

**REPORT ON THE STATUS OF OUTSTANDING AUDIT
RECOMMENDATIONS FOR FEBRUARY 2015**

February 2015



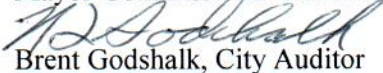
**CITY AUDITOR'S OFFICE
CITY OF GAINESVILLE, FLORIDA**

City of
Gainesville

Inter-Office Communication

February 17, 2015

TO: Audit and Finance Committee
Mayor Ed Braddy, Chair
Mayor-Commissioner Pro Tem Todd Chase, Member

FROM: 
Brent Godshalk, City Auditor

SUBJECT: Report on the Status of Outstanding Audit Recommendations for February 2015

Recommendation

The Audit and Finance 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 and Finance 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, Equal Opportunity Director, Interim General Manager for Utilities and the various departments participating in this review process.

OBJECTIVES, SCOPE AND METHODOLOGY

In accordance with our 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, Equal Opportunity Director and Interim 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 17 of the prior period 33 recommendations, leaving 16 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/Finance	Jan 14	Review of Payroll System	5	2	3
Community Redevelopment Agency (CRA)	Jan 14	Review of CRA Capital Projects	3	1	2
Gainesville Regional Utilities (GRU)	Jan 13	Review of GRU Billing and Collection	2	2	0
Parks, Recreation & Cultural Affairs	Oct 12	Review of Ironwood Golf Course Revenues	6	1	5
GRU	Nov 11	Review of GRU Capital Project Contracts	1	0	1
GRU	Aug 11	Review of GRU Solar Feed In Tariff Application Process	1	1	0
Solid Waste Division	Aug 11	Review of Solid Waste Collection Fees	1	0	1
Planning & Development	Nov 10	Review of Building Code Enforcement Fund Revenues	1	1	0
Equal Opportunity (EO)	Mar 10	Review of Affirmative Action Program	4	4	0
Neighborhood Improvement	Nov 09	Review of Landlord Permit Revenues and Driveway Parking Plans	2	1	1
Gainesville Fire Rescue (GFR)	Jun 09	Review of GFR Inspection Fees	3	2	1
Housing Department	Jun 08	Review of Housing Performance Measures	1	1	0
Gainesville Police Department (GPD)	Nov 07	Review of GPD Overtime	1	0	1
Human Resources	Nov 06	2006 Pay Study Review	2	1	1
TOTAL RECOMMENDATIONS			33	17	16

Review of Payroll System

Management adequately implemented two of our five original recommendations; two are partially implemented and one is pending a reporting system upgrade from infoAdvantage 3.1 to 3.7 within the next 6 months. Management adequately implemented the coordination and efficiency of payroll processing through timekeeper training and web-based communications and materials. Management also adequately improved collection procedures for recovering training costs for employees voluntarily leaving prior to completing required training courses. Efforts are needed to assess timekeeping practices for records retention and storage guidelines, refine GPD's automated payroll process and complete School Crossing Guard Pay Guidelines.

Rehiring of Retirees

In our original audit report, issued in January 2014, we reported the following:

Consistent policies and procedures are needed to ensure compliance with Federal pension laws requiring a bona fide break in service before returning to employment, no re-employment plans initiated until after the break in service has elapsed and age requirements. All procedures and other informational materials should be current and reflect the latest pension laws.

The IRS issued a Private Letter Ruling (PLR) in 2010 regarding reemployment of retirees, specifying that employees must terminate their employment to receive retirement benefits. If both the employer and employee know at the time of "retirement" that the employee will, with reasonable certainty, continue to perform services for the employer, a termination of employment has not occurred upon "retirement" and the employee has not legitimately retired. If employers allow employees to collect retirement benefits after not legitimately retiring then "[s]uch retirements would violate section 401(a) of the Code and result in disqualification of the Plan under section 401(a) of the Code."

During prior year hiring freezes, budget cuts and retirement incentives, management increasingly relied on re-hiring retirees. The General Manager and City Manager developed rehiring procedures in 2007 and 2009, respectively. In February 2012, the City Attorney advised management to develop procedures and practices to ensure compliance with the ruling and avoid disqualification of the City's pension plans. In May 2012, management implemented the use of a "Notice To Retirees Regarding Re-Employment After Retirement" form requiring employees to affirm in writing that no standing offers or agreements of reemployment with the City exist at the time of their retirement. However, we noted the following areas where procedures and practices are not complete and need further attention:

- City Manager and General Manager Guidelines in Human Resources are not consistent and neither was revised to address the 2010 IRS ruling.
- Retirement related materials and brochures in Risk Management were not revised to address the 2010 IRS ruling. For example, the Risk Department's "Ready to Retire" brochure still indicates that an employee may be "reemployed with the City of Gainesville after retirement without affecting your retirement benefit and begin working towards a second regular retirement benefit.

Failure to adhere to existing state or federal rehiring provisions that require a bona fide break in service before returning to employment can result in significant financial liability to the City and the retiree and also jeopardize the tax-qualified status of the City's retirement plans. The IRS can impose a significant tax penalty on income if a retiree, under the age of 59 ½, begins receiving retirement benefits and then is reemployed by the same employer. The IRS also imposes serious consequences to the Pension Plan if a bona fide separation does not take place.

Based on the significance of this issue, we recommended management update post retirement employment policies and procedures and all related documents and forms to ensure compliance with IRS rehiring guidelines and avoid disqualification of the City's pension plans.

During our recent follow up testing for this issue, we noted that the City currently has on the active payroll 53 rehired retirees; 29 classified as temporary employees and 24 classified as regular employees. Four of the 29 rehired retirees classified as temporary employees were rehired during Fiscal Year 2014 as “direct hires” with no competitive process involved with the hiring. IRS guidelines provide a “Safe Harbor” for rehiring retirees age 62 and older and for rehired retirees under the age of 62 who work less than 20% of their previous work schedule. Two of the four recently rehired retirees are under the age of 62 and one of those routinely works more than 20% of their previous work schedule. The paperwork for rehiring this retiree was initiated less than one month after the date of retirement, with the retiree being rehired as a temporary employee at the same hourly rate of pay within the same department.

In response to questions regarding the circumstances surrounding one of the recently rehired retirees, management has implemented a new process whereby the Human Resources Department is to notify the Risk Management Director of departmental requests to rehire a retiree. The Risk Management Director is then expected to determine whether the retiree is eligible for rehire based on his understanding of the circumstances related to the hire and IRS guidelines.

While we believe this to be a good practice, because of the history of this issue and its importance, we recommend the City codify its expectations relative to the parameters in which retirees may be rehired into the City’s Personnel Policies, which are approved by the City Commission. We believe this will provide greater assurance that all City departments consistently comply with relevant IRS regulations and provide a consistent and clear message to City management, employees and retirees of the expectations and guidelines related to compliance.

Review of CRA Capital Projects

Management has fully implemented one of three original recommendations by revising the budget timeline to ensure that more accurate information is published in the City’s Proposed Financial Operating Plan. Management has partially implemented the remaining two recommendations. Staff has made progress in modifying project workplans and Project Managers provide a 3-year Workplan with estimated spending plan as part of the budget preparation. Management recently implemented a quarterly reporting system to augment expense monitoring on all CRA projects that are currently under review by the CRA Manager. We will review the completed reports and workplans during the next follow up cycle.

Management made progress with resolving direct and indirect expenses but a few issues remain. CRA Staff continue exploring options related to analyzing indirect cost allocations and implementing an interagency service agreement with the Finance Department. CRA Staff also continue exploring project management/time management applications related to direct costs for CRA and Legal staff. CRA will make a decision on an application for its staff with an expected approval in March 2015 that will reflect time worked in each District and its corresponding Trust Fund. Accordingly, we will hold this recommendation open to allow CRA management sufficient time to fully implement methods of tracking and reporting direct and indirect services.

Review of GRU Billing and Collection

The two remaining recommendations for GRU Billing and Collection have been adequately implemented. For our first recommendation related to billing adjustments, management has enhanced and streamlined desktop procedures and training to better direct staff how to edit implausible meter readings. Management has also made plans to automate the approval process and generate edit reports through the current billing system upgrade process. For our second recommendation, regarding customer invoice processing controls, management implemented an automated control to ensure that only current billing files are sent to the contracted billing vendor.

Review of Ironwood Golf Course Revenues

Our original report had six recommendations. Progress has been made and one of the recommendations has been fully implemented. The recommendation being closed is concerning surcharge fee collection. Management has corrected the register keys to ensure the surcharge is properly recorded for each green fee paid.

Of the five recommendations that remain outstanding, the first recommendation is related to strengthening internal controls over Ironwood cash receipting and recording. We found in our limited sample 3 days in which cashiers did not sign their reports or where cashier revenue reports were missing. We also noted a large percentage of starter sheets which did not agree to daily cash reports to ensure green fees and complimentary rounds were properly recorded. Differences are due in part to inconsistencies in golf course rangers recording players on the starter sheets and management not reconciling the totals each day. Management indicated that they are addressing this issue with golf rangers to ensure consistency in recording players.

Related to our second open recommendation, management has made progress regarding the timeliness of daily cash reports and deposits. Daily cash report reconciliations were completed within 1 to 3 days after close of business. However, over half of our sample indicated delays of 5 to 10 days for security pickups after the reconciliation was performed. Management indicated that scheduling the proper staff with access to the vault was the primary cause for the delays, but indicated they would address this issue by making changes necessary to ensure receipts are picked up twice weekly.

Our third open recommendation, regarding improving internal controls over gift cards, has been partially completed. Management took steps to ensure gift cards are recorded in sequential order and maintained in a secure location. The policies and procedures manual for the golf course was amended to direct staff to reconcile the gift card log to ensure cards are not reactivated or purchased out of sequence. However, we found several gift card sequential breaks, which management indicated were reviewed, however there was no written evidence management of the review or any resolution regarding the sequential breaks.

The fourth open recommendation, regarding internal controls over the tracking of complimentary rounds, will be kept open to allow more time to compare the number of complimentary rounds to paid green fees and develop long term trends. Since our last follow up process, management is ensuring that coupons and passes used are maintained with the daily cash reports for reconciliation purposes. Additionally, management has developed a complimentary round log, which is to be reconciled to the daily cash report and starter sheets. We found reconciliations were done on a sample basis and were not always adequately reviewed and reconciled to daily cash reports, starter sheets and complimentary rounds logs. Additionally, we noted the complimentary green fees section of Ironwood's procedures manual has been broadened from only PGA players eligible to now include golf course managers and superintendents. We were also informed that there is an unwritten exception which includes volunteer rangers from other local golf courses. Specifically, this past summer the University of Florida Golf Course was closed and management allowed any employee from UF golf course complimentary golf at Ironwood.

Our final recommendation, regarding updates to the golf courses policies and procedures manual, was partially implemented. While management updated the policies and procedures manual, we believe efforts are needed to emphasize golf course rangers correctly record information on starter sheets and to ensure management adequately review gift card reports for sequential breaks and investigate and document any missing sequences.

Review of GRU Capital Project Contracts

Our remaining recommendation, focused on strengthening the contract review processes for GRU capital project contracts, will remain open. Due to significant turnover in GRU Budget, Finance and Accounting staff, implementation efforts related to this recommendation are under review by GRU management.

Review of GRU Solar Feed In Tariff Application Process

Our final recommendation, regarding clarification of City employee and official eligibility to participate in the GRU Solar Feed In Tariff program, has been implemented with a recent update to Administrative Guidelines 8.29 - Solar Electric Photovoltaic Feed-In-Tariff. The guideline has been edited to state that GRU and City of Gainesville officials and employees are not eligible to participate in the Feed In Tariff program, which is currently inactive for any additional allocations.

Review of Solid Waste Collection Fees

One recommendation remains open related to the allocation of municipal waste costs among other city funds and the Airport that benefit from the Solid Waste Division's contracted waste disposal services. Management has implemented billing of GRU and the Airport for garbage and recycling services received and expects to implement billing for the remaining enterprise funds during the next fiscal year.

Review of Building Code Enforcement Fund Revenues

Management has adequately implemented our final recommendation concerning the security of credit card information. Management took immediate action to identify and thoroughly review all prior credit card transactions to ensure that no personal information was available in the City's public portal. Procedures were modified to block out credit card data and shred all original credit card data to ensure the City remains in compliance with Payment Card Industry Data Security Standards (PCI DSS).

Review of Affirmative Action Program

Management has adequately implemented all four remaining recommendations related to Affirmative Action Program processes and procedures. Related to our first recommendation, the EO Office worked with the Human Resources Department to identify and correct errors in race designations and to enhance procedures for accurately entering employee data to the City's human resources system. EO also developed and documented written procedures which are now utilized in conducting quality control analyses of extracted affirmative action data prior to completion of Affirmative Action Plans in order to ensure more accurate and complete representation of City personnel.

The second recommendation related to improving oversight procedures to adequately document EO's assessment of management hiring efforts was implemented as well. Currently, the Equal Opportunity Director works with individual managers during the hiring process and provides hiring reports to management and the City Commission.

Our third recommendation, regarding improvements in reporting efforts and progress relative to Affirmative Action goals, has been implemented through providing quarterly and annual reports showing progress in hiring efforts and trend analysis to show hiring trends over a four year period. The final recommendation has also been adequately implemented by the EO Office related to enhancements in Affirmative Action training, management evaluations and the exit interview process.

Review of Landlord Permit Revenues and Driveway Parking Plans

Management has implemented one of the two remaining recommendations since our last follow up. First, the Code Enforcement Division implemented a written operating policy for “Off Street Parking and Driveway Plans” which details the responsibilities of landlords and code enforcement officers related to the process of approving and maintaining parking areas. Additionally, during the landlord permit renewal process, Code Enforcement requires property owners to affirm that they understand the City’s driveway plan requirements and will adequately maintain their driveway. Code Enforcement officers continue to actively monitor driveways that fall under the City’s regulation on their regular patrols.

The final recommendation related to improvements in performance measurement data collection, documentation and reporting will remain open. Management is developing a policy for data collection and report retention. Current software used by the Code Enforcement Division does not provide the actual staff hours dealing with cases but an initiative to implement new software may resolve this issue. Management has identified key performance measures which coincide with the Florida Benchmarking Consortium (FBC) performance indicators and has participated on an FBC workgroup to review Code Enforcement performance measures. This should be completed prior to our next follow up process.

Review of GFR Inspection Fees

Two of three recommendations from our original audit have been adequately implemented. The first recommendation was addressed through the implementation of a more equitable fee structure for fire inspection fees, based on building sizes utilizing the Alachua County Property Appraiser’s square footage data. GFR has also developed an informational flowchart of the fire inspection process that the public may access online.

The second recommendation regarding fees for miscellaneous services provided by GFR, has been closed based on management’s efforts to properly evaluate this issue and on the opinion of the City Attorney’s Office that the costs of GFR inspectors working on First Step Center development reviews could not be charged to the City’s Florida Building Code Enforcement Fund.

For the final outstanding recommendation, further work is needed in documenting a policies and procedures manual detailing the fire inspection fee process, including the process of invoicing and collecting fire inspection fees, as well as consideration of assessing late payment fees for unpaid fire inspections. An updated Policies and Procedures Manual is expected to be completed during Fiscal Year 2015.

Review of Housing Performance Measures

Management previously had undertaken significant efforts to address our recommendations from this audit related to improvements in performance measurement data collection, documentation and reporting. Improvements included establishing written procedures detailing the job functions responsible for collecting, reviewing and reporting performance measurement data and preparing a Customer Service Survey to be used as a baseline for establishing on-going measurements of customer satisfaction levels.

Regarding the one remaining recommendation evaluated during this follow up process, management has implemented procedures to improve methods of reporting performance measurement data that focus on management’s strategic priorities, program results and identifying areas needing improvement. This requires a continual process of evaluating, collecting and tracking program data, to ensure compliance with the current program regulations required by Federal, State and local grantors and projected program results. We believe management has adequately implemented this recommendation.

Review of GPD Overtime

One recommendation remains open related to financial management controls over billable overtime processing. Since our original audit, management has significantly reduced staff costs related to administering the billable overtime process, increased billable overtime rates to cover associated costs, established a special revenue fund to better account for billable overtime revenues and expenditures, automated the overtime administration system, established an overtime committee and improved the process of revenue collection.

These activities initially resulted in the elimination of annual financial losses from billable overtime activities. However, the Billable Overtime Special Revenue Fund has experienced losses during Fiscal Years 2011 through 2014. As a result, we will continue to monitor progress in correcting these deficiencies and hold this recommendation open for further evaluation of the accuracy and effectiveness of the billing and collection process associated with GPD billable overtime.

2006 Pay Study Review

The City contracted with a consultant to complete a pay study during Fiscal Year 2013. One of the 2 remaining recommendations from our prior follow up, regarding slotting benchmark positions and adjusting for internal equity considerations, was adequately addressed during this pay study process. The consultant collected extensive market data for both MAP and bargaining unit positions and a pay study team of General Government and GRU management employees reviewed the data with the consultant and provided opportunity for department heads to review and comment on the pay grade assignment of each position. All comments and concerns identified through this process were documented and discussed with the consultant, resulting in some of the positions being adjusted to either a higher or lower pay grade assignment. Ultimately, the City Commission chose not to implement the pay study recommendations, due to budget constraints.

The final recommendation remains open. In our initial review of the pay study performed in 2006, we estimated the average salary increases for the 3 years prior to the 2003 pay study versus the 3 years after implementation. We also estimated the cumulative additional salary costs over this time. We recommended management develop a mechanism for measuring the rate of change in actual payroll cost and report this information to the City Commission at least annually, before the budget is established. Quantifying the actual costs and the reasons for change in the normally experienced rate of growth in these costs helps management and the City Commission to more effectively monitor cost trends and manage City government. This has not been addressed and management has not indicated an implementation date.

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 and Finance Committee.