



# MIAMI BEACH

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: September 22, 2009  
AUDIT: Central Service Billing Audit  
PERIOD: October 1, 2007 through March 31, 2009

This report is the result of an operational audit performed on Central Services, one of the City's internal services divisions, in accordance with our annual audit plan.

### INTRODUCTION

The City of Miami Beach's Central Services Division provides City departments with an in-house print shop, postage of outgoing mail, sorting of incoming mail and interoffice mail, availability of a vehicle pool for departments required for official city business and messenger services, such as the delivery of City agenda packages and other City committee packages.

Central Services is an internal service division, funded by the internal service fund, which provides services to other City departments as well as General Pension, and Fire and Police Pension, which are consider external departments.

A chargeback system allows the Division to recover the cost of operation by charging departmental users. The following section describes the processes and operations of their daily activities.

### PROCESS DESCRIPTION

Central Services currently maintains three categories of work orders for City departments to complete with the desire attributes or characteristics for every job that is requested.

The mail work orders are used and filled by the requesting department informing Central Services of the quantity of mail to be sent, what type of mail (regular, certified, post card, international etc). The following information is required for Central Services to be able to chargeback departments: date submitted, contact number, department name as well as budget code. Central Services makes notations on the work order as to the amount that should be charged at the end of each month.

Printing work orders are used by the department to enable them to be specific in how they would like the print job to be performed, whether it is multiple pages, two side, type of papers to be used, color ink, and the desired process (folding, binding whole punching collate etc). In return, Central Services at the completion of the job writes the actual time taken to process the job, date completed and total job cost in accordance with specifications.

Courier work orders are used to inform Central Services the type of document or package to be delivered. This work order should include the recipients name, address, and telephone number. Once the package is deliver and sign by the recipient with the date and time, Central Services writes whether the courier was internal or external, the confirmation number, pick up and delivery date, and

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the cost incurred in order to chargeback the department at the end of the month.

In general, work orders are completed by departments and dropped in a work order inbox located in the Central Service office. Central Services logs in each work order and stamps with the date received. The work order is assigned, depending on the job type (mail, print, etc.) to an individual to be completed. The work order remains with the individual assigned until the job is complete. Once the job is completed, the work order is logged out and a date of completion is recorded. Consequently, the corresponding department is contacted to make arrangements for pickup or delivery of the completed work. All costs incurred are then charged back to the requesting department's budget code. Charge back rates are reflected on the Division's fee sheet. There is no support as to how the charge rates were determined.

The Division has two vehicles that are available for departments to use for City business when needed. A carpool log is kept with name, budget code and date and time that car is picked up and returned. At the end of each month the log is utilized to bill each user department for the vehicle usage.

## **OVERALL OPINION**

Despite the efforts of the Central Services Division to provide quality printing, copying and mail services to all City departments and agencies, Internal Audit found a number of deficiencies in operational processes and controls that could represent a challenge for the Division to achieve its operational and financial objectives. Billings to departments is not adequately performed on an accurate or timely basis. Areas identified in need of immediate correction include:

- Current charge back rates may not be sufficient to cover all the Division's incurred costs.
- Completed work orders for Police and Fire Pension and the Miami Beach Employee Retirement Plan are not being charged back to these agencies.
- Department Charge Backs/Billings are not processed timely.
- Cash advances are used when there are not sufficient funds to process large emergency mail orders.
- Control logs for the use of the pool of city vehicles are not being completed and/or properly filled out.
- Work orders forms are not being properly filled.
- Filing procedures for work orders are inadequate.
- An adequate inventory valuation and cost flow assumption is not currently in place.
- Policies and procedures are out dated and do not represent current charge back rates and processes.
- There is no vendor invoice review process currently in place to ensure that amounts invoiced for purchases and/or leased equipment utilization overages are accurate.

Additional details about these findings have been included in the "Findings, Recommendations, and Management Responses" later on this report.

## **PURPOSE**

The purpose of this audit is to determine whether Central Services is operating in accordance to procedures for a City internal service division whereby their costs are charged back to user

departments and that billing transactions are accounted for economically and efficiently processed, accurately and properly recorded, and followed up.

## SCOPE

1. Verify accuracy, appropriateness, and timeliness of billings for services within the Division.
2. Verify reliability and accuracy of direct and indirect costs from operations.
3. Determine the extent of deficits incurred by not charging out all services.
4. Verify and evaluate adequacy of controls and review procedures for vendor invoices, purchases, inventory, and leased equipment.

## FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

1. Finding – *Current charge back rates are not sufficient to cover all incurred costs.*  
The current fee structure used to charge back the Division's costs does not take in consideration all cost factors resulting in the Division not fully recovering all of its costs. In addition there was not substantiation for the basis used for the rates charged by the Division.

The amounts of revenue inflows generated by the charge backs to the Central Services Division are not being in line with the total expense outflows generated as a result of operations. According to an analysis of Central Services' inflows and outflows performed by the Management Consultant of the Office of Budget and Performance Improvement (OBPI), the Division experienced a deficit for the following three fiscal years:

Fiscal Year	2005/06	2006/07	2007/08	Grand Totals
Inflows / Revenues	\$666,140	\$760,819	\$845,723	\$2,272,682
Outflows / Expenses	\$784,135	\$855,399	\$904,747	\$2,544,281
Net operating Surplus / (Deficit)	\$(117,995)	\$(94,580)	\$(59,024)	\$(271,599)

Although there are other reasons for the department to show more outflows than inflows, including the late processing of charge backs, invoices not prepared for outside City departments, work orders lost prior to being charged back, mentioned in our subsequent findings in this report, these numbers reassure the insufficiency of current charge back rates and appropriate cost allocations and accountability.

Currently, a fixed charge in the amount of \$130 is charged to all City departments and divisions for the collection, sorting, and distribution of mail and news papers. However, large departments like Police, which have multiple divisions and budget codes, are not being consistently charged for this fee. Initially, all divisions within the department were charged back for the fee. However, there are occasions in which one of the multiple Police budget code was billed one month and another budget code billed the second or pro-rated among all the divisions. Results from inquiries with Central Services suggested that it was done this way under the assumption that the Police was being charged multiple times.

Factors not considered in the current fee structure include the increases in overhead, direct and indirect costs, wage increases as a result of cost of living adjustments or merit increases and excess inventory utilization.

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Time worked per job is not adequately tracked. There are no job time tickets currently created to effectively account for the time spent by the employees performing the assigned jobs, which is later charged back to the department responsible for the work order. Not creating time tickets compromises the accuracy of charge back amounts, as Internal Audit witnessed how the time spent on a job was questioned and erroneously corrected due to lack of support documents and/or accurate descriptions.

Furthermore, as a result of conversations with the Division's personnel, Internal Audit learned that, although not frequently, there have been jobs accepted and completed that were charged back for less than the incurred costs, as a result of complains from the department requesting the services with respect to the charge back amounts and comparing them to outside competitors.

In conjunction with the preparation of the 2009/10 budget, a new rate structure utilizing all direct and indirect costs has been recently developed with the assistance of OBPI. Rates were broken out by mail processing and printing jobs. It is anticipated to begin using this new rate structure in the fourth quarter of this year.

Recommendation(s)

The Division should begin using the newly charge back rates on a consistent basis. Furthermore, the fee structure should be updated annually, at a minimum, in order to capture fluctuations in costs. Once updated, the fees should be consistently applied to all departments for work orders completed.

Time worked tickets should be created for every job and attached to each work order once the job is complete in order to document time spent by personnel on that particular job. Implementing this procedure will better document and minimize questioning about time spent on a job by any individual(s), as well as improve the reliability of the amounts charged back to the departments.

Established charge back rates should be consistently applied to all City departments and Divisions as applicable. In addition, the Division should perform reviews to budget codes annually, at a minimum, to ensure that charge backs are being applied to the appropriate corresponding departments and/or divisions. Furthermore, no jobs should be performed for less than the costs incurred to complete it.

Management's Response

Central Service agrees with the auditor's comments, and the following action will be taken to improve the situation. Central Service has been working with OBPI develop new charge back rates. The new charge back rates will be given to all staff members to make sure that the new rates are charged for all jobs completed for all departments. This will also include a revision of all departmental budget codes. An annual review of the rates will be done prior to the beginning of the fiscal year and in time for the new budget. Time worked tickets will be created and will be attached to each work order to account for employees' time spent performing assigned job.

2. Finding - *Completed work orders for Police and Fire Pension, and the Miami Beach Employee Retirement Plan are not charged back.*

The Central Services Division provides services to the Miami Beach Police and Fire Pension, and to the Miami Beach Employee Retirement Plan, which are considered independent departments from the City's regular operations. As a result, these departments do not have a

budget code assigned for Central Services to charge back the services provided. Consequently, a City invoice must be created in order to charge back the costs incurred by Central Services Division while providing such services to these departments.

Invoices to charge back these departments for services rendered were not being prepared resulting in the division not recovering its share of costs. During our testing, at least seventeen (17) work orders, mainly mail work orders, were identified that have not been charged back to the Miami Beach Employee Retirement Plan totaling \$2,479.27 including services rendered during October and November of 2008.

#### Recommendations

A review of all outstanding balances from the Police and Fire Pension, and the Miami Beach Employee Retirement Plan should be conducted and an invoice charging the outstanding amounts to the corresponding departments should be created and sent immediately. Concurrently, the Division should invoice the outstanding balances for any future services rendered to these departments immediately after the work is completed.

#### Management's Response

Balances for Police and Fire Pension, and Miami Beach Employee Retirement Plan have been forwarded to Finance to invoice said departments. At the same time, we will begin to send invoices for services immediately after the work is completed.

3. Finding - *Department charge backs/billings are not processed timely*

Charge backs to City departments, as a result of work completed are not being processed by Central Services immediately after the job is completed. Consequently, Internal Audit found that work completed in a given month could be charged back to the corresponding department in subsequent months. Continuing to operate in this manner represents a problem considering that City departments could be charged back for work orders budgeted for in previous fiscal years during a subsequent fiscal year in which those expenses may not have been budgeted at all. As a result a surplus, or favorable variance, will be reflected on the fiscal year in which the job was performed, and a deficit, or unfavorable variance, will be reflected on the subsequent fiscal year for the corresponding department with respect to their budgeted expenses. The inverse will happen for Central Services with respect to their budgeted revenue. Lastly, accrual basis of accounting require that revenues are recorded when earned and expenses when incurred. Not recording the charge backs once the work has been completed contradicts this requirement.

Work orders are not pre-numbered and are not being consistently logged into an excel control log sheet used by the Division to maintain accountability of all work orders, as well as work flow and job status. In addition, information on the excel control log can be edited by anyone with access to the Division's server drive without any audit trails.

#### Recommendation(s)

Charge backs to the appropriate departments, as a result of work completed, should be submitted to the Finance Department immediately following the end of the month in which the job has been completed. Large jobs that are divided into multiple phases for completion should be charged back to the corresponding department through progress billings in order to avoid waiting until the entire job is complete. A detailed report including the jobs and costs charged out should be submitted to each department on a monthly basis. Implementing these changes will contribute to improve the accountability resulting from the Division's daily operations, as well as ensuring that every job performed and completed is appropriately

charged back.

The Division could consider the implementation and/or acquisition of a system that could help them track work flows and job status, as well as generating audit trails for information changed or edited. In addition, all work orders should be sequentially pre-numbered and logged into the system, or control log, and stamped with the date as soon as they are received. The work order sequence could start with an identifier number or code for each City department. Then the status/progress of all work orders can be tracked through the different stages/phases until the job is complete and the work order is closed. Implementing these procedures should improve the efficiency and controls of the Division. It should assist in improving the accountability of work orders and provide better audit trails for any changes. It would also assist in the chargeback and budgeting process by documenting and accounting for all work orders by each City department and/or division.

#### Management's Response

Work orders will be pre-numbered. Also, Central Service will create a log sheet to track the date a work order have been received, the document name, number of copies, the cost of the job and date completed. This will be maintained daily until time to process charge backs and then submitted to the Finance Department.

The turnaround time for work orders will vary depending on the type of requests and the workload. To ensure that work orders are processed in a timely manner, each work order will be time-stamped and Mr. Ireland will work with staff to complete print jobs at a maximum of five (5) business days. If a print job is assumed to take up more time, the department will be notified.

#### 4. Finding – Cash Advances for Postage

Occasionally, City departments may have emergency mail requests that need to be processed as a priority. Unfortunately, the available postage reserves on the account may not be sufficient to process the job at that time, but meanwhile, the mailings can not be delayed until a check is prepared and submitted by the corresponding department. As a result, a request for cash advance is submitted to the vendor (Neopost) in order to have sufficient funds to process the mail order.

Consequently, a vendor fee of thirty (\$30.00) dollars per thousand of cash advanced is incurred by the Central Services Division, plus the charges incurred for mailing a check to repay the advances later. During our audit period, Internal Audit was able to identify approximately \$2,147 of cash advance related expenses. These expenses have not been considered in the current fee structure and were not charged back to the departments requesting the mail orders.

#### Recommendation(s)

Proper planning of large jobs would eliminate cash advances for postage. Departments requesting large mailing jobs should give the Division adequate time to replenish postage in the machine. If funds are not available for postage, Central Service should request additional funds through the normal process with the Budget Office or require the department to transfer in advance the appropriate corresponding funds.

#### Management's Response

At the time a department requests a large job and postage funds are insufficient, a written request will be sent to the department, with a copy to Budget, via email requesting addition

funds to complete the job.

5. Finding – *City Vehicle Charge back.*

The department has two pooled vehicles which other departments utilized to perform work on behalf of the city. These are older vehicles which are fully depreciated and do not require much maintenance costs. Control logs for the use of the pool of city vehicles could only be located for three months. For these three control logs reviewed we noted that the logs are not being completed and/or properly filled out making it difficult to process the correct charge back amounts. We could not determine if these vehicles are fully being utilized.

In addition to this fee, amounts charged for the use of vehicles from the City's vehicle pool were inconsistently charged. In reviewing the vehicle logs for three months (the only logs available) for a total of thirty two (32) vehicle rental occasions, one (1) was calculated at a rate of \$4.5 per hour and sixteen (16) had no time of return, but were computed as \$5.00 per hour. Nonetheless, current billing rates, as noted on Division's departmental charges sheet, are \$7.50 per hour, or fifty (\$50) per day. Most of these charges were not traceable to the monthly charge backs.

Recommendation(s)

Vehicle control logs should be maintained and individuals from all departments using City vehicles from the vehicle pool should fill in the appropriate information, provide a copy of the driver's license of the individual driving the vehicle, and enter the date and time in which the vehicle was taken and returned. This information should be verified by the Division to ensure reliability and accuracy. Further analysis to determine if the pooled vehicles are fully or under utilized should be performed once completed control logs are maintained.

Management's Response

Vehicle logs will be better maintained where the log will be kept by the Central Services Coordinator and/or Administrative Assistant. We will obtain a copy of the license of the individual who is requesting the vehicles. Both the times of when the vehicle(s) was taken and returned will be noted. The charges will correspond to rates on charge sheet, which is \$7.50/hour and fifty (\$50)/day.

6. Finding - *Work orders are not being properly filled out.*

There are work orders that have been corrected or improperly filled out by Division personnel making it hard to identify the amount of time spent on the job, the type of paper used, the number of copies or the types of work performed. In addition, contact information and budget codes for the City departments submitting the work orders are sometimes incomplete. Out of our reviewed sample of twenty work orders, three (3) or 15% were improperly filled making it difficult to verify whether the amounts charged back to the department were correct.

Recommendation(s)

All work orders should be properly and consistently filled by the employee assigned to show the characteristics of the work being performed in order to ensure proper charge back rate application. In addition, Division personnel should review the information of the City department submitting the work order to ensure completeness and accuracy.

Management's Response

A centralized filing area will be created to keep all the work orders together. The work orders will be reviewed, by the Central Services Coordinator and the employee assigned to the job,

before beginning the job to make sure that all areas are completed to cause no further delay of a job. The department will be contacted via telephone to discuss the missing information.

7. Finding - Filing procedures for work orders are inadequate.

A central filing system is not currently in place to file all in process and completed work orders along with their corresponding supporting documents. As a result, Internal Audit witnessed how work orders were lost before the job was completed. In addition, Internal Audit found work orders that had already been charged back to the corresponding departments being filed together with work orders that had not been charged back yet. From a sample of twenty nine (29) work orders, only twenty (20) work orders were provided by the Division and nine (9) were not found and therefore not provided to Internal Audit.

Continuing to operate in this manner contributes to a deteriorating accountability of work performed, as well as amounts charged back to the City departments. Some of those work orders that were lost may end up never being charged back to the departments, depending on when they were lost (before or after the job is completed). If the work order is lost after the work has been completed, but before it is charged back to the appropriate department, then that is when a greater risk exists for the work performed to never be charged.

In addition, Internal Audit learned through inquiry that in some cases where a work order was misplaced before the job was completed, a second work order was created to replace it. Since the work orders are not pre-numbered, duplicating a work order increases the chances that a duplicate charge is processed to the corresponding department for the same services being provided.

Recommendation(s)

A central filing system should be implemented for all work orders in which the work have been completed and separated from those that are either pending, or in progress. In addition, an inbox and outbox should be kept at every employee's desk, or in a centralized location for each employee, in order to place those incoming or assigned work orders and those that have been completed and ready to be charged back separate from each other and from other supplies or machinery. This should contribute to reducing the misplacement of work orders.

Management's Response

There will be a centralized area for all work orders, where there will be a box for work order completed, pending, or progress to keep track the orders and to make sure that they are added to the list for the end of the month charge back to the correct department. Management will seek assistance from Budget and/or Finance to work out a system where each employee will log in the work orders by work order number; this will also help keep files in order and also keep track of where the work order is and who worked on it.

8. Finding - Inventory valuation method

No inventory utilization controls are currently in place to account for inventory usage, damaged inventory, as a result of equipment malfunction, or over-utilization by any other reason. In addition, inventory purchases are completed based on observed inventory levels, without accountability of how or on which jobs was the previous inventory used, unless the purchases are for jobs with particular characteristics requiring specific materials. Also Inventory is easily accessed and not in a centralized location with restricted access.

In addition, an adequate inventory valuation method is not currently in place. Historically, the Division has performed inventory physical counts at fiscal year end, in order to determine how



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many units of each inventory item are physically on hand. Once the count is completed, the different categories of inventory items on hand have been valued and recorded at the last unit's purchase price. Any variance is then posted to the expense account as an increase in expense, if inventory decreases, or a decrease to the expense, if the inventory increases.

Internal Audit observed a few inventory items (Xerox plastic binders) that are excess/obsolete inventory, according to Central Services personnel, but have not been categorized as such. The value of these obsolete items has been estimated to be \$4,750.74 out of a total inventory value of \$20,601.35 at September 30, 2008.

Recommendation(s)

Although immaterial to the overall financial condition of the City, The department should consider valuing the inventory at its historical cost under a First In, First Out (FIFO) cost flow assumption, rather than at its latest acquisition cost. Historical cost under the FIFO method better reflects the actual operations and inventory utilization of the Division. In order to improve inventory controls, the Division should consider the acquisition/implementation of a software system for inventory management. Inventory utilization, including damaged inventory, should be recorded and referenced to the corresponding job and/or work order in which it was used.

Furthermore, obsolete inventory should be identified and categorized as such, and the option of whether to dispose of it or auction it should be contemplated. Implementing these procedures should help to improve the accountability of the assets and costs of the Division.

Management's Response

Inventory will be taken to identify supplies that are being used, those that are not, and those that are outdated. The obsolete items valued at \$4,750 were inherited. Management will work with Procurement to recover that monies for those items through an auction or suggest those items to be used for a work order.

9. Finding - *Out dated Policies and Procedures.*

Even though there are policies and procedures currently in place, they are very general and have not been updated to incorporate all current operation procedures (example: postage cash advances) and fee rates in use by the Division.

Recommendation(s)

Current policies and procedures should be updated in order to incorporate current Division processes and charge back rates. Once updated, they should be fully documented and distributed to the employees to be consistently followed.

Management's Response

Management will have each staff member document the policies and procedures for their respective processes then combine these documents into one manual that will be available to all in the department. Corrections to the current policies and procedures will be made as needed to make certain that it is current all the time from now on. The staff will be notified of the updates as they are completed.

10. Finding – Invoice review process

There is no vendor invoice review process currently in place by the Division to ensure that amounts invoiced for purchases and/or leased equipment utilization overages are accurate. The Division has not been recording the beginning and ending counts from the copy

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machines to verify and ensure accuracy of vendor invoices.

Recommendation(s)

A review process for vendor invoices should be implemented and documented through policies and procedures by the Division. The review process should incorporate recording usage counts for leased equipment, documenting quantities purchased and quantities received, etcetera, in order to compare them to the information and amounts on the vendor invoices. When purchases are made, proper documentation for support could include purchase order/request, vendor packing slips, receipts if provided, etc.

Management's Response

A review process will be implemented as soon as possible and policies and procedures of the review process will be added to the manual. Management will seek guidance from Finance to aid the administrative assistant and myself to keep these records in order to avoid further errors with vendors.

**EXIT CONFERENCE**

An exit meeting was held on September 17, 2009 to discuss the audit report and to solicit management responses noted above. Participants included City Clerk Robert Parcher, Central Services Coordinator Donovan Ireland, Internal Auditor James Sutter, Assistant Auditor Laura Franco-Rubines and Auditor Fidel Miranda. Audit findings and recommendations were discussed, as were management responses, and are included herein. Central Service agrees with the auditor's comments, and has begun to take action to improve the situation. As a general response, the department indicated that out of the 10 findings, seven (7) #1, #2, #3, #4, #5, #6, #7, and #10 dealt with invoicing and charge backs. Changes will be made in the beginning of FY09/10 which will provide better controls over invoicing, chargeback and record keeping.

JJS:LR:fm

Audit performed by Laura Franco-Rubines, Assistant Internal Auditor, and Fidel Miranda, Auditor  
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cc: Hilda Fernandez, Assistant City Manager  
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