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Agenda Item #: 3CC-1

PALM BEACH COUNTY

BOARD of COUNTY COMMISSIONERS

AGENDA ITEM SUMMARY

Meeting Date: **10/18/2011** [X] Consent [ ] Regular
[ ] Public Hearing

Department:
Submitted By: Internal Auditor's Office

I. EXECUTIVE BRIEF

Motion and Title: Staff recommends motion to receive and file: Audit reports reviewed and approved by the Audit Committee at its September 21, 2011 meeting as follows:

A. 11-28 Risk Management – *Group Health Insurance Prescription Drug Program*
B. 11-29 Office of Financial Management and Budget – *Municipal Impact Fee Collections City of Boca Raton*
C. 11-30 Office of Financial Management and Budget – *Public Service Gas Tax Florida Public Utilities*
D. 11-31 Office of Financial Management and Budget and Selected County Departments – *Interdepartmental Billings*
E. 11-32 Water Utilities – *Inventory Controls*
F. 11-33 County Administration and Selected County Departments – *Consultant Overhead Rates*
G. 11-34 Office of Financial Management and Budget – *Public Service Gas Tax Ferrellgas*
H. 11-35 Public Safety – *Animal Care and Control Division Cash Controls*

Summary: Ordinance 2010-006 requires the Internal Audit Committee to review and approve audit reports prior to issuance and to send those approved reports to the Board of County Commissioners. At its September 21, 2011 meeting the Audit Committee reviewed and approved the attached audit reports. The approved reports are being submitted to the Board of County Commissioners as required by the Ordinance. Countywide (PFK)

Background and Policy Issues: N/A

Attachments:

Audit reports as identified above

Recommended by: Joseph F. Bergeron 9.29.11
Internal Auditor Date

Recommended by: [signature] 9/7/7
County Administrator Date

II. FISCAL IMPACT ANALYSIS

A. Five Year Summary of Fiscal Impact:

Fiscal Years	2012	2013	2014	2015	2016
Capital Expenditures					
Operating Costs					
External Revenues					
Program Income (County)					
In-Kind Match (County)					
NET FISCAL IMPACT	* see below				
# ADDITIONAL FTE					
POSITIONS (Cumulative)					

Is Item Included In Current Budget? Yes ____ No
Budget Account No.: Fund ____ Agency ____ Org. ________ Object __
Program Number _________ Revenue Source

B. Recommended Sources of Funds/Summary of Fiscal Impact:

* No fiscal impact

A. Department Fiscal Review:

____

III. REVIEW COMMENTS:

A. OFMB Fiscal and/or Contract Administration Comments:

10/4/11
Budget/OFMB
10/3/11
9/30/11

10/5/11
Contract Administration

B. Legal Sufficiency:

Paul F. King 10/6/11
Assistant County Attorney

C. Other Department Review:

____
Department Director

This summary is not to be used as a basis for payment.

Office of the County Internal Auditor
Audit Report #2011-28

RISK MANAGEMENT

GROUP HEALTH INSURANCE
PRESCRIPTION DRUGS

Approved by Audit Committee
September 21, 2011

DATED MAY 24, 2011

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following question:

Are there cost savings available to Palm Beach County and its employees if employees use programs offered by participating companies to the general public, rather than having employees fill prescriptions at County contracted rates?

WHAT WE FOUND

- Savings in prescription costs are available to Palm Beach County and its employees if employees currently having prescriptions for generic drugs filled under the County Health Plan were to choose to use programs available to the general public by participating retail companies. Potential savings may be limited because certain high cost generic drugs are not carried in the retail programs and many prescriptions are filled with no cost to the County. In addition, savings will also depend on whether County employees opt to use a participating program rather than using the one offered under the County Health Plan.

WHAT WE RECOMMEND

The audit report makes two recommendations to the Risk Management Director to:

- Design and implement an outreach or educational program informing employees about the existence and benefits of generic drug prescription programs available from a variety of retail sources outside the County's health care plan, and
- Design and implement a formal follow up program to determine the effectiveness of the outreach or educational program described above.

DETAILED FINDINGS AND RECOMMENDATIONS

FINDING 1. SAVINGS AVAILABLE TO COUNTY AND EMPLOYEES THROUGH EMPLOYEE USE OF PRESCRIPTION PLANS AVAILABLE TO THE GENERAL PUBLIC

The audit identified several programs offered by participating companies providing free or low-cost prescription drugs to the general public. Participating companies include Target, Wal-Mart, Sam's Club, Costco, Walgreens, and CVS Caremark. Participating companies may offer different generic drugs and prices charged vary by participating company. For example, Target offers a total of 306 generic drugs to the public for a $4.00 co-pay for a 30 day supply, and $10.00 co-pay for a 90 day supply.

Palm Beach County's Health Plan offers prescription benefits requiring employees to incur a co-pay of $10.00 for a 30 day supply and $20.00 for 90 day supply (mail order) with the County absorbing the cost of the drug as contained in the contract with CIGNA. The County has three 'tiers' of drugs---generic, preferred brand, and non-preferred brand. Only drugs labeled as generic are provided under participating companies' plans available to the general public.

We obtained a listing of drugs paid for by the County and employee co-pays for Calendar Year 2010. The listing showed that of 130,710 total prescriptions, 80,522 were for generic drugs. The 80,522 generic drug prescriptions included nearly 1,300 different medications. The Target plan offers more than 300 different medications. We estimated the Target plan would cover more than 35% of the generic prescriptions filled. We did not analyze other generic drugs that may have been available from other participating companies.

The County's cost per generic drug prescription ranged from $0.00 to $1,334.00 each. Generic drugs with a County cost per prescription of at least $100.00 represent 46% of the County's total cost for generic drugs while only comprising 4.7% of the number of prescriptions. We analyzed the top 50 of those drugs and found only one of those generic drugs was available on the Target program. Furthermore, there were 31,335 prescriptions which cost the County less than $1.00 per prescription for a total cost of $6,150. This information leads us to believe that, while there are opportunities for savings from promoting use of generic drug plans such as Target's, the total value of savings may be limited.

We also selected a small sample of commonly prescribed generic drugs filled under the County Health Plan and compared it to what would have been paid by the employee and the County had the employee filled the generic prescription under the Target plan. The tables below show that for the five generic drugs alone, the County could have saved more than $6,100 and the employees could have saved more than $2,200 had the employees chosen to use Target's plan.

County Savings:

Drug	Number of Prescriptions	CIGNA Bills County	Target Bills County	Savings to County
Metformin 500 MG	124	$9.21	$0	$1,142.04
Doxazosin Mesylate	102	10.02	0	1,022.04
Fluoxetine 40 MG	57	26.24	0	1,495.68
Glyburide 5 MG	52	28.47	0	1,480.44
Glimepiride 4 MG	47	20.75	0	975.25
				$6,115.45

Employee Savings:

Drug	Number of Prescriptions	CIGNA Employee Copay	Target Employee Copay	Savings to Employee
Metformin 500 MG	124	$10.00	$4.00	$744.00
Doxazosin Mesylate	102	10.00	$4.00	612.00
Fluoxetine 40 MG	57	10.00	$4.00	342.00
Glyburide 5 MG	52	10.00	$4.00	312.00
Glimepiride 4 MG	47	10.00	$4.00	282.00
				$2,292.00

Although the Risk Management Department had, in the past, provided information to County employees on participating company prescription plans, it had not done so as part of a formal outreach or education program. At the time of audit, the Risk Management Department Director expressed interest in conducting an educational or outreach program to provide employees with information and to encourage the use of participating company plans available to the general public.

We contacted officials of Orange and Hillsborough counties whom we were told have instituted programs for employees to become aware of drug program options other than the one sponsored under the county health plan. Representatives of the two counties told us that they have had an educational program informing employees of the availability of options to using the county-funded health program for generic drug prescriptions. For example, the Orange County representative told us that they send newsletters, have "Orange TV" and sometimes include inserts into employee paychecks to inform employees of opportunities to lower co-pays and overall costs to the County. A representative from Hillsborough County told us that they have had an educational program informing employees of options to using the County health plan-provided prescriptions benefits for about three years. Representatives of both counties told us, however, that they have not evaluated the impact of the educational/outreach program in reducing the cost of generic drugs under the county programs.

Recommendations:

(1) The Risk Management Department Director should design and implement an outreach or educational program such as that implemented in Orange and Hillsborough counties, informing Palm Beach County employees of the participating company programs for generic drug prescriptions. Information to be provided could consist of handouts, information of participating company internet sites, and charts showing popular use prescriptions and the savings that could accrue to employees as well as to the County.

(2) The Risk Management Department Director should design and implement a formal follow-up program to determine the effectiveness of its outreach or educational program. This could consist of trend analyses of the County/employee cost of filling generic drug prescriptions, as well as employee surveys obtaining information on whether employees are using the alternative programs and the reasons for employee participation or lack of participation.

Management Comments and Our Evaluation

In replying to a draft of this report, the Risk Management Department Director agreed with recommendations 1 and 2. In regard to recommendation 1, she stated that she will direct staff to pursue and introduce such a program in time for the annual Open enrollment period beginning in late October 2011. She will also direct staff to contact representatives from Orange and Hillsborough counties to obtain specific information about their programs. In regard to recommendation 2, she stated that she will review statistics as they become available and plan to extend a survey to members following the completion of the first year of the program. We agree with the Risk Management Department Director's plan to implement the audit recommendations.

BACKGROUND

The Risk Management Department's (Department) mission is to serve the citizens and employees of Palm Beach County (County) by providing cost-effective and efficient coordination of all functions relating to the identification, analysis, and control of exposures which threaten loss to the County. The Department manages various programs including Property & Casualty, Workers' Compensation, Occupational Health and Employee Assistance Program, Employee Safety/Loss Control, and Group Health Insurance.

The Department's Employee Benefits Section develops and administers health and life insurance and long-term disability programs to protect County employees and their families. The Section is responsible for administering the County's various employee group insurance (health, life, and long term disability) plans in accordance with federal law and County policies. Primary services include 1) maintain active employee and retire enrollment information; 2) act as a liaison for County employees with insurance carriers as needed in resolution of problems; 3) verify and process premium bills for payment; 4) expedite payment of claims on behalf of service providers; and 5) provide information to employees explaining plan benefits, available service providers, and claim procedures.

For calendar year 2010 approximately 4,750 employees were enrolled in the County's Group Health Insurance plan with a total enrollment of about 9,600 including dependents and family members. The County is a self-insurer for the plan and contracts with the Connecticut General Life Insurance Company (CIGNA) to act as third party administrator. Reports obtained by the Department from CIGNA showed that for calendar year 2010 approximately $59.36 million in claims were paid by CIGNA, with prescription drugs accounting for about $11.45 million of the total. Further breakdown of prescription drugs show the following:

- Generic drugs $1.597 million
- Preferred drugs $6.745 million
- Non-preferred drugs $2.955 million

In addition, County employees paid co-pay amounts totaling about $2.228 million for the drug program, including $864,000 applicable to generic drugs.

In the past few years, several pharmaceutical companies, warehouse clubs, and independent drug stores (hereafter collectively referred to as participating companies) have offered the general public a number of generic drugs at no or relatively low cost. These drugs are also available to County employees who choose to utilize the general public program offered by the participating companies. If County employees choose to fill prescriptions for drugs offered to the general public, the County does not pay the cost of the drugs nor does the employee pay the usual and customary co-pay.

AUDIT SCOPE AND METHODOLOGY

The scope for this audit was generic drug activity during Calendar Year 2010. Planning for this audit included discussions with the Risk Management Department Director and Group Insurance Manager about the potential for cost savings to the County if employees utilized the free or reduced cost programs offered by participating companies instead of having prescriptions filled under the current County Health Plan. There was general agreement that opportunity did exist for cost savings and the Risk Management Department Director supported an outreach effort to inform County employees of the various programs that were available as an alternative to using the County Health Plan as a primary provider. As part of this audit, we also contacted Orange and Hillsborough counties who were also self-insured to obtain information on their outreach efforts and any savings realized from implementation of the program.

Audit methodology also included obtaining information on the types of programs offered by the participating companies, and the types of generic drugs offered at the time of audit. We also reviewed information from CIGNA on details of a sample of generic drug prescriptions paid by the County and the amount of employee co-pays under the Health Plan for Calendar Year 2010.

Management is responsible for establishing effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively and are safeguarded; laws and regulations are followed, and reliable data is obtained and maintained and fairly disclosed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Joseph F. Bergeron

Joseph F. Bergeron, CPA, CIA, CGAP
Internal Auditor
May 24, 2011

ADMINISTRATIVE RESPONSE

PALM BEACH COUNTY ADMINISTRATION

June 8, 2011

To: Joseph F. Bergeron, Internal Auditor

From: Nancy Bolton, Director, Risk Management NLB

Subject: Response to Draft Audit Report – *Group Health Insurance Prescription Audit*

Thank you for the time and resources allotted to your recent audit of the County's prescription drug program. Your findings were of assistance to us, and my specific response to each of the recommendations follows:

Recommendation

1) **The Risk Management Department Director should design and implement an outreach or educational program such as that implemented in Orange and Hillsborough Counties, informing Palm Beach County employees of the participating company programs for generic drug prescriptions. Information to be provided could consist of handouts, information of participating company internet sites, and charts showing popular use prescriptions and the savings that could accrue to employees as well as to the County.**

Response:

I concur with this recommendation and will direct staff to pursue and introduce such a program in time for the annual Open Enrollment period beginning in late October, 2011. I will also direct staff to contact representatives from Orange and Hillsborough for the purpose of obtaining specific information on their programs.

Recommendation

(1) **The Risk Management Department Director should design and implement a formal follow-up program to determine the effectiveness of its outreach or educational program. This could consist of trend analyses of the County/employee cost of filling generic drug prescriptions, as well as employee surveys obtaining information on whether employees are using the alternative programs and the reasons for employee participation or lack of participation.**

Response:

I concur with the recommendation and will review statistics as they become available and plan to extend a survey to members following the completion of the first year of the program.

Office of the County Internal Auditor
Audit Report #2011-29

OFFICE OF FINANCIAL MANAGEMENT AND BUDGET

MUNICIPAL IMPACT FEES
CITY OF BOCA RATON

Approved by Audit Committee
September 21, 2011

DATED MAY 25, 2011

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following question:

Did the Boca Raton City Manager ensure that, for Fiscal Year 2010 and Fiscal Year 2011 (through March 31, 2011), impact fees were assessed, collected and submitted to the County in accordance with Article 13, of the Unified Land Development Code and Countywide PPM CW-F-025?

This audit was requested by the OFMB Director.

WHAT WE FOUND

The Boca Raton City Manager ensured that, for Fiscal Year 2010 and Fiscal Year 2011 (through March 31, 2011), impact fees were assessed, collected and submitted to the County in accordance with Article 13, of the Unified Land Development Code and Countywide PPM CW-F-025.

WHAT WE RECOMMEND

The audit report made no recommendations.

BACKGROUND

Impact Fees are charged to developers of undeveloped land to mitigate, in whole or in part, the fiscal impacts of new development on Palm Beach County (County) service delivery systems and infrastructure. Development impact mitigation fees may be used, for example, to pay for the cost of County equipment, facilities, and other public improvements needed to serve newly developed residential, commercial, or industrial properties. Article 13, entitled "Impact Fees" of the Unified Land Development Code (ULDC) governs the assessment and collection of impact fees by the County. Countywide Policy and Procedure (PPM) CW-F-025 entitled "Collection of Impact Fees," dated August 15, 2007, establishes the policies and procedures for collection.

The Office of Financial Management and Budget (OFMB) is required to ensure the collections and expenditures of impact fees meet the intent and legal requirements outlined in the County budget and the ULDC. An Impact Fee Coordinator in the Financial Management Division of OFMB administers the impact fee system, trains and advises County staff on impact fee matters, and has overall administrative and interpretive responsibility for the ULDC.

The County's Planning, Zoning, and Building Department (PZ&B) and certain participating municipalities collect impact fees prior to and in conjunction with issuing building permits. Impact fees are levied on a one-time basis and can only be used for capital costs in the benefited zone. Total impact fee revenue for Fiscal Year 2010 collected by 16 municipal collecting agents and PZ&B was $13.3 million. Boca Raton, one of the municipal collecting agents, collected $556,731 in impact fees for Fiscal Year 2010.

Countywide PPM CW-F-031 entitled "Impact Fee Compliance Reviews," dated August 15, 2007, establishes the authority and responsibility for the Internal Auditor or other County-designated reviewing personnel to examine the records and transactions of all County departments and municipalities in processing impact fees.

The Impact Fee Coordinator's staff conducted a review of Boca Raton in April 2007. Of the 25 permits reviewed, OFMB found that 13 impact fee assessments or about 50 percent of the permits sampled, had been assessed incorrectly. OFMB requested this audit of Boca Raton impact fee collection.

AUDIT SCOPE AND METHODOLOGY

Through interviews with the Impact Fee Coordinator, Boca Raton officials, review of prior audit reports, Article 13, of the Unified Land Development Code, Countywide PPM CW-F-025, and other pertinent documentation, we obtained an understanding of the City of Boca Raton's process for assessing and collecting municipal impact fees for Fiscal Year 2010. We found that the City of Boca Raton had, for Fiscal Year 2011, made changes in their internal controls for assessing and collecting impact fees; therefore we extend our original audit scope of Fiscal Year 2010 to include the period from October 1, 2010 through March 31, 2011. Audit field work was conducted at Boca Raton City Hall in April, 2011.

To answer the audit objective, we discussed the methodology and internal controls used by the City of Boca Raton to ensure that impact fee assessment and collection complied with Article 13 of the ULDC and Countywide PPM-CW-F-025. We then judgmentally sampled 20 of the 79 transactions included in impact fee assessment and collection for Fiscal Year 2010, and also sampled all of the transactions in March 2011 for which Boca Raton used procedures adopted for Fiscal Year 2011.

Management is responsible for establishing effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively and are safeguarded; laws and regulations are followed, and reliable data is obtained and maintained and fairly disclosed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Joseph F. Bergeron

Joseph F. Bergeron, CPA, CIA, CGAP
Internal Auditor
May 25, 2011

Office of the County Internal Auditor
Audit Report #2011-30

OFFICE OF FINANCIAL MANAGEMENT AND BUDGET

PUBLIC SERVICE GAS TAX VENDOR AUDIT
FLORIDA PUBLIC UTILITIES COMPANY
AND FLO-GAS CORPORATION

Approved by Audit Committee
September 21, 2011

DATED JUNE 1, 2011

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following questions:

1. Were public service taxes collected by Florida Public Utilities Company remitted to Palm Beach County as required by County Ordinance No. 89-13 for FYs 2008 through 2010?

2. Were public service taxes collected by Flo-Gas Corporation remitted to Palm Beach County as required by County Ordinance No. 89-13 for FYs 2008 through 2010?

3. Were exemptions to the public service tax granted by Florida Public Utilities Company and Flo-Gas Corporation in compliance with Palm Beach County Ordinance No. 89-13 for FYs 2008 through 2010?

This audit was requested by the OFMB Director.

WHAT WE FOUND

Public service taxes collected by Florida Public Utilities Company (FPUC) and Flo-Gas Corporation were not remitted to Palm Beach County as required by County Ordinance No. 89-13 for FYs 2008 through 2010. Errors found in the assignment of taxing district codes resulted in underpayment of public service taxes by Florida Public Utilities Company and Flo-Gas Corporation estimated to be approximately $74,000.

The audit also found that FPUC granted exemptions to four accounts which were not supported by documentation establishing eligibility for the exemption as required by County Ordinance for FYs 2008 through 2010 resulting in an underpayment of public service taxes of approximately $1,750.

Exemptions to the public service tax granted by Flo-Gas were in compliance with Palm Beach County Ordinance No. 98-13 for FYs 2008 through 2010.

WHAT WE RECOMMEND

The audit report makes two recommendations to the OFMB Director to:

- Issue a Notices of Proposed Assessment to Florida Public Utilities Company and Flo-Gas Corporation to recover underpaid public service taxes due to errors in assignment of taxing district codes, and
- Issue a Notice of Proposed Assessment to Florida Public Utilities Company to recover underpaid public service taxes due to errors in granting exemptions for certain accounts.

DETAILED FINDINGS AND RECOMMENDATIONS

Finding 1 Florida Public Utilities Company and Flo-Gas Corporation Incorrectly Remitted Public Service Taxes

Finding 1A Florida Public Utilities Company

The examination of a sample of 380 addresses from the FPUC customer database showed 24 addresses (6.3%) that were coded improperly as to the taxing jurisdiction, resulting in the tax collected being remitted to the wrong taxing entity. Of the 24 errors found, one (0.3%) was paid to Palm Beach County instead of a municipality while 18 (4.7%) were paid to a municipality instead of to Palm Beach County. The remainder of errors constituted municipal tax payments made to the wrong municipality. The following chart summarizes the projected amount due to Palm Beach County.

Florida Public Utilities Company

Fiscal Year	Amount Remitted (95.6%)	Amount Owed (4.4%)	Total
2008	$315,851.60	$14,537.10	$330,388.70
2009	$336,368.29	$15,481.38	$351,849.67
2010	$368,879.28	$16,977.70	$385,856.98
Total Owed		**$46,996.18**	

Finding 1B Flo-Gas Corporation

The examination of a sample of 365 addresses from the Flo-Gas customer database showed 50 addresses (13.7%) that were coded improperly as to the taxing jurisdiction, resulting in the tax collected being remitted to the wrong taxing entity. Of the 50 errors found, 9 (2.5%) were paid to Palm Beach County instead of a municipality while 37 (10.1%) were paid to a municipality instead of to Palm Beach County. The remainder of errors constituted municipal tax payment made to the wrong municipality. The chart of the following page summarizes the projected amount due to Palm Beach County:

Flo-Gas Corporation

Fiscal Year	Amount Remitted (92.4%)	Amount Owed (7.6%)	Total
2008	$99,235.88	$8,162.25	$107,398.13
2009	$94,798.25	$7,797.25	$102,595.50
2010	$126,878.50	$10,435.89	$137,314.39
Total Owed		**$26,395.39**	

Recommendation

(1) **The OFMB Department Director should** issue a Notice of Proposed Assessment to Florida Public Utilities Company for $46,996.18 and Flo-Gas Corporation for $26,395.39 due to the County, as provided for in Section 166.234, Florida Statutes.

Management Comments and Our Evaluation

In replying to a draft of this report, the OFMB Department Director concurred with the audit recommendation, stating that she would issue to Notice on or about June 15, 2011. We concur with the OFMB Department Director's proposed action.

Finding 2 Tax Exemptions Provided to Ineligible Entities

A review of the listings of exemptions granted to organizations for collection of the Public Service Tax disclosed that schools and municipalities accounted for the majority of the exempt accounts. Our review of a sample of exempt accounts provided to us by FPUC for FYs 2008 through 2010 found that four accounts were not substantiated by documentation. Research of the four accounts identified three of them as For Profit Corporations, and one as a Florida Limited Liability entity. These types of organizations do not qualify for exemptions under County Ordinance No. 98-13. FPUC provided the following provide the following information for the accounts identified as ineligible for exemption for FYs 2008 through 2010.

Florida Public Utilities Company			
Customer	Type of Org	Sales Amt	Tax Due
Prece Enterprises, Inc.	For Profit Corp	$ 7,242.31	$ 455.07
Garment Care International, Inc.	For Profit Corp	$ 5,657.18	$ 353.90
Jie & Kai, LLC	Fla Limited Liability	$15,037.35	$ 942.50
Great Wok, Inc.	For Profit Corp	$10,036.37	$ 0*
Total Tax Due			**$1,751.47**

*According to FPUC, the Company paid the C ounty $372.94 in taxes due on this account.

Our review of a sample of exempt accounts provided to us by Flo-Gas for FYs 2008 through 2010 found that all were entitled to exemption under Palm Beach County Ordinance No. 98-13.

Recommendation

(2) **The OFMB Department Director should** issue a Notice of Proposed Assessment to Florida Public Utilities Company for $1751.47 due to the County, as provided for in Section 166.2.34, Florida Statutes.

Management Comments and Our Evaluation

In replying to a draft of this report, the OFMB Department Director concurred with the recommendation, stating that she would issue the Notice on or about June 15, 2011. We agree with the OFMB Department Director's planned action on the recommendation.

Auditee Comments and Our Evaluation

On May 10, 2011 we met with FPCU and Flo-Gas representatives to obtain verbal comments on our Discussion Draft. The representatives told us that they did not dispute the results of our sample; however, they stated it would not be possible to make adjustments to customer accounts in favor/against the County until they had information on the entire database of both FPUC and Flo-Gas customers. They stated that their review was underway and believed that they would have the information no later than July 31, 2011. The representatives stated that upon completion of their overall review, they will be able to furnish a complete listing of adjustments that had been made in favor/against County accounts. They plan to make appropriate adjustments at that time.

BACKGROUND

Florida Statutes Chapter 166.231 authorizes a municipality to levy a tax on the purchase of electricity, metered natural gas, liquefied petroleum gas, manufactured gas, and water service. Palm Beach County Ordinance No. 89-13 is based upon this statute and levies a public service tax on activity in the unincorporated areas of Palm Beach County. Service providers collect the tax due from customers and remit the amount to the Palm Beach County Clerk and Comptroller's Office (County Finance). The Office of Financial Management and Budget (OFMB) is responsible for reviewing the amounts regularly for comparison to budgeted amounts and for assessment of any applicable penalties and interest.

Florida Statutes Chapter 166.231 subsection (4) and (5) provide the qualifications for exemption from the tax. Palm Beach County Ordinance No. 89-13 has adopted these qualifications and identifies agencies such as the United States Government, the State of Florida, all counties, school districts and municipalities of the State to be exempt from the tax. In addition, the purchaser who claims an exemption is required to certify to the seller that he or she qualifies for the exemption.

Florida Statutes Chapter 166.234 allows a municipality to audit the records of sellers of a service that is taxable by the municipality under s. 166.231 or s 166.232, to determine the correctness of any return that has been filed or payment that has been made.

Subsection (4)(a) allows a municipality to issue a proposed assessment of tax levied under s. 166.231 or s. 166.232 within three years after the date the tax was due.

Founded in 1924, Florida Public Utilities Company's (FPUC) distribution systems provide natural gas, propane gas and electric service to approximately 100,000 customers in communities throughout Florida. Flo-Gas Corporation (Flo-Gas), a subsidiary of FPUC, was formed in 1949 to supply bottled propane gas. In 2009, FPUC merged with Chesapeake Utilities Corporation creating a combined energy company with assets totaling approximately $595 million serving the Mid-Atlantic and Florida.

FPUC officials told us that the Company uses Palm Beach County's Property Appraiser's Public Access System (PAPA) to verify the appropriate taxing district for new accounts or developments added to the customer database. A taxing district code is assigned to each customer account to ensure the tax is remitted to the proper municipality. Annexation notices received from the Property Appraiser's office are sent to FPUC's Engineering department and then forwarded to Customer Service/Care for any changes necessary to reflect the correct taxing district code of customers served. According to FPUC officials, PAPA is also used for Flo-Gas accounts.

Reports provided by County Finance show taxes collected in Palm Beach County from

FPUC and Flo-Gas totaled over $1.3 million from Fiscal Year 2008 through Fiscal Year 2010, as follows:

Taxes Collected in Palm Beach County		
Fiscal Year	Florida Public Utilities Company	Flo-Gas Corporation
2008	$315,851.60	$99,235.88
2009	$336,368.29	$94,798.25
2010	$368,879.28	$126,878.50

AUDIT SCOPE AND METHODOLOGY

Through interviews with FPUC and a review of Florida Statutes and County Ordinances, we assessed the risks associated with the remittance of the Public Service Tax and controls implemented to mitigate those risks. From this assessment, we selected specific audit objectives noted above for which we prepared an audit program tailored to answer the objectives. The audit program focused on the procedures necessary to develop the evidence needed to answer the audit objectives and to provide reasonable support for our audit conclusions and recommendations. In developing the audit program we obtained more information on the internal controls that we considered significant within the context of the audit objective.

To answer audit objective 1 we obtained the customer database containing 38,218 customer accounts as of December 2010 from FPUC and selected a statistical sample of accounts to test. We used the PAPA system to locate the address of the sample of customer accounts. Our sample of 380 customer accounts was based upon a 95% confidence level and confidence interval (margin of error) of five percent.

To answer audit objective 2 we obtained the customer database containing 7,307 customer accounts as of December 2010 for Flo-Gas and selected a statistical sample of customer accounts to test. We used the PAPA system to locate the address of the sample of customer accounts. Our sample of 365 customer accounts was based upon a 95% confidence level and confidence interval (margin of error) of five percent.

To answer audit objective 3 we obtained and reviewed the list of exempt customers submitted to us by FPUC and Flo-Gas to determine if the exemptions were allowable under Florida Statutes Chapter 116.231 for these customers. We also reviewed a sample of support maintained by FPUC and Flo-Gas for the exemptions.

Our audit scope covered the period from October 1, 2007 through September 30, 2010. Audit field work was performed from January through April 2011

Management is responsible for establishing effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively and are safeguarded; laws and regulations are followed, and reliable data is obtained and maintained and fairly disclosed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Joseph F. Bergeron

Joseph F. Bergeron, CPA, CIA, CGAP
Internal Auditor
June 1, 2011

ADMINISTRATIVE RESPONSE

Palm Beach County
Interoffice Communication

TO: Joseph F. Bergeron
Internal Auditor

FROM: Liz Bloeser, Director
Office of Financial Management & Budget

DATE: June 7, 2011

SUBJECT: **Response to Public Service Gas Tax Vendor Audit**

Following are the responses to the recommendations from the final draft of the Public Service Gas Tax Vendor Audit submitted to OFMB on June 2, 2011.

Recommendation (1)
The OFMB Director should issue a Notice of Proposed Assessment to Florida Public Utilities Company for $46,996.18 and Flo-Gas Corporation for $26,395.39 due to the County, as provided for in Section 166.234, Florida Statutes.

Response: We concur and will issue the notices.

Recommendation (2)
The OFMB Director should issue a Notice of Proposed Assessment to Florida Public Utilities Company for $1,751.47 due to the County, as provided for in Section 166.234, Florida Statutes.

Response: We concur and will issue the notice.

c: Robert Weisman, County Administrator
Richard Iavarone, Director of Financial Mgmt, OFMB
Glenn Meeder, Collections Coordinator, OFMB

Office of the County Internal Auditor
Audit Report #2011-31

OFFICE OF FINANCIAL MANAGEMENT AND BUDGET and SELECTED COUNTY DEPARTMENTS

INTERDEPARTMENTAL BILLINGS

Approved by Audit Committee
September 21, 2011

DATED JUNE 1, 2011

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following questions:

1. Did County department directors develop procedures specifying how interdepartmental billing rates were to be established?

2. Did the OFMB Department Director review and approve: (a) County department procedures for interdepartmental billings, and (b) billing rates for Fiscal Year 2011?

3. Did OFMB implement the recommendation made by the external auditors that departments understood County policy and procedure for interdepartmental billings and charged for services based on actual costs in Fiscal Year 2011?

4. Did selected County department directors ensure that billings for interdepartmental charges for Fiscal Year 2011 (through March 31, 2011) were based on actual costs?

5. Did the County Attorney implement the recommendations made in Audit Report 09-28 dated July 16, 2009?

WHAT WE FOUND

A majority of County departments involved in interdepartmental billings had developed procedures specifying how billing rates were to be established. However, the Facilities Development and Operations Department (FDO), and the Planning, Zoning and Building (PZB) departments had not established written procedures as required by PPM CW-F-044.

Except for approving the County Attorney's procedures for interdepartmental billings, OFMB could not provide evidence of having approved procedures that had been submitted by other departments to OFMB for approval. OFMB also did not approve any of the department billing rates for Fiscal Year 2011 as required by PPM CW-F-044.

The OFMB Department Director coordinated with County departments to help ensure that interdepartmental billings were based on actual costs as recommended by the County's external auditor. The audit found that selected departments had charged actual costs for charges made in Fiscal Year 2011, except for the County Attorney's Office, and one unit of FDO which had been granted an exemption included in PPM CW-F-044.

The County Attorney took action to develop methodology for interdepartmental billing rates but did not implement the procedures due to questions regarding the affordability of actual (higher) rates to participating departments.

WHAT WE RECOMMEND

The audit report makes three recommendations to the OFMB Director to:

- Ensure that interdepartmental departmental billing procedures submitted to OFMB by departments as required by PPM CW-F-044 are reviewed and approved.
- Ensure that interdepartmental billing rate calculations submitted to OFMB by departments as required by PPM CW-F-044 are reviewed and approved
- Reconsider the changes proposed to PPM CW-F-041 and continue its responsibilities for review and approval of both procedures and annual billing rates

The audit report also makes two recommendations to the County Attorney to:

- Either seek an exception to the PPM requirement for use of full cost in developing interdepartmental billing rates or ensure compliance with PPM CW-F-044 by submitting actual billing rates to OFMB for review and approval annually.
- Ensure that actual billing rates are charged to departments for services rendered. In this regard, the County Attorney may want to consider eliminating charges to each department and come under the auspices of the County's Full Cost Allocation Plan where its expenses would be included in the overall Plan or seeking an exception to the full cost requirement of the PPM.

DETAILED FINDINGS AND RECOMMENDATIONS

Finding 1. County Departments Need to Develop Policy and Procedures for Interdepartmental Billings

Countywide PPM CW-F-044 provides that each department providing goods and services to other departments or capital projects will develop procedures specifying how billing rates, including applicable overhead rates, will be established. The PPM also requires the departmental procedures be submitted to OFMB for review and approval. In addition, it requires that each department annually submit to OFMB for its review and approval, the billing rates established for that fiscal year.

The audit found that a majority of departments involved in interdepartmental billings complied with PPM CW-F-044 as to developing the required procedures. The audit found that departmental procedures were available at OFMB; however, except for approving the County Attorney's procedures, OFMB took no action on procedures submitted by other departments. For example, the Environmental Resources and Protection Department (ERM), the Information Systems Services Department (ISS), and the Internal Auditor, had developed required procedures and had submitted them to OFMB for approval. On the other hand, departments such as FDO, and PZB did not have written procedures as required by PPM CW-F-044. In addition, OFMB was unable to provide documentation that it had reviewed and/or approved interdepartmental billing rates for any of the concerned departments for Fiscal Year 2011.

The audit also found that OFMB has proposed revisions to PPM CW-F-044 which would have the effect of eliminating OFMB's approval of department written procedures as well as the annual review of established rates, except for department s that do not have a financial staff. This would be limited to smaller departments such as the County Attorney. As of May 10, 2011 the revised PPM was still being reviewed by OFMB.

In our view, it is important to have OFMB continue to review and approve procedures for interdepartmental billings and to approve billing rates. To change the procedures as outlined in the draft PPM noted above, would be to increase the risk that department procedures and billings would not meet policy objectives. OFMB is the control point in this policy of ensuring that departments recover the full cost of services rendered.

Recommendation 1

The OFMB Department Director should ensure that departmental interdepartmental billing procedures submitted to OFMB as required by PPM CW-F-044 are reviewed and approved.

Management Comments and Our Evaluation

In replying to a draft of this report, the OFMB Department Director concurred with the recommendation, stating that OFMB would send a memo to each department requesting their most recent procedures. OFMB will review/approve the procedures. OFMB stated that a memo would be sent by June 30, 2011. We agree with the actions promised by the OFMB Department Director on this audit recommendation.

Recommendation 2

The OFMB Department Director should ensure that departmental interdepartmental billing rate calculations submitted to OFMB as required by PPM CW-F-044 are reviewed and approved.

Management Comments and Our Evaluation

In replying to a draft of this report, the OFMB Department Director concurred, in part, with the audit recommendation. The OFMB Department Director stated that beginning with the FY 2013 budget development process, OFMB will require the billing rate calculations be submitted as a a part of the process. This will occur in the first quarter of FY 2012.

OFMB also stated that the calculations will be reviewed for reasonableness. However, OFMB does not intend to 'approve' the rates as it does not feel comfortable doing so without performing a sufficient amount of 'audit-type' work upon which to base such approval. OFMB suggested that our Office include an audit of the billing calculations as a part of our annual work plan. The PPM CW-F-044 will be amended to allow for the changes proposed with a target date of August 31, 2011. We agree with the direction that OFMB intends to take on the audit recommendation and will consider doing additional audit work as we deem necessary.

Recommendation 3

The OFMB Director should reconsider the changes proposed to PPM CW-F-041 and continue its responsibilities for review and approval of both procedures and annual billing rates.

Management Comments and Our Evaluation

In replying to a draft of this report, the OFMB Department Director stated her intent to remain involved in the process as evidenced by its responses to Recommendations 1 and 2. We agree with OFMB's statement as to its continued involvement.

Finding 2. County Attorney's Office Should Use Actual Rate for Interdepartmental Billings

Countywide PPM CW-F-044 provides that each department providing goods and services to other departments or capital projects will develop procedures specifying how billing rates, including applicable overhead rates, will be established. The PPM also requires the departmental procedures be submitted to OFMB for review and approval. In addition, it requires that each department annually submit to OFMB for its review and approval, the billing rates established for that fiscal year. The PPM also requires recovery of the full cost of the good or service provided. Full cost is defined in the PPM as the direct cost of a good or service plus the departmental charge. The departmental charge is defined as departmental overhead or a portion of general overhead.

The audit found that the OFMB Department Director approved the County Attorney's interdepartmental billing rates for Fiscal

Year 2010. The billing rates established at that time reflected the actual costs to render services to departments served by the County Attorney. However, we found that the rates actually used for Fiscal Year 2010 and for the period of Fiscal Year 2011 included in our audit, did not reflect actual cost for delivering services.

Our prior audit report found the same issue with interdepartmental rates used by the County Attorney's Office. In response to the audit report recommendations, the County Attorney's Office developed written procedures on how the billing rates would be developed, and also submitted the billing rate to OFMB for Fiscal Year 2010. OFMB approved the billing rate(s) provided by the County Attorney.

However, we found that the County Attorney did not use the actual billing rates that were approved by OFMB for Fiscal Year 2010 and continued the practice in Fiscal Year 2011. According to the County Attorney, departments would not be able to afford the services provided by the Office if actual billing rates were used. This was similar to the issue discussed in our prior audit report issued in July 2009.

In our view, the County Attorney needs to review the issue involved in complying with PPM CW-F-044 and either (a) seek an exception to its provisions requiring use of actual rates, or (b) comply with PPM CW-F-044. Also, an option discussed in our prior report involved discontinuing billing County departments for services and instead utilize procedures under the County's Full Cost Allocation Plan. The County Attorney told us that this option was still being considered, but had not yet been fully discussed with departments and OFMB.

Recommendation 4

The County Attorney should either seek an exception to the PPM requirement for use of full cost in developing interdepartmental billing rates or ensure compliance with PPM CW-F-044 by submitting actual billing rates to OFMB for review and approval annually.

Management Comments and Our Evaluation

In replying to a draft of this report, the County Attorney agreed to comply with PPM CW-F-044 and to submit actual billing rates to OFMB. We agree with the County Attorney's promised action on this audit recommendation.

Recommendation 5

The County Attorney should ensure that actual billing rates are charged to departments for services rendered. In this regard, the County Attorney may want to consider eliminating charges to each department and come under the auspices of the County's Full Cost Allocation Plan where its expenses would be included in the overall Plan or seeking an exception to the full cost requirement of the PPM.

Management Comments and Our Evaluation

In replying to a draft of this report, the County Attorney concurred, in part, with the audit recommendation. She stated that in the final analysis, the result is the same---full cost is recovered. She stated that her calculations were based on actual costs and, acting within the scope of her authority as the County Attorney, she has chosen not to charge full cost in direct billings. Whatever costs are not collected through billing will continue to be charged through the indirect cost allocation plan, thus full cost is recovered.

We agree with the County Attorney's view that she can, acting within her authority, choose not to bill actual costs to other County departments. And we also agree that costs that are not recovered through direct billing will be recovered in the County's indirect cost allocation plan. Thus, we consider this recommendation as closed upon report issuance.

BACKGROUND

The Office of Financial Management and Budget (OFMB) is responsible for the direction, administration, and evaluation of Palm Beach County's (County) financial management systems. OFMB's responsibilities include preparing and administering the annual budget; evaluating the fiscal impact of issues to be considered by the Board of County Commissioners (BCC); and developing County-wide financial policies. OFMB has a total budget of $3.4 million for Fiscal Year 2011.

Palm Beach County's external auditors McGladrey and Pullen issued a Management Letter to the County dated September 30, 2009 noting that approximately $560,000 in interdepartmental billings had been based on estimated costs rather actual costs as required by County policy. The auditors recommended that OFMB should ensure that County departments were aware of and understood County policy and procedure for interdepartmental billings.

County-wide PPM CW-F-044 dated November 2010 entitled "Interdepartmental Billings" provides guidelines and direction to County departments for preparing, processing and establishing rates for interdepartmental billings for goods and services. Billing rates must be established and adjusted to recover the full cost of providing the good or the service. OFMB is responsible for reviewing and approving (a) department procedures for interdepartmental billings and (b) annual updates of department billing rates.

Ten County departments budgeted $11.9 million in interdepartmental billings and another $45.5 million in internal service funds for Fiscal Year 2011. Internal service funds operate similar to interdepartmental billings and will hereafter be included in the term 'interdepartmental billings'. As of March 31, 2011 actual billings for all interdepartmental charges amounted to $21.3 million. Major departments included the Facilities Development and Operations Department (FDO), Environmental Resources Management Department (ERM), and the Engineering and Public Works Department (EPW).

Attachment A to this report shows the Fiscal Year 2011 budgeted and actual charges by department at March 31, 2011.

Our Office issued Audit Report 09-28 dated July 13, 2009 regarding the County Attorney's Office compliance with PPM CW-F-044. This report included three recommendations that the County Attorney: 1) ensure compliance with PPM CW-F-044 by developing written procedures specifying how interdepartmental billing rates will be determined, 2) ensure compliance with PPM CW-F-044 by submitting the interdepartmental billing rates and procedures to OFMB for review and approval, including the required annual review of such rates and 3) research its authority to charge certain County departments/programs for its services.

OFMB officials requested that this audit be included in our Fiscal Year 2011 Audit Plan.

AUDIT SCOPE AND METHODOLOGY

The audit scope for this assignment was Fiscal Year 2011, except that we reviewed prior year activities to determine whether OFMB had approved County department procedures for determining interdepartmental billing rates. We spoke with OFMB and selected County department officials regarding their activities involving interdepartmental billings, reviewed Palm Beach County's Fiscal Year 2011 Budget, review of the external auditor's Management Letter 09-01 dated September 30, 2009, and County-wide PPM CW-F-044. We also reviewed Audit Report 09-28 concerning the County Attorney's compliance with PPM CW-F-044.

We performed the following procedures in order to answer the audit objectives:

For Audit Objectives 1 and 2, we spoke with OFMB officials regarding the requirement cited in PPM CW-F-044 to approve (a) County department procedures for interdepartmental billings, and (b) billing rates for Fiscal Year 2011. We reviewed available documentation at OFMB concerning activity in complying with the requirements of PPM CW-F-044 and selectively reviewed County department procedures available either at OFMB or at the departments.

For Audit Objective 3, we spoke with OFMB officials about the actions taken to implement the external auditor's recommendation concerning the need for County departments to invoice interdepartmental billings on an actual cost basis.

For Audit Objective 4, we selected four County departments (FDO, Engineering, ERM, and the County Attorney) and reviewed a sample of interdepartmental charges made in Fiscal Year 2011.

For Audit Objective 5, we spoke with the County Attorney regarding actions taken on prior audit recommendations, and reviewed available documentation on actions taken on such recommendations.

Management is responsible for establishing effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively and are safeguarded; laws and regulations are followed, and reliable data is obtained and maintained and fairly disclosed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Joseph F. Bergeron

Joseph F. Bergeron, CPA, CIA, CGAP
Internal Auditor
June 1, 2011

ADMINISTRATIVE RESPONSE

Palm Beach County
Interoffice Communication

TO: Joseph F. Bergeron
Internal Auditor

FROM: Liz Bloeser, Director
Office of Financial Management & Budget

DATE: June 22, 2011

SUBJECT: **Response to Interdepartmental Billings Audit**

Following are OFMB's responses to the findings in the final draft audit report on Interdepartmental Billings:

Recommendation 1
The OFMB Department Director should ensure that departmental interdepartmental billing procedures submitted to OFMB as required by PPM CW-F-044 are reviewed and approved.
OFMB Response
We concur. The OFMB Director will send a memo to each department requesting a copy of their most recent written procedures. Those procedures will be reviewed/approved by OFMB. The memo will be sent out by June 30, 2011.

Recommendation 2
The OFMB Director should ensure that departmental interdepartmental billing rate calculations submitted to OFMB as required by PPM-F-044 are reviewed and approved.
OFMB Response
We concur, in part. Beginning with the FY 2013 budget development process, OFMB will require the billing rate calculations be submitted as a part of the budget development process. This will occur in the first quarter of 2012.

OFMB will review these calculations for reasonableness. However, OFMB does not intend to "approve" the rates as we do not feel comfortable doing so without performing a sufficient amount of "audit-type" work upon which to base our approval. We would suggest that the Internal Auditor include an audit of these billing calculations as a part of their annual work plan.

PPM CW-F-044 will be amended to allow for both of the procedural changes referenced in the foregoing paragraph. The timetable for the amendment of the PPM is August, 31, 2011.

Recommendation 3

The OFMB Director should reconsider the changes proposed to PPM CW-F-044 and continue its responsibilities and approval of both procedures and annual billing rates.

OFMB Response

OFMB intends to remain involved in the process as evidenced by our responses to Recommendations 1 and 2.

c: Robert Weisman, County Administrator
John Wilson, Budget Director, OFMB

Palm Beach County
Interoffice Communication

TO: Department/Division Heads

FROM: Liz Bloeser, Director
Office of Financial Management & Budget

DATE: June 29, 2011

SUBJECT: **Interdepartmental Billings**

PPM CW-F-044, Interdepartmental Billings, requires all departments providing goods or services to other County departments to develop written procedures that specify how billing rates for these goods and services are established. The PPM further requires that these written procedures be approved by OFMB.

During an internal audit of the Interdepartmental Billing process, it was found that, among other things, some departments had not submitted written procedures to OFMB. Therefore as a follow up to the audit finding, you are requested to provide a copy of your department's written procedures for establishing billing rates to your budget analyst. OFMB will review all submitted procedures and approve if in compliance with CW-F-044. If not, it will be returned to the department for revision. A copy of OFMB's approval will be provided to the Department. OFMB is working on revising CW-F-044 with a proposed effective date of July 31, 2011. Attached is a draft of the proposed revised PPM. This policy still has to go the policy review committee and may have changes. Once the revised policy is approved, we will advise of the due date for submitting your procedures for review.

As a heads up, beginning with the FY 2013 budget process, the calculations utilized by your department to determine billing rates will be a required element in the budget submittal package. These calculations and rates will be reviewed for reasonableness by the Budget Office as a part of the budget review process.

If you have any questions, please feel free to contact me or John Wilson. We appreciate your cooperation.

c: John Wilson, Budget Director
Budget Office Staff
Joe Bergeron, Internal Auditor

TO: ALL COUNTY PERSONNEL

FROM: ROBERT WEISMAN
COUNTY ADMINISTRATOR

PREPARED BY: OFFICE OF FINANCIAL MANAGEMENT AND BUDGET (OFMB)

SUBJECT: INTERDEPARTMENTAL BILLINGS

PPM#: CW-F-044

ISSUE DATE **EFFECTIVE DATE**

~~November 08, 2010~~ April 30, 2011 July 31, 2011
November 08, 2010 April 30, 2011 July 31, 2011

PURPOSE:

To provide guidelines and direction to County departments, divisions and agencies on the preparation, processing, and rate establishment of interdepartmental billings for goods and services.

UPDATES:

Future updates to PPM# CW-F-044 will be the responsibility of the Director of the Office of Financial Management & Budget.

AUTHORITY:

- Palm Beach County Administrative Code, Section 306.02.

DEFINITIONS:

Billing Rate - The price of a unit of service over a unit of time (e.g., a labor rate of $25 per hour), or the cost of a selected unit of a good (e.g., $50 per box).

Cost - An expenditure or outlay of cash, other property, or services, or the incurring of a liability therefore, identified with goods or services acquired.

Departmental Charge - A charge additional to the direct cost of a particular production or operation, directly or indirectly applicable to a department, such as departmental overhead or a portion of general overhead.

Direct Cost - The cost of any good or service that contributes to and is readily ascribable to product or service output. Direct costs can be identified with units to be cost at the time the cost

is incurred (e.g., an hour of labor, a quantity of material, an hour of machine time, etc.).
Final Product - Any good on which all contributory operations have been completed, or any service that has been fully rendered.

Full Cost - The full cost includes the direct cost of a good or service plus the departmental charge.

Good - Any item of merchandise, raw materials, or finished goods.

Invoice - A document detailing the description, quantity, price, terms, nature of delivery, and other particulars of goods sold or of services rendered.

Overhead (also known as "Indirect Cost") - A generic name for costs of materials and services not readily identifiable with the product or service that constitute the main output of an operation. Where applicable, overhead should include space allocation costs. Overhead is sometimes referred to as "indirect cost."

Overhead Rate - A standard rate at which overhead is allocated.

Service - Work done or duty performed to meet a need or satisfy a requirement.

POLICY:

I. Applicability of PPM

This PPM will apply to all County departments, divisions or agencies for which it has been determined that costs for goods and services are to be recovered.

II. Billing Rates

All Departments, which provide goods or services to other County departments, will be responsible for developing written procedures that specify how billing rates for these goods or services are established. These procedures, and any updates, must be submitted to the Office of Financial Management and Budget (OFMB). OFMB will review all submitted procedures and approve if in compliance with this policy. Departments will be advised if the procedure complies with this policy. If not, it will be returned to the department for revision.

These procedures **must be approved** by the Office of Financial Management and Budget (OFMB).

In general, billing rates must be established and adjusted to recover the full cost of providing the good or the service. In the event the full cost method is not used to develop rates, the Department must include the rationale for the recovery method used. Rates will be reviewed for reasonableness as part of the annual budget process.

III. Cost Estimates

Upon request, all Departments, which provide goods or services to other County departments, will provide written estimates of the cost of the goods or services to be provided. Written estimates will be required when the estimated cost of the good or service exceeds $1,000 and the duration of the service period exceeds one (1) month.

IV. Encumbering of Cost Estimates

All written estimates will be encumbered in the County's accounting system (Advantage). The provider department may elect to encumber all estimates. Responsibility for encumbering or unencumbering these cost estimates will reside with the provider department.

PROCEDURES:

I. Departmental PPM's

A. Development and Approval

Each department providing goods and services to other departments or capital projects will develop procedures specifying how billing rates, including applicable overhead rates, will be established.

~~For those departments that do have a financial staff, F~~These procedures must be submitted to OFMB for review and approval prior to inclusion in a department PPM.

Once approved by OFMB, these procedures will be incorporated in a departmental PPM.

B. Updating of Billing Rates

Billing rates established by these procedures will be updated **annually**, as appropriate. These rates must be submitted annually to OFMB with the Department's budget submission. OFMB will review these calculations for reasonableness.

For those departments that do have a financial staff, these updated rates must be submitted to OFMB for review and approval prior to inclusion in a department PPM.

Once approved by OFMB, these updated rates will be distributed to all potential users and OFMB.

C. Cost Components of Billing Rates

Unless provided for in the Department procedure, Aall billing rates, at a minimum, will recover the full cost of providing the good or the service. The full cost will include the direct cost of a good or service plus the appropriate departmental charge.

Where the use of materials is essential to the provision of a good or service, a separate rate will be developed for labor and materials.

II. Request Initiation and Billing Process

A. Requests for Goods and Services

The department requesting goods or services will do so in writing using such forms as may be required by the provider department.

B. Cost Estimates

The provider department will review the request for goods or services and provide a written estimate of the cost if requested or required by this PPM. The estimate will indicate whether billings will be provided periodically (e.g., monthly) or at delivery of the final product.

No services will be provided or goods furnished until the requesting department has accepted the estimated costs as authorized by the signature of the requesting department.

The provider department will not bill the requesting department for the cost of preparing the estimate.

C. Funding Availability

It will be the responsibility of the Department requesting the good or service to ensure that sufficient funding exists in the proper account to fund the request.

D. Encumbrances of Cost Estimates

When the cost estimate has been accepted, an encumbrance will be established in the Advantage accounting system for that cost if required by this PPM.

The provider department will maintain records of approved cost estimates, which have been encumbered in Advantage. Encumbrances may not be changed without the approval of the requesting department.

E. Billing

The provider department will invoice the requesting department based on actual costs incurred (i.e., labor, materials, and applicable overhead costs).

The provider department will be responsible for notifying the requesting department if total actual costs are expected to exceed the total cost estimate. This notification should be made **within sufficient time** so as to facilitate the prior approval of any necessary budget transfers or permit the modification of project scope.

~~Procurement & Project Implementation Group (PPIG) costs will be invoiced to requesting department based on established hourly and job rates as approved by OFMB.~~

The requesting department must approve in writing any requested increase by the provider department and that increase will be encumbered as specified in **"D"** above.

F. Invoice Processing and Recording

Invoices will be processed through Advantage by the provider department, in accordance with procedures established by OFMB and the Finance Department.

The amounts invoiced by the provider department will be recorded in conformance with **PPM # CW-F-043** (Accounting Policies for Interfund, Intrafund and External Transactions).

ROBERT WEISMAN
COUNTY ADMINISTRATOR

Supersession History:
1. PPM # CW-F-044, issued 12/06/94
2. PPM# CW-F-044, issued 9/1/95, effective 8/1/97
3. PPM# CW-F-044, issued 12/1/07
4. PPM# CW-F-044, issued 10/21/10
5. PPM# CW-F-044, issued 04/30/11

INTEROFFICE MEMORANDUM

TO: Joseph F. Bergeron
Internal Auditor

FROM: Denise M. Nieman
County Attorney

SUBJECT: Response to Interdepartmental Billings Audit

DATE: July 18, 2011

Following are the County Attorney's responses to the findings in the final draft audit report on Interdepartmental Billings:

Recommendation 4

The County Attorney should either seek an exception to the PPM requirement for use of full cost in developing interdepartmental billing rates or ensure compliance with PPM CW-F-044 by submitting actual billing rates to OFMB for review and approval annually.

County Attorney Response

I concur, and agree to comply with PPM CW-F-044 by submitting actual billing rates to OFMB.

Recommendation 5

The County Attorney should ensure that actual billing rates are charged to departments for services rendered. In this regard, the County Attorney may want to consider eliminating charges to each department and come under the auspices of the County's Full Cost Allocation Plan where its expenses would be included in the overall Plan or seeking an exception to the full cost requirement of the PPM.

County Attorney Response

I concur, in part, as in the final analysis, the result is the same—full cost is recovered. Our calculations were based on actual costs and, acting within the scope of my authority as the County Attorney, I have chosen not to charge full cost in my direct billings. Whatever costs we do not collect through billing will continue to be charged through the indirect cost allocation plan, thus full cost is recovered.

DMN/jg

cc: Robert Weisman, County Administrator
John Wilson, Budget Director, OFMB

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Office of the County Internal Auditor
Audit Report #2011-32

WATER UTILITIES DEPARTMENT

INVENTORY CONTROLS

Approved by Audit Committee
September 21, 2011

DATED MAY 19, 2011

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following questions:

Did the Water Utilities Department (WUD) Director ensure that warehouse inventory management was conducted in accordance with County and Departmental PPMs during FY 2010? Specifically, did the WUD Director ensure that:

1. Records of inventory on hand agreed with physical counts?
2. Obsolete items were identified and disposed of as required?
3. Equipment and parts issued from the warehouse were approved by designated officials?
4. General purpose tools issued from the warehouse were accounted for?

WHAT WE FOUND

1. Records of inventory on hand did not agree with physical counts.
2. Obsolete items were not identified and disposed of as required.
3. Warehouse parts requisitions were not signed acknowledging receipt, some had items added after initial supervisory approval, and some were only partially filled due to inadequate supplies.
4. General purpose tool inventory records had not been updated since January, 2008 and many tools had been issued which could not be accounted for by warehouse staff.

WHAT WE RECOMMEND

The Audit Report makes eight recommendations to the WUD Director to improve inventory management and control. Among the recommendations included in the Audit Report are that inventory records be periodically compared to on hand counts and discrepancies are investigated; obsolete items are identified and disposed of when necessary; inventories are adequate to meet demands; and that improvements in management and accountability for tools are made.

DETAILED FINDINGS AND RECOMMENDATIONS

Finding 1. Controls Over Inventories Need Improvement

Countywide PPM CW-F-059 entitled *"Inventory of Parts and Supplies"* requires departments to maintain perpetual records of inventories when inventory values exceed $50,000. The PPM requires departments to ensure that their inventory records are accurate and properly valued. WUD is required to maintain perpetual inventories based on their inventory value of $5.9 million.

We tested inventory records by comparing on hand quantities to recorded quantities for both warehouses. We found differences between the recorded quantities and on hand quantities for about 50% of the items we tested. Some on hand quantities exceeded the inventory records and some were less than the inventory records.

For example: The on hand inventory of PVC pipe at one warehouse was 560 feet while the inventory record was 855 feet;

The on hand quantity for Tape Coding Yellow at one warehouse was 76 units while the inventory record was 26 units.

Recommendations

1. The WUD Director should take steps to ensure that that records of inventory are periodically compared to on hand quantities and that adjustments are made as necessary to the records.
2. The WUD Director should ensure that discrepancies found during the periodic counts are investigated, documented and that appropriate management action is taken.

Management Comments and Our Evaluation

In reply to a draft of this report, the WUD Director agreed with Recommendations 1 and 2. In regard to Recommendation 1, he stated that WUD Warehouse staff was in process of conducting systematic cycle counts to verify the accuracy of the perpetual inventory. In addition, a cycle county PPM would be developed and implemented by October 1, 2011. In regard to Recommendation 2, he stated that WUD had updated its PPM on May 18, 2011 to cover adjustments made to the perpetual inventory records. We agree with the actions taken by the WUD Director on Recommendations 1 and 2.

Finding 2. Obsolete Items Need to be Identified and Disposed of Properly

Countywide PPM CW-F-059 entitled *"Inventory of Parts and Supplies"* requires departments to identify, segregate and take appropriate action on obsolete and damaged items in inventory. Warehouse staff were not able to provide us a WUD Policy on this subject.

Warehouse staff told us there had been an annual process for identifying obsolete items but the process had not been conducted since July 2008. During the audit a report was prepared by warehouse staff showing inventory items with no activity in 2 ½ years and forwarded to Operations supervisors to identify and confirm obsolete or surplus items. The total value of items on the report was $1.9 million which is about 30% of the WUD inventory. At the time of this audit report the review was still on-going.

Recommendations

3. The WUD Director should ensure that inventories are periodically examined for obsolete items and that those items are properly segregated, disposed of and that records are appropriately updated.
4. The WUD Director should establish a Department policy addressing obsolete, damaged or surplus items. The policy should address the requirements of Countywide PPM CW-F-059 and establish how that policy will be implemented in WUD.

Management Comments and Our Evaluation

In replying to a draft of this report, the WUD Director agreed with Recommendations 3 and 4. In regard to Recommendation 3 he stated that an Inventory Review Committee had been established to review items that have not moved for two years or longer. The Committee will meet annually to review, evaluate and propose inventory changes. In regard to Recommendation 4, he stated that the Committee would also consider obsolete inventory and determine if it should be sent to the County Surplus Warehouse for resale or disposed of. We agree with the WUD Director's intended actions on Recommendations 3 and 4.

Finding 3. Controls Over Stock Requisitions and Issuances Need Improvement

WUD PPM L-03 entitled *"Requisitions for Warehouse Materials Procedures"* requires that all requisitions be approved by an authorized supervisor prior to issuance. The PPM also requires the employee receiving the materials to sign for the items received. Approximately 1/3 of the requisitions we examined at each warehouse had items added to the requisitions by hand after supervisory approval and submission to the warehouse. There was no indication that these added items were approved by supervisory personnel.

Additionally, approximately 50% of the requisitions we examined had items which were either not filled or partially filled. Warehouse management and staff told us, although they used an informal process to identify items needing re-ordering, there were no formal systems or procedures for identifying items which needed to be ordered. Based on the numerous instances of requisition items being under-filled or not filled at all we believe WUD management needs to consider improving its inventory ordering practices.

Recommendations

5. The WUD Director should ensure that changes to stock requisitions which occur after initial supervisory approval are also approved before stock issuance.
The WUD Director should take actions to ensure that stock shortages or stock outs are minimized and that inventory ordering

procedures incorporate consideration of stock utilization levels and order fulfillment lead times.

Management Comments and Our Evaluation

In replying to a draft of this report, the WUD Director agreed with Recommendation 5 stating that WUD L-003 WAS updated on 3/1/11 to cover goods issued from warehouse stock. Changes to requisitions are not permitted once they have been approved—a new requisition must be submitted. We agree with the action taken by the WUD Director in response to Recommendation 5.

Finding 4 Controls Over Tool Room Equipment Inventories Need Improvement

WUD PPM L-008 entitled *"Tool Room Policy and Procedure"* establishes policy for use and accountability of tools and equipment assigned to the tool room. Items checked out of the tool room are to be returned within five days unless specific job requirements are cited when the items are checked out. WUD also maintains a database of items assigned to the tool rooms at each warehouse.

According to Warehouse staff and management the tool room database has not been updated since January 2008. Separate fixed asset listings are maintained for tools valued at $1000 or more but these listings are not compared to the tool room database.

In our review of Tool Room activity we found that tools and equipment were being checked out of the tool room with proper authorization. However, we found that there were no records of many of the tools being returned to the tool rooms. In some cases Warehouse management was not able to say where a particular tool might be. Tool room check out records were not maintained in one tool room after an item had been returned and in some instances tools which had been checked out had been returned with no update to the records.

WUD PPM L-008 also requires notices be given and actions taken in instances where checked out tools are not returned within the five day time limit established in the policy. Warehouse management was unable to provide any evidence that those follow-up actions were taken.

In our view WUD needs to make significant improvements to its tool room inventory management practices and should research its history of past issuances to ensure that all tools are accounted for.

Recommendations

6. The WUD Director should ensure that all tools and equipment assigned to the tool rooms are controlled and accounted for.
7. The WUD Director should review and update as necessary PPM L-008 and ensure that Warehouse staff comply with the requirements of that PPM.
8. The WUD Director should research its history of past issuance of tools and ensure that all tools issued have been returned. Further research should be performed in cases where tools remain unaccounted for.

Management Comments and Our Evaluation

In replying to a draft of this report, the WUD Director agreed with Recommendation 6, 7, and 8. In regard to Recommendation 6, he stated that WUD L-008 was revised on 5/8/11 and outlines the inventory responsibilities of equipment assigned to the tool room personnel. The WUD PPM will be further revised to reflect the automation of the tool room inventory. In regard to Recommendation 7, he stated that all warehouse staff is in compliance with WUD L-008 revised 5/18/11. Finally, in regard to Recommendation 8, he stated that all tools had been accounted for. We agree with the WUD Director's actions planned and taken on Recommendations 6, 7, and 8.

BACKGROUND

The Water Utilities Department (WUD) is an enterprise fund operation of the Palm Beach County Board of County Commissioners (BCC). WUD provides potable water, reclaimed water, and wastewater services to approximately 514,000 people located primarily in the unincorporated area of Palm Beach County. In addition, WUD provides services directly to the residents and businesses of Royal Palm Beach, Greenacres, Haverhill, Belle Glade, Pahokee and South Bay and indirectly, through wholesale agreements, to the residents of Palm Springs, Lake Worth, Boynton Beach, and Atlantis. WUD has a $117.2 million budget for fiscal year 2011.

WUD's warehouse operation (Warehouse) is within the Supports Services Section (Section) of the Finance and Administration Division (Division). The Manager of Support Services is responsible for the operations of the Section. The Warehouse maintains an inventory of parts and supplies used by the Operations and Maintenance Division (O&M). O&M operates and maintains five water treatment plants, two wastewater treatment plants and related collection and distribution systems.

The Warehouse operates out of two locations, one at the Southern Region Operations Center (SROC) in Delray Beach and at the Central Region Operations Center (CROC) at WUD headquarters in West Palm Beach. Each warehouse is assigned a Materials Manager, a storekeeper and three stock persons. The Materials Managers report to the Manager of procurement and stores, who in turn reports to the Manager of Support Services.

Warehouse personnel are responsible for ordering, receiving, storing and distributing the required parts and supplies. Warehouse personnel conduct periodic inventory counts, as well as an annual physical inventory at fiscal year end. In addition to the Countywide PPM CW-F-059 Inventory of Parts & Supplies, there are a number of Departmental PPMs relating to the various warehouse functions. The inventory on January 12, 2011 consisted of 411,000 units of approximately 2500 active item numbers with a value of about $5.9 million.

In July 2010 WUD management uncovered incidences of manipulation of purchasing and inventory records in violation of WUD's

PPMs and have handed it over to the Office of the Inspector General (OIG) for investigation. Three employees, two from the Section and one from O&M, have been suspended indefinitely with pay pending the results of the investigation. At the time of the audit the OIG was conducting the investigation.

AUDIT SCOPE AND METHODOLOGY

Through interviews with Warehouse management and staff, and a review of County and department PPMs, and the Palm Beach County Budget Book for Fiscal Year 2010 we prepared a risk assessment addressing the operational, and compliance objectives of Warehouse operations. This risk assessment addressed objectives in the major areas under consideration for audit, including the controls over stocks levels; movement and recording of inventory, access and security, and obsolescence. The risk assessment focused on the various processes utilized by the warehouse operations function to attain their objectives, the associated risks and internal controls implemented to mitigate these risks. The following Countywide and Departmental PPMs establish the guidelines for the various Warehouse functions:

- CW-F-059 – Inventory of Parts and Supplies
- WUD-L-002 - Physical Inventory Count Procedures
- WUD-L-003 - Requests for Warehouse Materials Procedures
- WUD-L-004 - Processing Requisitions for Goods and Services
- WUD-L-008 - Tool Room Policy and Procedure
- WUD-L-011 - Inventory Adjustments (IA)
- WUD-L-012 - Warehouse Transfers (TI)
- WUD-L-013 - Receiving Materials into WUD Warehouses
- WUD-L-014 - Stock Returns (SN)
- WUD-L-015 - Return Shipments (Return to vendors)

From this risk assessment we selected the specific audit objective for which we prepared an audit program tailored to answer the audit objectives. The audit program focused on the procedures necessary to develop the evidence needed to answer the audit objectives and to provide reasonable support for our audit conclusions and recommendations. In developing the audit program we obtained more information on the internal controls that we considered significant within the context of these audit objectives. We also performed other limited tests, using such means as inquiries, observations, inspection of documents system records, and direct transaction tests.

In order to answer our audit objective we reviewed the policies, roles and processes in place for monitoring and controlling the physical inventory at the two warehouse locations. Our methodology included tests of inventory management using analytical procedures applied to both statistical samples and all inventory items. We tested the accuracy of inventory records and inventory values. We tested and validated inventory transactions such as receipts, issuances and adjustments. We reviewed the obsolescence process as well as reviewed, observed and validated the security and access controls. Our audit work related to the testing of inventory records, inventory values and inventory movement transactions included the use of randomly selected judgmental samples.

Our audit scope included inventory transactions for the two warehouse locations during fiscal year 2010. This included transactions relating to the ordering, receiving, storing, issuing, adjusting and disposing of parts and supplies maintained by the two warehouses.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Management is responsible for establishing effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively, and are safeguarded; laws and regulations are followed; and reliable data is obtained and maintained and fairly disclosed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results.

Joseph F. Bergeron

Joseph F. Bergeron, CPA, CIA, CGAP
Internal Auditor
May 19, 2011

ADMINISTRATIVE RESPONSE

MEMORANDUM

DATE: July 25, 2011

TO: Joseph F. Bergeron, Internal Auditor

FROM: Bevin A. Beaudet, PE., WUD Department Director

RE: DRAFT AUDIT REPORT - INVENTORY CONTROL AND MANAGMENT

Please find below my response to your recent audit recommendations for *Inventory Controls and Management*. I concur with your findings and have directed staff to take the necessary steps to improve our procedures as recommended in this report.

1. The WUD Director should take steps to ensure that the records of inventory are periodically compared to on-hand quantities and that adjustments are made as necessary to the records.

   Response:

   WUD Warehouse staff is currently conducting systematic cycle counts to verify the accuracy of the perpetual inventory. The counts should cover 50% of the items in stock prior to conducting the year end physical inventory at the end of September. A Cycle Count PPM outlining a specified process will be developed, published and implemented by 10/1/11.

2. The WUD Director should ensure that discrepancies found during the periodic counts are investigated, documented and that appropriate management action is taken.

   Response:

   WUD L 011 was updated on 5/18/11 and covers adjustments made to the perpetual inventory records.

3. THE WUD Director should ensure that inventories are periodically examined for obsolete items and that those items are properly segregated, disposed of and that records are appropriately updated.

   Response:

   An inventory review committee was established in May 2011 for the purpose of reviewing items that have not moved for a period of two years or longer. The committee consists of a cross section of WUD employees and supervisors who are served by the utility. Input from this committee is used to propose inventory changes to WUD Administration. The committee will meet annually to review, evaluate, and propose inventory changes. WUD L 011 covers adjustments made to the perpetual inventory records.

4. The WUD Director should establish a Department policy addressing obsolete, damaged or surplus items. The policy should address the requirements of Countywide PPM CW-F-059 and establish how that policy will be implemented in WUD.

   Response:

   Obsolete inventory will be covered by the Inventory Review Committee. Inventory deemed to be obsolete is sent to the County Surplus Warehouse for resale. Damaged inventory is disposed of. WUD L 011 covers adjustments made to the perpetual inventory records.

5. The WUD Director should ensure that changes to stock requisitions which occur after initial supervisory approval are also approved before stock issuance. The WUD Director should take actions to ensure that stock shortages or stock outs are minimized and that inventory ordering procedures incorporate consideration of stock utilization levels and order fulfillment lead times.

   Response:

   WUD L 003 was updated on 3/1/11and covers goods issued from warehouse stock. Changes to requisitions are not permitted once they have been approved. A new requisition or emergency requisition must be submitted according to the process as outlined in WUD L 003.

   Weekly inventory listings are generated in Crystal reports by the Manager of Support services. Example attached. These listings identify the stock items (in red) that have less than 50% of the historical usage on hand. These reports are used to make a reorder determination. Reorder factors include past history usage, lead time, current and future projects.

The Manager of Support services sends out a monthly notice to all WUD Supervisors soliciting information regarding special projects that may be planned which could require more than historical amounts of inventory so that Materials Managers can plan for the requirements of these special projects. Example attached.

6. The WUD Director should ensure that all tools and equipment assigned to the tool rooms are controlled and accounted for.

   Response:

   WUD L 008 was revised on 5/18/11 and outlines the inventory responsibilities of equipment assigned to the tool room personnel. Maximo will be used to track the inventory and should be fully operational by 10/1/11. WUD L 008 will be revised to reflect the automated inventory system once Maximo is installed and fully operational.

7. The WUD Director should review and update as necessary PPM L-008 and ensure that Warehouse staff fully comply with the requirements of that PPM.

   Response:

   WUD L 008 was revised on 5/18/11. Warehouse staff is in compliance.

8. The WUD Director should research its history of past issuance of tools and ensure that all tools issued have been returned. Further research should be performed in cases where tools remain unaccounted for.

   Response:

   WUD L 008 was revised on 5/18/11. All tools have been accounted for.

Thank you for the responsiveness of your staff upon my request for this review. As you can see from our progress to date, working closely with your staff during this review has allowed us to begin making improvements well before the final report was completed. The remaining recommendations will be implemented prior to 10/01/11.

Office of the County Internal Auditor
Audit Report #2011-33

COUNTY ADMINISTRATION and SELECTED COUNTY DEPARTMENTS

CONSULTANT OVERHEAD RATES

Approved by Audit Committee
September 21, 2011

DATED MAY 26, 2011

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following questions:

1. Did the Engineering and Public Work Department implement the audit recommendation relative to multipliers included in Audit Report 05-06 dated April 2005?

2. How did Engineering, WUD, FDO, ERM and DOA determine multipliers to be used in contracts subject to CCNA during Fiscal Year 2010 and Fiscal Year 2011 (through March 2011)?

WHAT WE FOUND

The Engineering Department took corrective action relative to multipliers for prime consultants with either FDOT approved or CPA certified multipliers. However, the Department did not require self-certification forms from other prime consultants as they had proposed in the response to the April 2005 audit.

Each of the five departments above used differing approaches to analyze costs, including multipliers, in CCNA contracts. Some departments required more information than others relative to contract costs, some conducted detailed reviews of proposed multipliers, and some conducted no reviews of multipliers and focused on the total cost of the consultant service. None of the departments applied these procedures to sub-consultants on CCNA contracts.

WHAT WE RECOMMEND

The audit report recommends the County Administrator consider revising PPM CW-O-066 (the PPM governing consultant multipliers) to:

- Require departments providing consultant services under federal or state grants to comply with the requirements set forth in their agreements and implement

departmental policies to ensure compliance with the requirements of the grantor(s).
- Require departments providing consultant services using funds from other than federal/state sources, i.e., County (ad-valorem or other) funds, to implement a PPM to help ensure compliance with Florida Statute 287.055 requiring that consultant contracts be fair, competitive, and reasonable. Department PPMs should specifically identify how the Statute requirement for making a detailed cost analysis is to be met.

DETAILED FINDINGS AND RECOMMENDATIONS

The sections below discuss audit results at each County department.

ENGINEERING

We met with Engineering's CCNA Coordinator from the Roadway Production Division on February 15, 2011, who told us that Engineering implemented the recommendation relative to multipliers included in Audit Report 05-06 dated April 2005. In response to that audit, Engineering proposed the following:

- Consultants with an FDOT-approved overhead rate will be required to submit supporting document from FDOT.
- Consultants that do not have an FDOT-approved rate will be required to submit an overhead rate calculation prepared and certified by a Certified Public Accountant (CPA).
- Consultants that do not have an FDOT-approved overhead rate and for which obtaining an audit by a Certified Public Accountant is a financial hardship will be required to submit for review and approval a Self-Certification of Accounting System and Overhead Rate prepared in accordance with the FDOT Negotiation Handbook.

The CCNA Coordinator told us that Engineering relies primarily on submission of the letter from the FDOT, which states that "On the basis of data submitted the Department has approved your accounting system and considers the rates listed as acceptable rates for qualification purposes." Engineering also accepts self-certifications from those consultants that cannot provide either a FDOT-approved overhead rate or a CPA-certified rate calculation. However, the Consultant Contract Management Specialist in the Roadway Production Division told us that, until recently, Engineering had not required these consultants to submit the specific forms prescribed in the FDOT Negotiation Handbook which require information on the firm's accounting system in addition to the composition of the accounts comprising the multiplier. Also, Engineering complied with PPM CW-F-066, limiting prime consultant multipliers to a maximum of 3.0. The CCNA Coordinator told us that Engineering also limits sub-consultant multipliers to 3.0, but does not require them to submit support documentation.

We reviewed two of Engineering's project specific contracts and three of their annual contracts. All five contracts describe payments to the prime consultants as actual salary costs times a "factor" for services rendered by principals and employees assigned to the project plus all reimbursable expenses. These factors, or multipliers, ranged from 2.48 to 3.0. The two project specific contracts also name sub-consultants with multipliers ranging from 2.744 to 2.98.

We also reviewed support documentation submitted by the prime consultants for these contracts. FDOT letters were submitted for three of the contracts and an overhead rate calculation certified by a CPA was submitted for another. For the remaining contract, the overhead rate calculation did not contain a certification. The Consultant Contract Management Specialist explained that this was an instance of "self-certification" lacking the proper forms prescribed in the FDOT Negotiation Handbook.

WUD

We met with WUD's Deputy Director and Engineering Director on February 17, 2011, who told us that WUD determines the lump sum fees paid to consultants based on the total number of hours multiplied by the hourly labor rates, and again multiplied by a factor of 3.0—considered a standard in their industry. They noted that this is within the guidelines of PPM CW-F-066. They primarily use their own consulting contracts, but sometimes use Engineering's annual contracts for certain tasks.

We reviewed the two annual contracts in effect for WUD's water consultant and wastewater consultant services. Services in annual contracts are provided as a series of separate tasks or projects authorized by Consultant Service Authorizations (CSAs). Both contracts we reviewed allow for either a fixed price or a not-to-exceed method of payment, but indicated a preference for the fixed price method, stating that "The County and Engineer shall mutually agree to a fixed price for services to be rendered and a detailed scope of services…Prior to execution of a fixed price authorization, the Engineer shall have submitted a detailed cost proposal including the estimated labor hours, labor rates, sub-contractual services, out of pocket expenses and other related costs supporting the proposed work. Fixed price contracts shall include all services including labor, overhead and profit as part of the fixed price."

Both contracts stated that compensation is "based upon the established actual hourly raw labor rates for services rendered by personnel directly engaged on County projects, multiplied by an overall overhead and profit factor of 3.0. The labor rates, overhead and profit factors may be subject to audit." They also allow for an additional cost of ten percent to compensate the firm for procuring and managing any sub-consultants. A schedule of hourly raw labor rates by labor category was attached as Exhibit B to each contract.

"Truth-in-Negotiation Certificates" are incorporated into the contracts and state that "the wage rates and costs used to determine the compensation provided for in the Contract are accurate, complete and current as of the date of the Contract and no higher than the average rates charged Engineer's other customers for the same or substantially similar service."

We reviewed one CSA for each of the two contracts. Both used the fixed price method of payment, indicated a multiplier of 3.0, and applied an additional cost of 10 percent to compensate the firm for procuring and managing sub-consultants.

FDO

We met with FDO's Director of the Capital Improvements Division on February 17, 2011, who told us that FDO determines lump sum fees paid to consultants based on time (the number of hours multiplied by hourly rates) and materials. They do not require that a multiplier be stated in the proposal. These costs are "loaded" into the hourly rates. If they believe that the initial cost proposal is too high, they focus on decreasing the number of hours charged by project participants such as the Project Manager. FDO uses annual and project specific contracts, as well as Engineering's annual contracts.

We reviewed two FDO annual contracts. Similar to the WUD contracts reviewed, both of these contracts require the consultant to provide a proposed written scope of services including schedule and cost for County review and allow for either a fixed price or a not-to-exceed method of payment, but indicate a preference for the fixed price method. Also similar to the WUD contracts, these state that compensation is based upon actual hourly raw labor rates multiplied by an overall overhead and profit factor. However, these contracts do not cite a specific multiplier. These contracts also state that overhead and profit factors are "subject to audit." A schedule of hourly raw labor rates by labor category for both the prime and sub-consultants was attached as Exhibit B to each contract.

"Truth-in-Negotiation Certificates" are incorporated into the contracts and state that "the wage rates and costs used to determine the compensation provided for in the Contract are accurate, complete and current as of the date of the Contract and no higher than those charged the Architect's most favored customer for the same or substantially similar service."

The one CSA we reviewed used the fixed price method of payment. A "Fee Analysis Breakdown" allocated costs between two phases of the project and between the prime and sub-consultants and outlined hourly rates and number of hours, but made no mention of multipliers, overhead or profit.

ERM

We met with ERM's Director of the Environmental Enhancement & Restoration Division and Technical Assistant III on February 16, 2011, who told us that ERM requires support documentation for consultant multipliers. They currently have six consultant contracts of their own, but often utilize Engineering's annual contracts. They follow PPM CW-F-066 and do not allow multipliers above 3.0.

ERM's Technical Assistant III explained that staff e-mails a form letter to the consultant outlining back-up documentation needed to support the fee schedule included as Exhibit B in their contract. The list of documentation needed includes the proposed labor categories, hourly base labor rate, basis for the proposed hourly base labor rate, multiplier, and the hourly contract billing labor rate (adjusted). They also require an itemized listing of employees who will be working on the project, a breakdown of how the multiplier is calculated, and a statement by an officer of the company attesting that the proposed multiplier can be supported by the firm's current audited financial statements. When the required documentation is received, the Technical Assistant III attaches a Document Approval

Routing form and forwards it for approval to ERM's Fiscal Manager and Environmental Contract Manager and others, who review the overhead calculation to determine whether there may be items listed that are unallowable under the FAR.

We reviewed two ERM annual contracts: Coast & Harbor Engineering, Inc. (CHE) and Taylor Engineering, Inc. (Taylor). Both contracts require the consultant to provide a detailed scope of work, proposal, subcontractor quotes, and a spreadsheet identifying all task costs and labor hours and allow for a combination of fixed price, not-to-exceed or other alternate methods of payments. Both contracts state that "Direct labor rates shall be the base labor rates (wages) multiplied by a gross multiplier..." For CHE, that multiplier was 2.719; for Taylor, it was 2.95. Both contracts state that "Fringe benefits, overhead, indirect charges, general & administrative (G & A) costs, fees and profit are included in the gross multiplier. No additional fringe, indirect, overhead, G & A, fee or profit shall be charged" and allow for an additional "administrative and supervisory fee of up to 5 percent." Both contracts were submitted to the Fiscal Manager and Environmental Contract Manager for review and approval.

"Truth-in-Negotiation Certificates" are not incorporated into the contracts but are required as support documentation. They state that "the wage rates, multiplier, overhead charges and other costs used to determine its rate and cost proposal are accurate, complete and current as of the date of the contract and are no higher than those charged the Consultant's most favored customer for the same or substantially similar service."

The CHE Task Order we reviewed used the fixed price method of payment. A fee analysis breakdown allocated costs between tasks and between the prime and sub-consultant and outlined hourly rates and number of hours. It stated that labor rates include overhead and profit. We also reviewed a Certification of Cost Proposal and a Calculation of Overhead Rates submitted by Taylor. The Certification stated that the proposed multiplier could be supported by internally prepared, unaudited financial statements. The calculation certified that it was prepared in compliance with FAR, but that it was not audited or reviewed by an independent third party. As a result of ERM's Fiscal Manager and Environmental Contract Manager review, Taylor reduced their multiplier from 3.00 to 2.95.

DOA

We met with DOA's Deputy Director of Planning and Community Affairs and Director of Planning on February 18, 2011, who told us that DOA determines lump sum fees based on time and materials. Similar to FDO, they do not consider a multiplier as a separate cost component. Consultants submit "loaded" hourly rates. DOA does not request a breakdown of costs from the consultant, but assesses reasonableness and comparison to other consultants. They use both annual and project specific contracts, the majority of which are federally funded. In accordance with FAA requirements the DOA uses staff or consultants with experience in estimating professional services and negotiating contracts for these services in developing independent fee estimates and/or reviewing the scope and fee for reasonableness. Projects that are federally funded for which the consultant fee is over $100,000 require an "Independent Fee Analysis" by a third party, which is submitted to the FAA for approval.

We reviewed two DOA project specific contracts. Both describe a lump sum and time and materials basis of payment, with a specified not-to-exceed amount. They state that "Expenses incurred during the course of performance of this contract…shall be calculated as a lump sum percentage of the labor cost, or itemized and invoiced separately…" The Exhibits B separately display, for each task, lump sum labor, time and materials, and lump sum expense amounts and state that "Paid vacations, holidays, sick leave and leaves of absence are included in the billing rates as Consultant's overhead and will not be billed separately." These Exhibits also describe a labor and expense allowance, for which billing is based on hourly labor billing rates.

"Truth-in-Negotiation Certificates" are incorporated into the contracts and state that "the wage rates, overhead charges, and other costs used to determine the compensation provided for in this contract are accurate, complete and current as of the date of the contract and no higher than those charged the Consultant's most favored customer for the same or substantially similar service."

The CSAs we reviewed for the two contracts used lump sum fees. On one, work was performed by a sub-consultant and an additional cost of 5 percent was added to compensate the consultant for procuring and managing the sub-consultant. On the other, a "Labor/Fee Estimate Summary" allocated costs between phases of the project, outlined hourly rates and number of hours for both the consultant and a sub-consultant, and identified expenses, but made no mention of multipliers, overhead, or profit.

SUMMARY

Our audit work has shown that County departments have taken differing paths in ensuring the reasonableness of costs of CCNA contracts, including both direct costs and the costs included in the multiplier. Engineering and ERM, in particular, have included in their effort obtaining detailed information on the accounts comprising the multiplier and ensuring that the multiplier be in the range of 2.6 to 3.0 as provided in PPM CW-O-066. Although it has not obtained nor reviewed information contained in the multiplier, WUD has ensured that the multiplier be no higher than 3.0 as stated in the same PPM.

DOA and FDO have not complied with PPM CW-O-066 as these departments do not require consultants to disclose the multiplier used in establishing the total cost of the proposed contract. These departments have, however, procedures to help ensure that the total costs of the project are fair and reasonable. For its part, DOA told us that in accordance with FAA requirements, it uses staff or consultants with experience in estimating professional services and negotiating contracts for these services in developing independent fee estimates and or reviewing the scope and fee for reasonableness. These estimates are referred to FAA for approval.

FDO, which does not use a significant amount of either federal or state funding, told us that their obligation is to require the professional services consultant to provide quality work at a fair and competitive fee. FDO views the fee negotiations as to scope, work effort and cost as all interrelated. The multiplier is only one factor in the equation to determine a lump sum fee. Other factors are the raw wage rate of the individual working for the consultant, the level of that staff person, e.g. junior engineer vs. a senior engineer, the numbers of hours assigned to a particular task and the complexity of the project. FDO evaluates fee proposals by reviewing in detail the subcomponent tasks, the personnel levels assigned to the tasks, the personnel billing rates, and the number of hours assigned to each task for reasonableness and then compares the overall fee with their history of similar projects or scope of services. It is this bottom line evaluation in the fee review process that is the most important as once the contract is signed, the details become irrelevant as the contract is lump sum.

In addition to the above, all department officials told us that, as required by F.S. 287.055, "truth in negotiation" certificates are received for all proposed CCNA procurements, providing that the wage rates and other factual unit costs supporting the compensation are accurate, complete and current.

In the final analysis, we believe that County departments have met the intent of Florida Statute 287.055 in conducting detailed analyses of costs to ensure that consultant services provided under CCNA agreements are fair, competitive and reasonable. In our view, the guidelines included in PPM CW-O-066 relating to acceptable multipliers being in a certain range, may not be necessary. We believe that in its place, the County Administrator should ensure, through a PPM or other means, that each department receiving grant funding adhere to the requirements of its granting agency in determining costs that are fair, competitive and reasonable, including reviews of multipliers if so required. As to other than grant funding, e.g., ad valorem or other local County funding, we suggest the County Administrator require each department to document the process used to ensure that the intent of Florida Statute 287.055 is met.

Recommendation:

(1) The County Administrator should consider revising PPM CW-O-066 to:

- **Require departments providing consultant services under federal or state grants to comply with the requirements set forth in their agreements. Departments should implement a PPM that meets the requirements of the grantor(s).**
- **Require departments providing consultant services using funds from other than federal/state sources, i.e., County (ad-valorem or other) funds, to implement a PPM to help ensure compliance with Florida Statute 287.055 requiring that consultant contracts be fair, competitive, and reasonable. Department PPMs should specifically identify how the Statute requirement for making a detailed cost analysis is to be met.**

Management Comments and Our Evaluation

In replying to a draft of this report, the County Administrator expressed broad agreement with the audit conclusions and recommendation. In regard to implementing Recommendation 1, he stated the following:

- PPM CW-F-066 will be revised to recognize the differing Departmental methods of calculation of consultant overhead.
- For Department calculations that are in accordance with grants or other external agency requirements, PPM CW-F-066 will include a statement to that effect.
- For Departments that independently calculate overhead rates, each will prepare a PPM that documents the manner of the calculation for their

consultant contracts under the authority of CW-F-066.

The County Administrator stated that the above actions would be completed by November 18, 2011. We agree with the actions proposed to be taken by the County Administrator on the audit recommendation.

BACKGROUND

Florida Statute (F.S.) 287.055, known as the Consultants' Competitive Negotiation Act (CCNA), requires agencies using certain professional consultants to acquire the services of those consultants by competitive negotiation. The statute requires a competitive selection of the consultants based on qualifications followed by a negotiation process to establish fees for services. The statute also requires the agency to conduct a detailed analysis of the cost of the services in order to determine that fees are fair, competitive, and reasonable. Furthermore, the statute requires consultants to submit a "truth-in-negotiation" certificate" stating that the wage rates and other factual unit costs supporting the compensation are accurate, complete, and current.

Types of services covered by the CCNA include engineering, architectural, landscape architectural, and land surveying and mapping. Five Palm Beach County (County) departments are authorized to procure services subject to CCNA requirements: Engineering & Public Works (Engineering), Environmental Resource Management (ERM), Facilities Development & Operations (FDO), Water Utilities (WUD), and Airports (DOA). Approximately $15.4 million was spent in Fiscal Year 2010 on CCNA contracts countywide. Appendix A shows the detail of CCNA expenditures by department.

Countywide PPM CW-O-048 dated April 27, 2010 entitled "Selection of Professional Engineers, Architects, Landscape Architects, Land Surveyors and Mappers" governs the County's CCNA selection process. PPM CW-F-066 dated March 12, 1999 entitled "Architectural and Engineering Consultant Multipliers" governs certain elements of fees to be paid to consultants. It offers guidelines for overhead and certain other costs (hereafter referred to as a multiplier). PPM CW-F-066's stated purpose is to "Allow the authorized County Departments to compensate the consultant for overhead profit, contingencies, interest on invested capital and readiness to serve."

Multipliers are used to allow consultants to recover overhead costs and operating margin (profit) based on the direct hourly wage rates paid to the various personnel assigned to a project. An example will help better describe the process: On February 1, 2011 the Board of County Commissioners (BCC) approved a contract with Arcadis U.S., Inc. The contract included, among other items, an amount for basic activities of $254,370.72. Basic activities consisted of direct labor of $85,704.42, overhead of $141,412.29, and operating margin of

$27,254.01. The multiplier for this project was 2.97 (rounded from 2.968) determined as follows: labor 100% plus overhead 165% equals 265%. In addition, profit computed at 12% of 265% adds another 31.8 percent to the total compensation. Thus, the multiplier is 296.8% or 2.968 times the basic labor rates which represent the consultant's standard direct labor raw rates for each classification of employee used on the project.

A multiplier is derived in part from indirect costs included in an entity's accounting system. In the case of federal funding, the Federal Acquisition Regulations (FAR) govern the types of costs that are considered allowable in establishing multipliers used in professional service contracts subject to FAR. The FAR is also used for Florida Department of Transportation grant funding, including cases where State funding is being used for projects.

We completed audits of CCNA contracts for all five departments during Fiscal Years 2005 and 2006. In our audit of Engineering, we recommended that the department obtain additional information from contractors in order to better determine if the multiplier being claimed was in accordance with cost principles and supported by the contractor's official accounting records. Although we noted similar conditions at each of the other four departments audited, we did not make recommendations to these departments. We were told at that time that PPM CW-F-066 was soon to be revised. At that time, County Administration was responsible for updates to the PPM; however, as of 2011, Engineering had been assigned responsibility. As of March 2011, the revised PPM was awaiting County Administrator approval. Based on our reading of the draft revised PPM, no significant revision had been made to the discussion concerning the use of multipliers in CCNA agreements.

AUDIT SCOPE AND METHODOLOGY

Planning for this assignment included discussion with representatives of the five County departments subject to CCNA requirements, and review of the Florida Statute, PPM CW-F-066, and our prior audits of CCNA, shown below:

- Audit Report 05-06 (Engineering Roadway Production Division – CCNA Contracts) dated April 19, 2005
- Audit Report 06-02 (WUD – CCNA Contracts) dated December 8, 2005
- Audit Report 06-07 (FDO – Consultant Contracts) dated May 24, 2006
- Audit Report 06-10 (ERM – CCNA Contracts) dated May 11, 2006
- Audit Report 07-19 (DOA – Consultant and Construction Contracts) dated September 21, 2006

The scope of the audit was Fiscal Years 2010 and 2011 (through March 2011). Audit field work was conducted in February and March 2011 at the five County departments identified above.

To answer audit objective 1, we spoke with Engineering representatives including the CCNA Coordinator and obtained information relative to implementation of the prior audit recommendation. We also examined selected contract files for CCNA agreements in effect during Fiscal Years 2010 and 2011. We discussed with the CCNA Coordinator steps taken to obtain additional documentation from CCNA contractors and the review process performed by Engineering.

To answer audit objective 2, we spoke with representatives of Engineering, WUD, FDO, ERM and DOA relative to the procedures used to evaluate multipliers included in CCNA contracts. We reviewed selected contract files at each department for CCNA agreements in effect during Fiscal Years 2010 and 2011. We discussed with department representatives their effort to obtain information from CCNA contractors as to the support for the multipliers claimed in their agreements. Appendix B lists the contract files selected for review.

We also referred to Florida Department of Transportation (FDOT) regulations and procedures for determining multipliers used in CCNA contracts. FDOT is a major procurer of CCNA services in the State, and several County departments must comply with its requirements when implementing State-funded programs.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Joseph F. Bergeron

Joseph F. Bergeron, CPA, CIA, CGAP
Internal Auditor
June 1, 2011

APPENDIX A

COUNTYWIDE AUDIT OF CONSULTANT OVERHEAD RATES
SUMMARY OF CCNA CONTRACT EXPENDITURES
FISCAL YEAR 2010

DEPARTMENT	EXPENDITURES
Engineering & Public Works	$4,603,170
Environmental Resource Management	691,296
Facilities Development & Operations	4,280,014
Water Utilities	2,424,848
Airports	3,440,074
TOTAL	**$15,439,402**

Note: The data included in this Summary was obtained from the County's accounting system (Advantage) and is an estimate of expenditures for Fiscal Year 2010. However, County departments do not always maintain expenditures for CCNA contracts in a consistent manner; therefore, the above amounts should be considered as 'estimates' and not final amounts for the Fiscal Year 2010. For example, Environmental Resource Management Department officials told us that expenditures for FY2010 were $1,611,873 including use of Engineering's CCNA contracts.

APPENDIX B

COUNTYWIDE AUDIT OF CONSULTANT OVERHEAD RATES
SUMMARY OF CONTRACTS REVIEWED

CONSULTANT	DEPARTMENT	TYPE OFCONTRACT
Greenhorne & O'Mara, Inc.	Engineering & Public Works	Project Specific
Arcadis U. S., Inc.	Engineering & Public Works	Project Specific
R. J. Behar & Company, Inc.	Engineering & Public Works	Annual
Bridge Design Associates, Inc.	Engineering & Public Works	Annual
Alan Gerwig & Associates, Inc.	Engineering & Public Works	Annual
Coast & Harbor Engineering, Inc.	Environmental Resource Management	Annual
Taylor Engineering, Inc.	Environmental Resource Management	Annual
Leo A. Daly Company	Facilities Development & Operations	Annual
Cotleur & Hearing, Inc.	Facilities Development & Operations	Annual
Carollo Engineers	Water Utilities	Annual
Jordan, Jones & Goulding, Inc.	Water Utilities	Annual
The LPA Group, Inc.	Airports	Project Specific
Ricondo & Associates, Inc.	Airports	Project Specific

ADMINISTRATIVE RESPONSE

County Administration
P.O. Box 1989
West Palm Beach, FL 33402-1989
(561) 355-2030
FAX: (561) 355-3982
www.pbcgov.com

INTEROFFICE COMMUNICATION
PALM BEACH COUNTY

TO: Joe Bergeron, Internal Auditor

FROM: Robert Weisman, County Administrator

DATE: July 20, 2011

RE: **" Response to Audit Finding - Consultant Overhead Rates"**

This is in response to referenced audit recommendations. Administration is in broad agreement with the recommendations. The recommendations will be fulfilled as follows:

1) PPM CW-F-066 will be revised to recognize the differing Departmental methods of calculation of consultant overhead.
2) For Department calculations that are in accordance with grants or other external agency requirements, PPM CW-F-066 will include a statement to that effect.
3) For Departments that independently calculate overhead rates, each will prepare a PPM that documents the manner of the calculation for their consultant contracts under the authority of CW-F-066.
4) All of the preceding will be accomplished by November 18, 2011.

Cc: ~~Shannon LaRocque-Baas, Assistant County Administrator~~
Bruce Pelly, Director, Airports Department
Bevin Beaudet, Director, Water Utilities Department
Rich Walesky, Director, Environmental Resources Management
John Chesher, Director, Capitol Improvement Division

Office of the County Internal Auditor
Audit Report #2011-34

OFFICE OF FINANCIAL MANAGEMENT AND BUDGET

PUBLIC SERVICE GAS TAX VENDOR AUDIT
FERRELLGAS PARTNERS, L.P.

Approved by Audit Committee
September 21, 2011

DATED JULY 13, 2011

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following questions:

1) Were public service taxes collected by Ferrellgas remitted to Palm Beach County as required by County Ordinance No. 89-13 for FYs 2008 through 2010?

2) Were exemptions to the public service tax granted by Ferrellgas in compliance with Palm Beach County Ordinance No. 89-13 for FYs 2008 through 2010?

WHAT WE FOUND

The audit was unable to determine whether public service taxes collected by Ferrellgas were remitted to Palm Beach County as required by County Ordinance No. 89-13 for FYs 2008 through 2010. Significant errors were found in the database provided by Ferrellgas when we compared address listings with those contained in the PAPA system.

The audit found that Ferrellgas granted an exemption to a non-profit organization which is not a category identified for exemption in the ordinance. The organization has been a customer of Ferrellgas since 2010.

WHAT WE RECOMMEND

The audit report makes three recommendations to the OFMB Director to:

- Suggest to Ferrellgas the use of a more accurate and consistent database for taxing jurisdiction determinations.
- Consider modifying Ordinance 89-13 to specify acceptable databases for vendors to use to comply with the Ordinance.
- Suggest that Ferrellgas review all exemptions issued to ensure compliance with the Ordinance.

DETAILED FINDINGS AND RECOMMENDATIONS

Finding 1 Significant Statistical Errors Found in Ferrellgas Database

Our review of the sample of 352 addresses from the Ferrellgas customer database showed 110 addresses (31.53 percent) had been assigned to an incorrect taxing entity. Thirty-five of the 110 (9.94 percent) accounts had been paid to a municipality instead of Palm Beach County and seventy-two (20.45 percent) of the accounts had been paid to Palm Beach County instead of a municipality. The three remaining errors were due to municipal tax payments being made to incorrect municipalities that did not involve Palm Beach County.

We also compared the address listings obtained from Ferrellgas with the State of Florida database as Ferrellgas had stated they had used this database, at least in part, for determining jurisdiction. Except for a small number of differences, we found that the PAPA database and the State of Florida had the same determinations of jurisdiction.

In our view, the size of the error in our sample does not allow a statistically valid projection of results. The extent of the errors would demand almost a complete (100 percent) audit of the entire database. We did not perform such audit procedures. We suggest that Ferrellgas design a database using either PAPA as we did in this audit, the database provided by the County's Planning, Zoning and Building Department (PZB), or the State of Florida. In this regard, we found that PZB provided its database to Ferrellgas in 2007 as part of a routine notification to gas suppliers of a current County database.

Recommendations

(1) The OFMB Director should notify Ferrellgas of the results of this audit and suggest the Company use a database that will provide more consistent and accurate listings of jurisdictions for the Public Service Tax.

(2) The OFMB Director should consider modifying the County Ordinance 89-13 to specifically identify the acceptable databases to be used by companies supplying gas subject to the County's Public Service Tax. Databases that could be acceptable include PAPA, PZB and the State of Florida.

Management Comments and Our Evaluation

In replying to a draft of this report, the OFMB Director agreed with Recommendations 1 and 2. In regard to Recommendation 1, the OFMB Director stated that she will make the notification and suggestion to Ferrellgas by August 1, 2011. In regard to Recommendation 2, the OFMB Director will work with the County Attorney's Office to amend the existing ordinance to specify acceptable data bases. The estimated date of completion of the revised ordinance is October 2011. We agree with the OFMB Director's proposed actions on the audit recommendation.

Finding 2 Tax Exemptions Provided to Ineligible Entity

Customer accounts in Palm Beach County that were granted exemptions for the collection of Public Service Taxes by Ferrellgas included governments, resellers, non-profits and schools. Except for one account of a nonprofit organization that we identified as ineligible, all other exemptions appeared to be for qualified organizations.

Recommendation

(3) The OFMB Director should notify Ferrellgas of the results of this audit and suggest the Company review all exemptions to ensure that organizations are qualified for exemption under County Ordinance 89-13.

Management Comments and Our Evaluation

In replying to a draft of this report, the OFMB Director agreed with the audit recommendation, stating that notification and suggestion will be made to Ferrellgas by August 1, 2011. We agree with the proposed action on Recommendation 2.

BACKGROUND

Florida Statutes Chapter 166.231 authorizes a municipality to levy a tax on the purchase of electricity, metered natural gas, liquefied petroleum gas, manufactured gas, and water service. Palm Beach County Ordinance No. 89-13 is based upon this statute and levies a public service tax on activity in the unincorporated areas of Palm Beach County. Service providers collect the tax due from their customers and remit the amount to the Palm Beach County Clerk and Comptroller's Office (County Finance). The Office of Financial Management and Budget (OFMB) is responsible for reviewing the amounts regularly for comparison to budgeted amounts and for assessment of any applicable penalties and interest.

Florida Statutes Chapter 166.231 subsection (4) and (5) provide the qualifications for exemption from the tax. Palm Beach County Ordinance No. 89-13 has adopted these qualifications and identifies agencies such as the United States Government, the State of Florida, all counties, school districts and municipalities of the State to be exempt from the tax. In addition, the purchaser who claims an exemption is required to certify to the seller that he or she qualifies for the exemption.

Florida Statutes Chapter 166.234 allows a municipality to audit the records of sellers of a service that is taxable by the municipality under s. 166.231 or s 166.232, to determine the correctness of any return that has been filed or payment that has been made. Subsection (4)(a) allows a municipality to issue a proposed assessment of tax levied under s. 166.231 or s. 166.232 within three years after the date the tax was due.

Founded in 1939, Ferrellgas Partners, L.P. (Ferrellgas) is the second largest propane distributor in the United States with corporate operations in Liberty, Missouri and Overland Park, Kansas. The company sells about 875 million gallons of propane a year to 1 million industrial, commercial, and agricultural customers nationwide. It has a local office in Jupiter, Florida from which they make deliveries to customers in Palm Beach County and other municipalities. Ferrellgas officials told us they use the State of Florida website (www.geotax.state.fl.us) and Pitney Bowes website (www.geotax.com) to determine the jurisdiction of the delivery address of its customers. According to Ferrellgas officials, changes to the jurisdiction are made if a municipality provides information about an annexation, or if other information becomes available showing any change in the current classification.

Reports provided by County Finance show taxes remitted to Palm Beach County from Ferrellgas totaled over $570,000 from Fiscal Year 2008 through Fiscal Year 2010, as follows:

Taxes Remitted to Palm Beach County

Fiscal Year	Amount
2008	$225,795.97
2009	$140,176.88
2010	$204,931.61
Total	$570,904.46

OFMB requested that this audit be included in our Fiscal Year 2011 Audit Plan.

AUDIT SCOPE AND METHODOLOGY

Through discussions with Ferrellgas representatives and a review of Florida Statutes and County Ordinances, we assessed the risks associated with the remittance of the Public Service Tax and controls implemented to mitigate those risks. From this assessment, we selected specific audit objectives noted above for which we prepared an audit program tailored to answer the objectives. The audit program focused on the procedures necessary to develop the evidence needed to answer the audit objectives and to provide reasonable support for our audit conclusions and recommendations. In developing the audit program we obtained more information on the internal controls that we considered significant within the context of the audit objective.

To answer audit objective 1 we obtained a database from Ferrellgas of customer records with delivery site address zip codes beginning with '334'. Our request was based on discussions with the County's Property Appraiser's office verifying that all Palm Beach County zip codes start with '334'. The database Ferrellgas provided contained 5,573 records. We then obtained a list of zip codes serving bordering municipalities beginning with '334' (for example 33455 and 33475 are Martin County zip codes) and removed records with those zip codes from our list leaving a total of 4,260 records with a Palm Beach County delivery site address zip code. We selected a statistical sample of 352 test records based upon a 95 percent confidence level and confidence interval (margin of error) of five percent. We used the Palm Beach County Property Appraiser's Public Access system (PAPA) to verify the jurisdiction of the sample records.

To answer audit objective 2 we asked Ferrellgas officials about the exemptions that they had granted and obtained the database for those groups. We identified the jurisdiction of the customer records and requested backup documentation for the records in the unincorporated area of Palm Beach County to determine if the exemptions were allowable under Florida Statutes Chapter 116.231 for these customers.

Our audit scope covered the period from October 1, 2007 through September 30, 2010. Audit field work was performed from March through May 2011.

Management is responsible for establishing effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively and are safeguarded; laws and regulations are followed, and reliable data is obtained and maintained and fairly disclosed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Joseph F. Bergeron

Joseph F. Bergeron, CPA, CIA, CGAP
Internal Auditor
July 13, 2011

ADMINISTRATIVE RESPONSE

Palm Beach County
Interoffice Communication

TO: Joseph F. Bergeron
Internal Auditor

FROM: Liz Bloeser, Director
Office of Financial Management & Budget

DATE: July 22, 2011

SUBJECT: **Response to Public Service Tax Gas Vendor Audit
Ferrellgas Partners, L.P.**

Following are OFMB's responses to the findings in the final draft audit report on Ferrellgas:

Recommendation 1
The OFMB Department Director should notify Ferrellgas of the results of this audit and suggest the Company use a database that will provide more consistent and accurate listings of jurisdictions for the Public Service Tax.

OFMB Response
We concur. The OFMB Director will make the notification and suggestion to Ferrellgas by August 1, 2011.

Recommendation 2
The OFMB Director should consider modifying the County Ordinance 89-13 to specifically identify the acceptable databases to be used by companies supplying gas subject to the County's Public Service Tax. Databases that could be acceptable include PAPA, PZB, and the State of Florida.

OFMB Response
We concur. The OFMB Director will work with the County Attorney's Office to amend the existing ordinance to specify acceptable data bases. The estimated date of completion for the ordinance change is October, 2011.

Recommendation 3
The OFMB Director should notify Ferrellgas of the results of this audit and suggest the Company review all exemptions to ensure that organizations are qualified for exemptions under County Ordinance 89-13.

OFMB Response
We concur. The OFMB Director will make the notification and suggestion to Ferrellgas by August 1, 2011.

c: John Wilson, Budget Director, OFMB
Richard Iavarone, Director, Financial Mgmt, OFMB
Paul King, Assistant County Attorney
Susan Neary, Budget Manager, OFMB

Office of the County Internal Auditor
Audit Report #2011-35

PUBLIC SAFETY DEPARTMENT
ANIMAL CARE AND CONTROL DIVISION

CASH COLLECTIONS

Approved by Audit Committee
September 21, 2011

DATED AUGUST 2, 2011

WHY WE CONDUCTED THIS AUDIT

We conducted this audit to answer the following question:

Did the Animal Care and Control Division Director ensure that cash receipts procedures complied with PPM WC-O-20 entitled – "Cash Receipts Procedure/Check Acceptance" for the 8-month period ended May 31, 2011? Specifically:

- Were collections processed and recorded to ensure accountability?
- Were collections prepared daily for deposit as required?
- Were collections safeguarded to reduce the risk of loss?

WHAT WE FOUND

- The Animal Care and Control Division Director ensured that cash receipts procedures complied with PPM WC-O-20 entitled: "Cash Receipts Procedure/Check Acceptance" for the 8-month period ended May 31, 2011. Collections were (a) processed and recorded to ensure accountability, (b) prepared daily for deposit and (c) were safeguarded.

WHAT WE RECOMMEND

The audit report made no recommendations.

BACKGROUND

The Animal Care and Control Division (Division) is one of six divisions of the Public Safety Department (Department). The Division's primary services include protecting the public's health and safety through rabies vaccination and animal control. The Division also provides license tags for pets, handles complaints and conducts investigations, provides shelter care and medical care, and provides low cost spaying and neutering of dogs and cats through its Spay Shuttle Mobile Spay/Neuter Program in West Palm Beach and the Pahokee Spay/Neuter Clinic.

The Spay shuttle is a mobile veterinary clinic for pet owners residing in Palm Beach County and operates Monday through Friday at Division headquarters. The cost is $40 for cats and $50 for dogs, inclusive of rabies vaccination and license tag and microchip. The Pahokee Spay/Neuter Clinic provides this service to residence of Pahokee, Belle Glade, South Bay and Canal Point. At the time of audit, the Pahokee Clinic was closed pending a management decision as to whether the facility is to reopen.

Receipts of cash, checks and credit/debit card collections amounted to about $1.8 million for the period October 1, 2010 through May 31, 2011. About $23,000 of this was generated by the Pahokee operations. Collections consisted of about $1,091,000 in rabies tag sales, about $196,000 in spay/neutering performed by the Spay Shuttle, about $100,700 in adoption fees and about $418,100 in other collections, including permits, vaccinations and impound fees.

AUDIT SCOPE AND METHODOLOGY

The audit focused on internal controls used to ensure cash collections were processed and recorded, deposited daily and safeguarded to diminish the risk of loss at the four collection points. Excluded from our scope were petty cash funds which had been included in prior audits.

In order to answer the audit objective, we interviewed Department and Division officials and reviewed Palm Beach County's Fiscal Year 2011 Budget, and pertinent documentation concerning cash receipts and check acceptance procedures, noting the procedures followed in the daily processing/depositing of cash/cash items, including the safeguarding of funds. We reviewed documentation in support of monthly reconciliations. In addition, on June 24 and 27 through July 1, 2011, we observed the cash processing function at three of the four collection points, including the overall reconciliations performed. We also reviewed reports from Wachovia Bank confirming the deposits for those dates indicated above and observed the posting to the County financial system (Advantage). We also discussed oversight procedures with Division staff responsible for this function.

The scope of our audit covered the Division's activities concerning cash receipts procedures performed during the period October 1, 2010 through May 31, 2011. Audit fieldwork was conducted in June and July 2011.

Management is responsible for establishing effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively and are safeguarded; laws and regulations are followed, and reliable data is obtained and maintained and fairly disclosed. We are responsible for using professional judgment in establishing the scope and methodology of our work, determining the tests and procedures to be performed, conducting the work, and reporting the results.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Joseph F. Bergeron

Joseph F. Bergeron, CPA, CIA, CGAP
Internal Auditor
August 2, 2011