



MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Jorge M. Gonzalez, City Manager
VIA: Kathie G. Brooks, Budget and Performance Improvement Director
FROM: James J. Sutter, Internal Auditor

DATE: January 10, 2011
AUDIT: Property Management Division Internal Service Charge Billings Audit
PERIOD: October 1, 2008 – March 31, 2010

This report is the result of a regularly scheduled audit to review the processes used in the documenting and recording of work performed and materials purchased by Property Management Division personnel and the subsequent internal service charges billed to the participating users.

INTRODUCTION

The City's 2009/10 fiscal year adopted budget book states that the Property Management Division is responsible for the operation, maintenance, and repair of 96 municipal buildings, 23 City owned bridges, monuments, water fountains, swimming pools, over 1.8 miles of Boardwalk, 2.87 miles of Beachwalk, playground equipment, parking garages and street furniture.

To help maintain these facilities, the Property Management Division employs such licensed tradesmen as painters, carpenters, electricians and plumbers. These tradesmen, assisted by masons and municipal service workers are assigned throughout the City to perform work ranging from the repair of lifeguard stands to the replacement of office doors based on received Property Management Work Request Forms.

Property Management's Administration Section opens work orders in the Datastream version 7i computerized maintenance management system and responds to the requestor with the work order number and the trade supervisor to which the work is assigned. Meanwhile, preventive maintenance work order requests are submitted to the Administration Section by division supervisors and are opened with a printed copy of the work order submitted to the supervisor upon approval by the Director or Assistant Director.

The labor hours and materials needed to complete the engagement are charged out to the aforementioned four digit opened work order code number specific to that location's assignment. A total of 9,583 work orders were completed by Property Management during the designated eighteen month audit period, for an average of 532 per month. However, these numbers include work orders opened to account for administrative and non-direct costs associated with the operation of the Property Management Division, as well as some work orders opened in duplicate and closed, and others not approved for work.

All hours worked by Property Management staff is to be recorded on individually prepared daily Field Work Sheets which include such information as the number of actual labor hours involved, a description of the work performed, a listing and costing of the actual parts used, the applicable work order number, etc. Additionally, credit card receipts need to be submitted for items purchased at a local store or warehouse invoices if the materials were obtained from one of Property Management's inventory locations.

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The actual labor hours and material costs associated with each work order are entered in the Datastream version 7i system upon submittal of the approved Daily Field Work Sheets and invoices by the applicable supervisor. Work orders are closed upon completion of the assignment, the end of the City's fiscal year (September 30th) or every two weeks for continuous jobs like Lincoln Road fountain maintenance.

All Property Management Division incurred labor and material costs on completed work orders are to be charged back by the Administration Section to the user departments/divisions in an attempt to recover all costs. Administrative charges are allocated only to those departments/divisions that utilized Property Management's services during the corresponding time period.

The Administration Section runs Work Order Completed Reports by completion date range and data from these reports are entered in an Excel report by department and budget code. This Excel report is then reviewed by the Property Management Director and sent to the Finance Department for journal entry input in the City's Eden Financial System. Also, included in this journal entry are the following items charged back by the Administrative Section to the user departments/divisions:

- The billing of contract maintenance between users on a monthly basis as outlined in the budget process and approved by the Procurement Department. These contracts include elevator and generator maintenance, fire safety equipment and janitorial services among others. Actual payments and billing by vendor contracts are reviewed during the fiscal year to ensure charges are billed correctly and reconciled to actual payments made at the end of the fiscal year.
- City buildings' electricity charges are downloaded from the Florida Power & Light website on a monthly basis. These buildings include the Police Station, Historic City Hall, City Hall and the Scott Rakow Youth Center with the charges allocated based on the departments/divisions occupied square footage.
- Any common area maintenance charges associated with multi-use buildings (City Hall, Police Department, Old City Hall, etc.) are allocated based on the departments/divisions occupied square footage.
- New work that is not included in the departments/divisions regular maintenance and is paid under the user's budget code from other operating and/or capital renewal expenditures is separated out. The most frequent example represents overtime pay for electricians working at special events.
- Special programs can be defined as any departments/divisions that move out of City Hall or locations charged to a different fund (RDA, Normandy Isle Guard House, 7th Street Garage, Dade County Clerk's Office, etc.).

OVERALL OPINION

The Property Management Division's internal service charges billing is a complicated process that depends on the accuracy and completeness of tradesmen and administrative staff. Currently, improvement is needed over the process as there are not sufficient internal controls implemented as the primary focus is on performing the needed work and in billing all associated costs. Participating users have few options other than to use the division's services and pay the billed charges. During our testing, we noted the following internal service charges billing shortcomings which are in need of improvement:

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- Incorrect square footage measurements were noted which directly affects City departments/divisions common area maintenance and electricity charge back amounts.
- Deficiencies in tested Daily Field Work Sheets and work orders are addressed.
- The Property Management Division's actual expenditures exceeded charges by \$139,656 and \$111,171 respectively for the 2007/08 and 2008/09 fiscal years. A majority of the operating losses were attributed to unbudgeted other post-employment benefits (OPEB) costs totaling \$253,934 during the same two year period as the City complied with the recently adopted GASB Statements 43 and 45. To determine the impacts of these new OPEB standards, the City hired Gallagher Benefits Services to perform an actuarial analysis of the City's liabilities but their results were received too late in 2008 to have been budgeted for in either of these two fiscal years.
- Despite greater capabilities, the Datastream version 7i computerized maintenance management system is underutilized and only used primarily as a work order tracking system.
- Purchased materials are not closely scrutinized to ensure that they were needed and were used in the completion of the assigned engagement.
- Updated policies and procedures do not presently exist that accurately and completely reflect current operations.

Property Management Division is taking corrective action to address the above reported items.

PURPOSE

The purpose of this audit is to determine whether in compliance with division policies and procedures that provided labor and materials were properly documented and accurately charged back so that all associated costs are reimbursed; whether internal controls are soundly developed and functioning; whether reviewed credit card purchases appear to be for legitimate expenditures and were properly approved; and whether all tested transactions were correctly recorded in the City's Financial System.

OBJECTIVES

1. Confirm that documented updated operating policies exist, are known to staff and are closely followed.
2. Confirm that well organized, complete and sufficient documentation is maintained to adequately support all tested transactions.
3. Confirm that the methodology for the internal service charge billing process is sufficient.
4. Confirm that work requested and completed is properly billed to users and that these charges include an overhead component.
5. Confirm that common area maintenance charges for City operated buildings are calculated based on reasonable estimates and are being correctly allocated.
6. Confirm that revenues and expenditures are being monitored to ensure that the Property Management Division is operating within their established budget.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Finding: *Square Footage Assessments Need Revision*

Several departments/divisions share operating space inside City owned buildings located at 1700 Convention Center Drive, 777 17th Street, 555 17th Street, etc. Therefore, electricity and common area maintenance charges that cannot be easily separated and attributed to a particular department/division are allocated based on the square footage occupied inside the building. Internal Audit believes that this is an equitable manner for the Property Management Division to bill but the square footage measurements need to be correct. In reviewing the January 2009, October 2009 and February 2010 listed City departments/divisions square footage without actually performing measurements, it became apparent that the at least the following figures were incorrect:

- The October 2009 and February 2010 reports show Economic Development as occupying 786 square feet inside City Hall when they completely vacated the premises moving all personnel to 555 17th Street in April 2009 so that the unoccupied space could be used by the Building Department.
- Finance – Resort Taxes was billed at half the cost per square foot of all other departments/divisions in October 2009 and February 2010 with no explanation given for the difference.
- Internal Audit and Management & Budget Divisions are each billed based on 1,169 square feet. However, the Grants Management, Organizational Development and Performance Improvement Divisions also occupy space in the office but are not charged.

Recommendation(s):

The Property Management Division should review and update their square footage calculations making any necessary billing adjustments. Going forward, they should annually confirm their listed square footage measurements with subsequent revisions made immediately after Property Management staff performs departmental/divisional renovations or moves.

Management Response:

The two Planning Technician positions responsible for the above-noted and other tasks were previously eliminated from the Property Management Division during the budget process. In the interim, these responsibilities will be assumed by the Property Management Division Director and the new contractor coordinator (position to be filled in the first quarter of the 2010/11 fiscal year). The Division is considering the re-assignment of a full-time project planning position so that the individual can plan and coordinate all space planning and relocation initiatives and manage all building condition assessments associated with maintenance and capital renewal and replacement projects. Based on recent experience, staff has determined that it is necessary to conduct additional site investigations to validate the work scope associated with renewal and replacement project recommendations made through the VFA Facility Condition Assessment. In the case of the 555 Building, the VFA assessment recommended replacement of a sanitary sewer service line, based on a life cycle basis. Upon closer investigation using a remote controlled video camera, it was determined that the actual condition of the line did not merit replacement. The Planning

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Technician function would serve a critical need in optimizing and prioritizing limited capital renewal and replacement funds.

2. Finding: *Sampled Daily Field Work Sheets and Work Orders Were Not Always Neatly, Accurately and Fully Completed*

The Daily Field Work Sheets are individually prepared by Property Management Division tradesmen to manually record all work performed and the materials used in the completion of their assigned tasks. Meanwhile, work orders accumulate all costs associated with that location so that they can be billed to the user. Staff inquiries and review of October 2009, November 2009, December 2009, February 2010 and March 2010's Daily Field Work Sheets and eighty-five randomly selected completed work orders chosen from throughout the audit period found the following:

- a. There was little uniformity in the manner in which the tested Daily Field Work Sheets were completed by staff. Some contained more detail while others contained minimal amounts; some were difficult to comprehend due to the preparer's poor handwriting, misspelled words and incomplete sentences; some included abbreviations which can cause confusion when unknown to the reader; etc.
- b. The detailed information describing the work performed on the Daily Field Work Sheets is currently not entered by administrative personnel into Datastream version 7i as only the basic information needed for billing is entered. Instead, division management organize the Daily Field Work Sheets by Electricians, Plumbing, Paint, etc. and scan the documents into the City's network drive to be reviewed if additional detailed information is needed. However, management cannot run analyses to determine staff productivity levels, standard times to complete assigned tasks, etc. on these scanned files.
- c. Instances were found where reviewed work orders' listed descriptions stated that items were purchased and/or repairs were done but no materials were used/charged back to the participating user. Examples include but were not limited to work order #47479 involving the painting of offices, #45470 stating that a new cartridge and shower valve were installed, #41596 addressing the purchasing of wood and supplies to build shelves, #40838 listing the changing out of an air conditioner compressor, etc.
- d. Monthly statements are not distributed to users nor are they required to review and verify the accuracy and completeness of internal service charges to their budgets.
- e. Work order #46651's labor and materials components total \$2,261.58 while the actual cost billed was \$2,062.63 for a \$198.95 difference. Property Management subsequently determined that the correct amount of \$2,062.63 and Datastream's help desk was contacted to investigate the reasons for the difference. They concluded that there appears to be a possible defect when the entry includes the same part, same issue date, same price, same quantity, etc. The union causes the elimination of duplicates and because the time component is not included for part issues, Datastream version 7i excludes any duplicates.
- f. Work order number 42687 states that employee identification number 17304 worked four hours on 02/03/09 on the assigned task. However, review of the corresponding

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Daily Field Work Sheet found that instead he worked seven hours for work order #42175 and 1 hour for #42219. Presently, there are not sufficient internal controls implemented to verify that all labor and materials were properly entered and billed.

Recommendation(s):

The implementation of the following recommendations should help make the data present on the Daily Field Work Sheets and work orders more accurate so that City departments/divisions are properly billed:

- a. The Property Management Division should continue to explore automating the Daily Field Work Sheets through the usage of hand held devices and drop down menus to help eliminate confusion in reading tradesmen's' handwriting. There should also be training held and verbiage incorporated into the policies and procedures to instruct staff as to the desired level of detail and format in describing the work performed.
- b. All the information present on the Daily Field Work Sheets should be entered into the Datastream version 7i software. The preferred approach is through the usage of hand held computers by Property Management Divisional staff on-site so that it can then be uploaded directly into Datastream version 7i to help save time and prevent the possibility of mistakes. Additionally, management should then be able to conduct various desired analyses on their staff and their work.
- c. Daily Field Work Sheets' preparers should take greater care to assign any materials or labor used to the appropriate work orders so that billings reflect actuality. Supervisors who review and attest to the Daily Field Work Sheets accuracy should closer scrutinize the entries as Property Management Division's Administrative Section can only invoice users based on the information present.
- d. Users should receive itemized invoices and/or summary reports of their internal service charges to help ensure their accuracy and to improve accountability. Each user department should then be required to review and timely notify the Property Management Division of any errors or omissions so that it can be further investigated.
- e. Property Management Division's Administration Section should enter a different date for duplicate credits to help prevent similar occurrences.
- f. Until handheld devices can be implemented, there should be periodic reviews to help ensure agreement between the completed work orders in Datastream and their supporting Daily Field Work Sheets.

Management Response:

The Daily Field Work Sheets (DFWS) are being revised to include additional data fields to improve the data and accuracy of completed work. This data will be used to generate useful productivity metrics and management reports to facilitate supervisory review and accountability. Upon completion of these enhancements, the opportunity to interface the DFWS with the Datastream software will be explored. Completion of the DFWS revisions is anticipated in the first quarter of the 2010/11 fiscal year.

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3. Finding: FY 2007/08 and 2008/09 Recorded Operating Losses

In governmental accounting, an enterprise fund like Property Management provides goods or services for a fee that makes the entity self-supporting similar to a commercial enterprise. A year end operating profit would result when revenues exceed expenditures while the opposite would hold true for an operating loss. The Property Management Division incurred the following operating profits or losses for the 2007/08 and 2008/09 fiscal years as well as for the first six months of the current fiscal year:

OPERATING REVENUES	10/07 – 09/08	10/08 – 09/09	10/09 – 03/10
Interdepartmental Charges	\$8,629,969	\$8,691,051	\$3,645,418
Interest	\$17,619	\$23,268	\$7,911
Construction Projects	\$186,398	\$133,683	\$63,696
Capital Asset Contribution	\$47,900	(\$398)	\$0
Miscellaneous	\$30,284	\$20,601	\$0
Retained Earnings	\$0	\$0	\$12,103
Total Operating Revenues	\$8,912,170	\$8,868,206	\$3,717,026
OPERATING EXPENDITURES			
Salaries	\$2,779,194	\$2,934,290	\$1,222,621
Overtime	\$122,576	\$175,956	\$80,337
Pension Bond Payment	\$4,750	\$4,750	\$2,375
Pension – 401 A	\$0	\$0	\$0
Pension – City Contributions	\$740,355	\$691,996	\$426,387
OPEB Contributions	\$78,199	\$175,735	\$0
Health Insurance	\$216,742	\$228,317	\$104,567
Fringe Benefits	\$148,473	\$258,689	\$104,296
Leave Settlements	\$99,373	\$61,113	\$7,957
Electricity	\$916,416	\$903,901	\$355,117
Contract Maintenance	\$1,446,130	\$1,348,134	\$576,258
Repairs & Maintenance	\$1,083,877	\$773,064	\$229,806
Temporary Labor	\$199,015	\$161,872	\$140,370
Subscriptions	\$199	\$0	\$0
Dues & Memberships	\$660	\$137	\$0
Travel	\$654	\$774	\$0
Training	\$3,569	\$5,531	\$3,600
Operating Expenses	\$225,219	\$231,021	\$34,536
Capital	\$0	\$0	\$12,103
Depreciation & Interest	\$274,388	\$254,603	\$6,217
Internal Charges	\$712,036	\$769,495	\$371,121
Total Operating Expenditures	\$9,051,826	\$8,979,377	\$3,677,670
OPERATING (LOSS) PROFIT	(\$139,656)	(\$111,171)	\$51,459

Subsequent inquiries with Administrative Section personnel found that much of the fiscal year 2007/08 and 2008/09 operating losses can be attributed to the unbudgeted OPEB (Other Post Employment Benefit) contributions. As a result, the labor hourly chargeback rate was understated as it is based on the total amount of budgeted expenditures divided by the number of work hours available.

It is important to note however, that prior to FY 2007/08 the City did not record the liability associated with post employment benefits other than pension. In 2004, the Governmental

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Accounting Standards Board (GASB) released Statement No. 43 – Financial Reporting for Postemployment Benefit Plans Other than Pension Plans (GASB 43) and Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other than Pension Plans (GASB 45). These two statements established uniform accounting and financial reporting standards for state and local governments related to benefits paid to retirees other than pensions (OPEB), including implementation dates based on the total annual revenues of the entity. Based on the GASB standards, the City of Miami Beach was first required to report under these standards for the period October 1 2007 through September 30, 2008, for liabilities related to health, dental and life insurance provided to retirees. Prior to that date, the City had funded the cost of these benefits on a “pay-as-you-go” basis, i.e. when the premiums are due, rather than when the liability is incurred. The GASB standards require that the liability for these OPEB costs be recognized when incurred, i.e. in association with each year of service by the employee. Since the City did not set aside funds over the years of employment for employees that are currently retired, the City has to report on unfunded liabilities that relate to prior years (amortized over 30 years) as well as a current year liability related to those currently employed.

To determine the impacts of the new OPEB standards, the City hired Gallagher Benefits Services to perform an actuarial analysis of the City’s liabilities. This analysis was provided to the City in late 2008, too late to have been budgeted for FY 2007/08 or FY 2008/09 but it was included in the 2009/10 budgeted figures.

Recommendation(s)

Although the labor hourly chargeback rate should be more accurate with the recent inclusion of OPEB contributions in the calculations, the Property Management Division should consider creating an additional contingency surcharge to allow for any unforeseen or unbudgeted expenditures so that all actual expenditures are allocated to help prevent future fiscal year operating losses from occurring. If not needed, then an adjustment can occur in September so that actual expenditures more closely approximate those budgeted.

Management Response:

Property Management Division management is in concurrence with the concept of creating a contingency surcharge. The methodology for determining the surcharge amount, or percentage, would need to be recommended or approved by the Budget Office. However, staff would recommend a 5% contingency as a reasonable amount. As a comparison, capital projects, typically budget 10% of the construction budget as a contingency.

4. Finding: Datastream Version 7i Is Not Fully Utilized

The City’s Property Management Division remitted \$14,443.66 for the 2009/10 fiscal year for the usage of the Datastream version 7i computerized maintenance management system. Among other benefits, this software has the capability to perform the following functions:

- creating work orders by scheduling work, assigning appropriate personnel, recording materials and labor costs, etc.
- managing a preventive maintenance program by tracking corresponding work orders, inspections, specific job checklists, material and tool requirements, etc.
- asset management by maintaining equipment specifics, equipment history, warranty information, life cycle information, contracted service information, etc.
- inventory control by managing materials, spare parts and tools.

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Despite these capabilities, the Property Management Division uses Datastream version 7i primarily as a work order tracking system and does not fully utilize the system.

Recommendation(s):

Given the monies paid and the capabilities present, the Property Management Division should more fully implement Datastream version 7i in the completion of their work.

Management Response:

As mentioned in the response to finding #2, upon completion of DFWS enhancements, the opportunity to interface the DFWS with the Datastream software will be explored. In the face of continuing administrative and management staff cutbacks, it has been difficult to evaluate and pursue opportunities to expand utilization of the Datastream software. However, two open positions that are in the process of being filled – Contracts Coordinator (Q1-FY11) and Maintenance & Operations Superintendent (Q2-FY11) – will contribute to the implementation of this initiative. The Maintenance & Operations Superintendent will oversee the accuracy of the data relating to the work performed, while the Contract Coordinator will oversee DFWS data inputting and reporting.

5. Finding: *Accountability for Purchases Is Lacking*

Internal Audit reviewed October 2009, November 2009, December 2009, February 2010 and March 2010's scanned material purchases. Although the reviewed purchases appeared to represent legitimate business expenditures, there is no known way to prove or disprove whether the materials were actually needed and if they were used at the site. The current process involves having the Property Management supervisor approve the purchase when the invoice is submitted but this occurs after the purchase and typically with no or little knowledge of the job site.

Recommendation(s):

The Property Management Division Director recommended the creation and usage of departmental purchase orders in an effort to curb material purchases which should be explored. Additionally, there should be increased communication between the tradesmen and the user. The user's representative should be instructed in advance as to the magnitude of the repair and the materials needed and then sign a document authorizing the work to be performed. Finally, the applicable Property Management supervisor's approval should be received prior to the purchase for materials costing above a designated threshold.

Management Response:

A significant percentage of the purchases noted above were directly attributable to the issuance of p-cards to all field personnel by the former Property Management Division Director. The new Director has implemented much stricter controls and restricted usage of p-cards to supervisors and a few key staff members for back-up purposes.

6. Finding: *Divisional Policies and Procedures Are In Need of Revision*

Although the Property Management Division updated their operations' procedures in 2005 as part of their accreditation process, such material process changes as the elimination of the inventory custodian, the transition from a perpetual to a periodic inventory system, etc. have occurred in the interim. Consequently, the listed procedures do not currently accurately reflect present internal service billing operations. Another concern is that much of the billing process is primarily known and performed by an Office Associate V which could

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lead to difficulties if that individual leaves the City's employment.

Recommendation(s):

The Property Management Division's operating policies and procedures should be updated as soon as possible to more descriptively outline current internal service charges billing operations. Policies and procedures serve both as a benchmark to measure individuals' performance and as an instruction manual in the event employees' change. Once completed, they should be distributed to all applicable personnel so that they can be read, understood and followed. Finally, Administrative Section personnel should be cross trained to perform all internal service charges billing duties whenever needed.

Management Response:

Property Management Division management is in the process of reviewing all existing policies and procedures. A number of policies and procedures will need to be revised as a result of budgetary modifications and reductions, as well as changes associated with the operation of the new facility once it is completed and occupied by departmental personnel.

EXIT CONFERENCE

An exit conference was held on October 14, 2010 in OBPI's Conference Room. Participants included Property Management Division Director Duane Knecht, Internal Auditor James Sutter and Senior Auditor Mark Coolidge. Audit findings and recommendations were discussed, as were management responses, which are included herein. All were in agreement with the contents of this audit report.

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(Audit performed by Luis Lopez and Mark Coolidge)

cc: Jorge Gomez, Assistant City Manager
Fred Beckmann, Public Works Director
Duane Knecht, Property Management Division Director
Patricia Walker, Chief Financial Officer