2002 through March 2006, to determine if amounts were properly charged, collected, and deposited. We also reviewed the accuracy of the Real Estate Division's cemetery lot database (1) by comparing recorded lot sales and burial activity in that database to deed activity recorded at the Leon County Clerk of Courts and (2) by visiting the cemeteries and observing and comparing burial lot status (i.e., established grave or not) to the status recorded in the database. We also reviewed applicable internal controls, including periodic reconciliations by Real Estate staff of revenue collections and recorded activity.

Overall, we found that (1) amounts were properly charged, collected, and deposited; (2) the cemetery lot database was accurately maintained; and (3) internal controls relating to cemetery sales were adequate. However, we identified the following two issues for which recommendations are made to increase assurance that cemetery lot revenues are properly collected and deposited.

ISSUE No. 1 – We noted that Real Estate staff, independent of the collection and deposit function, reconciled burial lot sales as evidenced on pre-numbered burial request forms to amounts documented as collected and transferred to the Treasurer-Clerk's Revenue Office for deposit. However, we noted that adequate documentation was not always prepared to show that staff reconciled those amounts (documented as collected and transferred) to amounts recorded in the PeopleSoft

Financials System (City's accounting system). That latter reconciliation step provides evidence that amounts documented as transferred are actually transferred and deposited. Accordingly, we recommend that staff clearly document the reconciliation of amounts documented as collected and transferred to amounts recorded in the PeopleSoft Financials System.

ISSUE No. 2 – In addition to the reconciliation process addressed in the previous issue, independent reconciliations should be periodically performed of available (unused) burial lots reflected in City records (the cemetery lot database) to available burial lots at the cemeteries. Such reconciliations will help ensure that staff, selling lots to the public and also collecting the related sales proceeds, properly report those sales and turn in collected funds for processing and deposit. We noted that such reconciliations are not being performed. Management acknowledged in our discussions on this issue that such reconciliations are appropriate and indicated that measures will be taken to ensure such reconciliations are periodically conducted by independent staff. Due to cost-benefit considerations, management indicated that such reconciliations likely would be conducted using a random sampling approach (i.e., selecting a random sample of unused burial lots from the database and verifying the selected burial lots at the applicable cemeteries have not been used). We recommend that management continue with those plans to conduct such periodic reconciliations.

Online sales of surplus property

We selected and tested a sample of 60 of the 1,619 online sales made during the period January 2002 through March 2006. For selected items, we determined if records showed that the property was sold to the highest bidder and that the payments

were properly and timely received, processed, and deposited. We also verified that the commission fees paid to GovDeals for the sampled sales were appropriate.

Overall, we found that sales were made to the highest bidder as documented on records provided the City by GovDeals. Also, we found that sales proceeds were properly and timely collected, processed, and deposited. Furthermore, commission fees paid to GovDeals were proper. However, we identified the following three issues for which recommendations are made to increase assurance that surplus property sale revenues are properly accounted for and processed.

ISSUE No. 1 – Under current procedures, proceeds received for sales of surplus City vehicles are deposited into the City's Fleet Management Reserve Fund. Proceeds received for the sale of surplus computers are deposited into the Information Systems Services (ISS) Fund. Proceeds from the sale of other surplus assets are deposited into the City's General Fund. While that procedure is consistent with current City policies, we found that GovDeals commission fees for all surplus property sales (vehicles, computers, and other) are paid from the General Fund. As a result, the General Fund is, in essence, subsidizing the Fleet Management Reserve and ISS Funds as it is paying the fees associated with the sale proceeds deposited into those two funds. Because the three funds are used for different purposes, a more equitable and appropriate methodology would be for commission fees paid for vehicle sales to be paid from the Fleet Management Reserve Fund and the commission fees for computer sales to be paid from the ISS Fund. Accordingly, we recommend that the City pay commission fees for surplus vehicle sales and computers from the Fleet Management Reserve and ISS Funds.

ISSUE No. 2 – Out of the 60 sales tested, we noted several instances where the related sale proceeds were incorrectly recorded in the PeopleSoft Financials System. Specifically:

- Proceeds of \$10,010 and \$7,110 from sales of two surplus vehicles were incorrectly recorded as receipts of the Purchasing Fund instead of the Fleet Management Reserve Fund.
- Proceeds of \$745 from the sale of surplus concrete saws that should have been recorded as receipts of the General Fund were incorrectly recorded as receipts of the Fleet Garage Operating Fund.
- Proceeds of \$909 from a sale of surplus equipment were incorrectly recorded as sales taxes due the state instead of receipts of the General Fund.
- Proceeds of \$565 from four sales of surplus computers were incorrectly recorded as receipts of the General Fund instead of the ISS Fund.
- In six instances, state sales taxes charged and collected for sales of surplus assets were incorrectly recorded as receipts of the related funds (e.g., General Fund) rather than as liabilities due the state. Total state sales taxes collected and incorrectly coded in those six instances totaled \$694.

Recording sales proceeds in the incorrect funds or accounts may result in subsequent use of those funds for other purposes or may violate legal requirements (e.g., remitting of state sales taxes to the state). We recommend that DMA management emphasize to applicable staff the importance of properly depositing and recording sale proceeds in the City's accounting system.

ISSUE No. 3 – The City was responsible for assessing and collecting state sales taxes for 17 of the 60 online sales transactions tested. (The majority of the remaining sample items involved surplus vehicles for which the applicable buyer was responsible for paying the related state sales taxes to the county tax collector when obtaining a new title to the acquired vehicle.) We noted that the MSC correctly assessed and collected state sales taxes for 15 of those 17 sales. However, no state sales taxes were assessed or collected for the two remaining sales (surplus commercial lawn mower and industrial shop floor fan). State sales taxes of \$233 should have been assessed and collected for those two sales. We recommend that MSC ensure that state sales taxes are properly assessed, collected, and remitted for applicable surplus property sales.

Non-metered services

To meet this audit objective, we (1) reviewed the process established for creating new accounts, premises, and service points at which both metered and non-metered services would be provided and (2) identified system queries that the Utility Accounting Division developed and uses to identify instances where metered and/or non-metered services are provided but not billed. In addition, we performed a limited analysis of new residential accounts established during the period August 1, 2005, through August 7, 2006, for the purpose of identifying instances where non-metered services were provided but not billed.

Our review showed that adequate controls and procedures (e.g., system queries) are in place to assist Utility Accounting Division staff in determining when non-metered services are provided but not billed. In addition, our limited analysis did not disclose any instances where non-metered services were

provided but not billed. No issues were identified.

Conclusion

Overall, we found that revenues for sales of burial lots in City cemeteries and sales of surplus City property through Internet-based auctions were properly collected, processed, accounted for, and deposited. Controls over those revenues, as well as revenues from non-metered services, were found to be generally adequate. However, we identified issues for which recommendations are made to enhance the related control structures and to further mitigate the risk that revenues are not properly collected, processed, accounted for, and deposited.

We would like to acknowledge the cooperation and support of the staffs from the Real Estate Division, MSC, Utility

Accounting Division, and Growth Management Department during this audit.

Appointed Official's Response

City Manager Response:

I would like to thank the audit staff for their professional assistance and recommendations in the audit of selected City revenues. I am pleased to find that there are only minor issues reported in this audit. Staff has reviewed the findings and identified steps to ensure that appropriate action is taken to resolve the issues identified in the audit. We are confident that implementation of the action plan steps will enhance overall operations and controls.

Appendix A - Action Plan

Action Steps	Responsible Employee(s)	Target Date
Objective A: Ensure that cemetery lot sales revenues are properly accounted for and deposited.		
1. Assigned Real Estate Division staff will clearly document the reconciliation of collected funds to revenues recorded in the PeopleSoft Financials System.	Cynthia Causseaux	11-30-2006
2. Periodically (at least annually), a random sample of unused 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 the sampled lots are unused. Any discrepancies will be researched and resolved.	Steve Taff	1-30-2007
Objective B: Ensure equitable and proper accounting treatment for surplus property sales.		
1. Commission fees paid to GovDeals for online sales of surplus property will be charged to the funds into which the related sale proceeds are deposited.	John McPhaul	9-30-2007
2. Management will emphasize to staff the importance of recording surplus property sales in the proper funds and accounts.	John McPhaul Cathy Davis	3-31-2007
3. Staff will be reminded to charge and collect state sales taxes on applicable sales of surplus property.	John McPhaul Cathy Davis	3-31-2007

Copies of this Audit Report #0703 (project #0606) 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).

Audit conducted by:
 Stephanie Jones, Senior Auditor
 T. Bert Fletcher, Senior Audit Manager, CPA
 Sam M. McCall, CPA, CGFM, CIA, CGAP, City Auditor