

**CITY OF PINELLAS PARK
CASH DISBURSEMENTS
COMPLIANCE AUDIT
April 3, 2018**

Introduction:

A compliance audit is an examination of a specified range of financially related processes for the purpose of determining the level of compliance with laws, policies, and procedures. The Cash Disbursement Audit is a recurring internal audit performed by the Office of Management and Budget. The last audit performed by O.M.B. in this area was for fiscal year 2012.

Background:

The City's total budget for fiscal year 2016/2017 was originally \$119,879,864. These funds are spent either through accounts payable or payroll expenditures. Of this amount, approximately \$88,711,099 or 74% is spent through accounts payable. This audit addresses the City's compliance and internal controls associated with the accounts payable processes.

Examples of accounts payable disbursements are: Solid waste, purchases of water or sewer processing services from the County, every day purchases from local vendors, memberships, travel reimbursements, bond payments, contractor payments on construction projects, etc. An audit of payroll expenditures has been performed in past years. In the future, we will again audit payroll for accuracy and compliance with Federal and State laws, City ordinances, union agreements, etc.

Compliance issues or items that were tested, for the City's accounts payable processes are indicated in the City's Code of Ordinances Sections 2-601 through 2-608. These sections address purchasing policies and procedures. In addition, compliance issues are indicated in the City's Administrative Regulations: No. 13.43 Procedure for Purchasing Documents/Expenditure of City Funds and No. 5.11 Authorized Signees List. In addition, the Accounting Division also has written processing procedures for accounts payable such as a check signing log, use of the signature plates, etc.

In general, the applicable sections of the code of ordinances indicate the requirements for obtaining goods and services: procedures for going out for seal bids or request for quotations; sole source procedures; emergency procurement procedures; procurement for professional services, etc. The applicable administrative regulations indicate the procedures for purchases under non bid circumstances, initiating and processing documents, petty cash, request for quotations, credit card usage, warehouse stock issues, and authorized signees list for approving purchase orders, vendor invoices, etc. The accounts payable procedures in the Accounting Division involve specific procedures for processing documents (P.O.'s, invoices, etc.), utilizing the computer for processing accounts payable, printing checks, etc.

Scope:

For the period October 1, 2016 through September 30, 2017 there were 8,845 accounts payable checks that were processed through the system. Some of these checks were large (several hundred thousand dollars) and many were small. Often an accounts

payable check was used to pay multiple invoices to a vendor. This limits the amount of checks that are issued by accounting and also enhances the internal controls associated with payments to vendors.

To perform the audit we utilized the ACL auditing system. This application provides us with the capabilities of readily analyzing any data base for trends, abnormalities, etc. In addition, it also provides the capabilities of utilizing random sampling, selecting samples based on user parameters, and also evaluating test results. We performed the random sample by utilizing a 90% confidence level with a standard deviation of 5%. Our maximum error rate for purposes of sample compliance testing was 3%. This resulted in the selection of 223 checks for our sample. It also determined the maximum error rate for each compliance item tested or a maximum of 7 errors.

The Compliance items that were tested in the sample are as follows:

- A. City's procurement ordinance (Sections 2-601 through 2-608)
- B. Administrative regulation 13.43
- C. Proper authorization
- D. Funds were properly budgeted for the expenditure
- E. The expenditure appears to be reasonable and necessary
- F. The vendor's invoice is stamped with the date received and paid.
- G. Sufficient documentation supports the payment (non fictitious vendor, etc.)
- H. A W-9 form has been properly filed.

Summary of the Audit Compliance Issues and Recommendations:

1. Authorizing signatures: Although it appeared that most expenditures were properly authorized, some of the signatures were difficult to read. This was primarily due to individuals being in a hurry and quickly writing or signing their name to a vendor invoice.

Recommendation: Adm. Regulation 13.43 should be amended to require staff authorizing payment to both write out their name and also to clearly print it as well on all vendor invoices. Possibly the use of a stamp may be useful for those people who have to approve invoices, etc. often.

2. Receiving items ordered: The Adm. Regulation 13.43 indicates under section I, Paragraph J, item 4 that "all deliveries shall be made to the Purchasing Division Warehouse Building. In cases where this is not practical, an individual procedure will be established with the Purchasing Director."

Recommendation: Adm. Regulation 13.43 should be amended to clarify the language of "an individual procedure will be established with the Purchasing Director." It would be clearer to indicate the specific items that have to be received at the Purchasing warehouse. Currently, most items that are ordered are received by the department that ordered them as opposed to the Purchasing warehouse.

3. When practical, at least three (3) quotations will be required: Based on our sample of 223 items, 96% of the sample were for items that were less than \$5,000.01. We did not see any documentation in the system or on the invoices that showed that other quotations were received. According to the regulation, quotes are required whenever practical.

Recommendation: The Adm. Regulation 13.43 should be amended to require three written quotes for all expenditures above \$1,000.00 up to \$5,000.00. In this way, most of the larger expenditures would have to have written quotations that must be documented in the Munis system. Expenditures that are less than \$1,000.00, should be encouraged to obtain quotations when practical. These quotes would not have to be written or documented in the Munis system; however, it would be the responsibility of the department(s) to substantiate any purchase and the associated costs. Or smaller expenditures could be readily purchased from any discounted or local vendors i.e. Lowe's, Home Depot, Sam's Club, Office Depot, Red Wing Shoes, etc.

4. Earlier this fiscal year it became apparent that several City employees had been using the City's credit card to charge personal expenses. All of the charges had previously been reimbursed to the City and all applicable taxes were correctly charged and paid. However, this is not a good business practice. Personal charges should be kept separate from business charges.

Recommendation: The Adm. Regulation 13.43, Section 1H should be revised to indicate that there should be no using of the City's credit card(s) for personal charges.

All prior audit recommendations relating to Cash Disbursements have been implemented or rectified.

Conclusion:

We have performed a compliance audit of the City's Cash Disbursements. Based on the testing of the sample selected, the City is in compliance with its procurement ordinance and administrative procedures. We discovered no serious compliance issues associated with the accounts payable processes. We have made recommendations to enhance the City's internal control system associated with accounts payable.

Submitted by,

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