



## AUDIT OF CITY PROJECTS

We determined 36 (58%) of the 62 reviewed projects with no recent expense activity are still active viable projects with ongoing plans for continuation and completion. Those 36 projects accounted for approximately \$55 million of the \$57 million (96%) in total funding for the 62 projects reviewed. The remaining 26 projects were found to no longer be active viable projects and were therefore closed, releasing \$2.4 million to be returned and re-appropriated and/or reallocated.

T. Bert Fletcher, CPA, CGMA  
City Auditor

### HIGHLIGHTS

Highlights of City Auditor Report #1402, a report to the City Commission and City management

#### WHY THIS AUDIT WAS CONDUCTED

The purpose of this audit was to review the status of capital and operating projects throughout the City, including the Community Redevelopment Agency (CRA), to determine whether (1) Unused monies in projects as of April 30, 2013, that have not incurred expenses since October 1, 2009 (43 months), could be reallocated for other projects or purposes. (2) Projects are classified accurately in the City's financial system to ensure capital assets resulting from such projects and related depreciation expenses are properly accounted for and reported in the City's financial records and reports.

We reviewed 93 City projects to include:

- 1) 62 "open" (non-closed) projects with no recent expense activity.
- 2) 21 closed projects.
- 3) 10 projects recently opened (i.e., in fiscal year 2012 or 2013).

#### WHAT WE RECOMMENDED

In regard to the three issues identified in this audit, we made the following recommendations for improvements:

- 1) Departments should continue to improve their review of project statuses in order to close and release unused funds of inactive projects in a timelier manner.
- 2) Accounting Services should complete its evaluation as to whether the default settings in the PeopleSoft Financials System should be modified so each project is initially classified to result in the addition of a capital asset.
- 3) The Office of Budget and Policy should evaluate and revise as appropriate the process used in closing projects to ensure consistent and proper information is reported to department management and project managers.

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#### WHAT WE CONCLUDED

For those reviewed projects we determined the following:

- 1) Thirty-six (58%) of the 62 "open" (non-closed) projects with no expense activity between October 2009 and April 2013, or no expense activity since the project was opened if the project was opened after October 2009, were confirmed to be active projects with ongoing plans for continuation and completion. Those 36 still active projects accounted for approximately \$55 million of the \$57 million (96%) in total funding established (appropriated) for the 62 reviewed projects. Based on our audit, the remaining 26 projects were found to no longer be active viable projects and were therefore closed, resulting in the release/return of \$2.4 million to the funds from which the project monies were originally appropriated. Of the \$2.4 million released/returned, \$1,055,507 pertained to the City and \$1,368,598 pertained to the CRA.
- 2) Eighty-seven of the 93 projects reviewed (94%) were correctly classified in the City's PeopleSoft Financials System as to whether project costs should be capitalized as a capital asset and depreciated. For the remaining six projects, the asset classification was not correctly recorded in the financial system. Each questionable classification identified during this audit was re-evaluated and corrected by Accounting Services as appropriate. Similar issues regarding the proper classification of City projects in regard to whether they would result in generation of new capital assets (through acquisition or construction) was noted in several other recent external and internal (City Auditor) audits of City operations. As shown by this audit, Accounting Services is proactively addressing these issues.
- 3) Certain City project reports incorrectly showed a balance of unused (available) monies in 21 closed projects reviewed. In response to our inquiry, Accounting Services determined the reported balances for those and all other closed projects with remaining balances (total of 134) were not accurate and the monies were not actually available. This circumstance was attributable to the DMA Office of Budget and Policy (OBP) staff not being consistent in their project closing procedures. OBP management agreed the current process needs to be reviewed and revised so information in the financial system is consistently recorded to ensure project balances are accurate and can be utilized effectively by departments.

We would like to thank and acknowledge the full and complete cooperation and support of all City departments during this citywide audit, especially DMA's Office of Budget and Policy and DMA Accounting Services.

# Audit Report



T. Bert Fletcher, CPA, CGMA  
City Auditor

## Audit of City Projects

Report #1402

November 26, 2013

### Executive Summary

The purpose of this audit was to review the status of capital and operating projects throughout the City, including the Community Redevelopment Agency (CRA), to determine whether:

- Unused monies in projects as of April 30, 2013, that have not incurred expenses since October 1, 2009 (43 months), could be reallocated for other projects or purposes.
- Projects are classified accurately in the City's financial system to ensure capital assets resulting from such projects and related depreciation expenses are properly accounted for and reported in the City's financial records and reports.

*(Note: For purposes of this report the term "City" should be interpreted to include the CRA.)*

To meet our objectives we reviewed 93 City projects to include:

- 62 "open" (non-closed) projects with no recent expense activity.
- 21 closed projects.
- 10 projects recently opened (i.e., in fiscal year 2012 or 2013).

For those reviewed projects we determined the following:

- 1) Thirty-six (58%) of the 62 "open" (non-closed) projects with no expense activity between October 2009 and April 2013, or no expense activity since the project was opened if the project was opened after

October 2009, were confirmed to be active projects with ongoing plans for continuation and completion. Those 36 still active projects accounted for approximately \$55 million of the \$57 million (96%) in total funding established (appropriated) for the 62 reviewed projects. Based on our audit, the remaining 26 projects were found to no longer be active viable projects and were therefore closed, resulting in the release/return of \$2.4 million to the funds from which the project monies were originally appropriated. Of the \$2.4 million released/returned, \$1,055,507 pertained to the City and \$1,368,598 pertained to the CRA.

- 2) Eighty-seven of the 93 projects reviewed (94%) were correctly classified in the City's PeopleSoft Financials System as to whether project costs should be capitalized as a capital asset and depreciated. For the remaining six projects, the asset classification was not correctly recorded in the financial system. Each questionable classification identified during this audit was re-evaluated and corrected by Accounting Services as appropriate. Similar issues regarding the proper classification of City projects in regard to whether they would result in generation of new capital assets (through acquisition or construction) was noted in several other recent external and internal (City Auditor) audits of City operations. The Department of Management and Administration (DMA) Accounting Services is proactively addressing those capital asset classification issues identified in previous external and internal audits through the following actions:

- The City’s fixed asset policy is being revised to clarify the responsibilities of the departments and Accounting Services in relation to the capitalization of assets from a project.
- Accounting Services is meeting and working with City departments to ensure projects are properly classified and recorded in regard to whether they will result in new capital assets.
- Accounting Services is evaluating whether it would be beneficial to modify the default settings in the PeopleSoft Financials System so each project is initially classified to result in the addition of a capital asset, with changes to that initial classification made only upon a subsequent determination by Accounting Services that a project will not result in the acquisition/construction of a capital asset.

Completion of those corrective actions will be further addressed in our scheduled follow-up audit on the applicable prior City Auditor report. We commend Accounting Services for their efforts in addressing the asset misclassification issue.

- 3) Certain City project reports incorrectly showed a balance of unused (available) monies in 21 closed projects reviewed. In response to our inquiry, Accounting Services determined the reported balances for those and all other closed projects with remaining balances (total of 134) were not accurate and the monies were not actually available. This circumstance was attributable to the DMA Office of Budget and Policy (OBP) staff not being consistent in their project closing procedures. OBP management agreed the current process needs to be reviewed and revised so information in the financial system is consistently recorded to ensure project balances are accurate and can be utilized effectively by departments.

In regard to the three issues identified in this audit, we made the following recommendations for improvements:

- 1) Departments should continue to improve their review of project statuses in order to close and release unused funds of inactive projects in a timelier manner.
- 2) Accounting Services should complete its evaluation as to whether the default settings in the PeopleSoft Financials System should be modified so each project is initially classified to result in the addition of a capital asset.
- 3) The Office of Budget and Policy should evaluate and revise as appropriate the process used in closing projects to ensure consistent and proper information is reported to department management and project managers.

We would like to thank and acknowledge the full and complete cooperation and support of all City departments during this citywide audit, especially DMA’s Office of Budget and Policy and DMA Accounting Services.

***Scope, Objectives,  
and Methodology***

The primary objectives of this audit were to review the status of capital and operating projects throughout the City, including the Community Redevelopment Agency (CRA), to determine whether:

- 1) Unused monies in projects as of April 30, 2013, that have not incurred expenses since October 1, 2009 (43 months), should be reallocated to other projects or purposes.
- 2) Projects are classified accurately in the City’s financial system to ensure capital assets and related depreciation expenses are properly accounted for and reported in the City’s financial records and reports.

We identified 62 City projects, as of April 30, 2013, in an “open” (non-closed) status that were initiated prior to fiscal year (FY) 2012 yet had

no expense activity for the previous 43 months (between October 2009 and April 2013), or no expense activity since the project was opened if the project was opened after October 2009. We reviewed relevant laws, policies and procedures, and project documentation and interviewed staff for each of those projects to determine whether the projects should be closed and whether any unused available monies should be re-appropriated and/or reallocated for other projects or purposes.

Additionally, we identified projects in a “closed status” that still showed available monies remaining in the project’s balance. A total of 134 such closed projects were identified. We judgmentally selected 21 of those closed projects to review and determine if the balance of available monies should be reallocated to other projects or purposes. As part of our review, we interviewed staff from applicable City departments, Department of Management and Administration (DMA) Accounting Services, and the DMA Office of Budget and Policy (OBP).

To determine if projects are classified accurately in the City’s financial system, we reviewed laws, rules, accounting principles, and City policies and procedures related to asset classifications; reviewed the asset classification for each of the 62 “open” (non-closed) projects and 21 “closed” projects mentioned above, along with a judgmental sample of 10 other projects (out of a total of 186) opened during FYs 2012 and 2013; and discussed the results of our analyses with applicable City staff.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Background

Commission Policy 218 – Capital Projects Management Policy. This policy originally passed by the City Commission in 1991, and most recently amended in 2003, outlines how capital projects should be managed throughout the life of the projects beginning from developing budgets to reporting results. Included in the policy is an outline of management responsibilities. Specifically, Section 218.05(A)(1) states project managers are responsible for various activities “to effectively complete projects in the most timely manner.” Those activities include, but are not limited to, project opening, monitoring, purchasing, and project closing. Departments and project managers can obtain information through PeopleSoft Financials System reports or queries to assist with those responsibilities. Should a project need to be extended beyond its original completion date, project extension requests are to be approved by both the appropriate Assistant City Manager and DMA.

The policy also states DMA is responsible for updating project records in the PeopleSoft Financials System at the request of project managers (Section 218.05(E)(1)). However, the policy authorizes three departments (Electric Utility, Public Works, and Underground Utilities) to update their own project records in the PeopleSoft Financials System.

Project Descriptions. City projects are generally classified as either capital projects or operating projects. Capital projects are funded through the City’s approved capital budget. Operating projects are funded through the City’s approved operating budget.

Capital projects often involve the acquisition or construction of fixed assets that require a significant expenditure of City funds (typically over \$50,000); have a life span of over five years (e.g., building) and/or are permanent in nature (e.g., street, bridge, or other infrastructure). Capital projects also include maintenance, repair, replacement, or improvement to the City’s existing capital

assets. For example, major overhauls of a building or road that significantly extend the life or the service capacity of those assets are generally funded through a capital project. Capital projects often result in a new or significantly improved City asset (building, road, hardware system, etc.) for which the incurred costs should be capitalized and recorded as a capital asset (or addition to an existing asset) in the City's financial records and reports.

However, in some instances capital projects do not result in a new or significantly improved City asset and, as a result, the related costs should not be capitalized (as a new asset or an addition to an existing asset) in the City's financial records and reports. Examples of the latter would be a capital project that represented significant maintenance or repair of an existing City asset without extending that asset's useful life or service capacity.

Operating projects are non-capital projects. Social services projects are one category of operating projects. Social services projects often involve loans and grants from the City to eligible or designated entities for purposes of improving the community. Examples include City programs to make housing improvements for eligible citizens. Operating projects are also created for other purposes. For example, a relatively small repair and maintenance project may be funded as an operating project instead of a capital project. Routine actions to fix or restore items (e.g., asset or computer system) to a state in which it can continue to properly perform its required function (without increasing the overall life of the asset/system or increasing the capacity of the asset) may be funded as an operating project if City management and leaders determine it appropriate to use operating funds instead of capital funds to pay for the necessary services. Typically, operating projects do not result in a new or significantly improved asset that should be recorded in the City's financial record and reports.

As explained above, repair and maintenance projects may be established as either a capital or

operating project, depending on the circumstances and the City's funding needs. Regardless of whether funded as a capital or operating project, relatively small repair and maintenance projects where only minor repair or replacement work is initially planned, may be revised as the work progresses. For example, once the repair work is initiated a determination may be made that more work and expenses are necessary. In some instances that additional work either extends the life of the asset or replaces the asset. In those instances, a new or improved asset should be capitalized and recorded in the City's financial records and reports.

Project Budgeting. The City's budget process for both capital and operating projects is described below in the following five activities. The process for capital and operating projects is similar with the only difference being in how the project funding is requested (described in the first activity).

- 1) After identifying a need, City departments request the establishment and funding for individual projects through GovMax, the computer software system the City uses to assist in the preparation of the annual budget. Funding for operating projects is requested through the operating budget. For example, minor repair and maintenance to different City maintained roads may be grouped together as a road repair project in the operating budget. On the other hand, major roadwork construction, like the extension of FAMU Way, would be included as a separate project in the capital budget.
- 2) City department budget requests are first reviewed by OBP. OBP staff meets with the City departments to discuss both their individual capital project budget requests and operating budget requests.
- 3) Following those meetings, OBP prepares and recommends a capital and operating budget to the City Manager and the Executive Team, which is comprised of the Assistant City Managers, the Director of the

Department of Management and Administration, the Director of Energy Policy and Environmental Resources, and the Assistant to the City Manager.

- 4) After the City Manager and Executive Team’s review and incorporation of any resulting changes, the proposed capital and operating budgets are submitted to the City Commission for discussion and guidance.
- 5) The City Commission conducts budget workshops that provide guidance to the City Manager in finalizing the proposed budget. The City operating and capital budgets are adopted after statutorily-mandated public hearings held prior to September 30 of each year. (Adjustments may be made based on those public hearings as directed by the City Commission.)

At the beginning of each fiscal year, after the capital and operating budgets have been

properly appropriated (adopted), OBP inputs the initial project information into the City’s financial system. City departments assign a project manager to each of their approved projects. The project manager is responsible for managing the project and updating the progress of the project in the City’s financial system. At the conclusion of the project, the project manager or department designee submits a request to OBP to close the project and return any unused and uncommitted available monies to the City fund(s) from which the monies for the project originated. The returned monies are available for subsequent re-appropriation and/or reallocation to other projects or uses.

As shown in Table 1 below, the City spent just over \$1 billion on capital and operating projects from fiscal year 2009 through June 30, 2013, with 92 percent of those expenditures going toward capital projects.

**Table 1  
Total Project Expenditures for Operating and Capital Projects  
in Fiscal Years 2009 through 2013**

<b>Fiscal Year</b>	<b>Operating Project Expenditures</b>	<b>Capital Project Expenditures</b>	<b>Total Project Expenditures</b>
<b>2009</b>	\$14,366,413	\$215,109,617	<b>\$229,476,030</b>
<b>2010</b>	\$17,458,307	\$212,759,123	<b>\$230,217,430</b>
<b>2011</b>	\$20,030,221	\$205,560,353	<b>\$225,590,574</b>
<b>2012</b>	\$19,915,744	\$206,625,663	<b>\$226,541,407</b>
<b>2013 (1)</b>	\$7,775,964	\$110,070,354	<b>\$117,846,318</b>
<b>Total</b>	<b>\$79,546,649</b>	<b>\$950,125,110</b>	<b>\$1,029,671,759</b>
<b>Percent of Total</b>	<b>8%</b>	<b>92%</b>	<b>100%</b>

Source: City’s PeopleSoft Financials System

Note (1): Fiscal Year 2013 data is for nine months, as of June 30, 2013.

**Audit Results**

**Objective 1:** Determine whether unused monies in City projects as of April 30, 2013, that have not incurred expenses since October 1, 2009 (three and one-half years), should be reallocated to other projects or purposes.

**Overall, we determined 36 (58%) of the 62 reviewed projects with no expense activity between October 2009 and April 2013 are still active viable projects with ongoing plans for continuation and completion. Those 36 projects accounted for approximately \$55 million of the \$57 million (96%) in total funding for the 62 projects. The remaining 26 projects were found to no longer be active viable projects and were therefore closed, releasing \$2.4 million to be returned to be re-appropriated and/or reallocated.**

As stated previously, we identified and reviewed 62 projects in an “open” (non-closed) status that had no activity since October 2009,

or no expense activity since the project was opened, if the project was opened after October 2009. Based on our review and analyses, department staff determined that some of those projects should be closed. As a result, 42 percent (26 of 62) of those projects were closed during this audit, with \$2,424,105 of the remaining available balance on those projects being released for subsequent re-appropriation and/or reallocation to other projects or authorized purposes. Of the \$2,424,105 in project balances that were released, \$1,055,507 pertained to City projects, and \$1,368,598 pertained to CRA projects. (Note: Only 18 of those 26 projects had remaining available balances; no remaining balance existed for the other eight projects.)

The balance released from each project was returned to the fund(s) from which the monies were initially appropriated. Table 2 shows the total amount released by fund and a brief description of the fund. (Note: For purposes of Table 2, CRA projects are shown separately from other City projects.)

**Table 2  
Projects Closed and the Amounts Released to Each Fund**

<b>Fund</b>	<b>Description of Projects Closed</b>	<b>Description of the Fund and How the Funds Can be Used</b>	<b>Amount Reallocated</b>
300 – Capital Improvement Fund	Site Remediation Project (1 Project)	This fund was created from monies in the General Fund at the direction of the City Commission to fund budgeted acquisitions or construction of capital assets.	\$1,307
401 – Electric Repair, Replacement and Improvement Fund	Radio Tower Removal Project (1 Project)	This fund is comprised of budgeted transfers from the Electric Utility Operating Fund. The money in this fund is to be used for repair, replacement, and improvement projects within the Electric Utility.	\$4,500
584 – StarMetro Accounts Receivable Fund	StarMetro Miscellaneous Accounts Receivable Projects (1 Project)	The monies in this fund are derived from revenue generated through the daily operation of StarMetro. This fund is designated for StarMetro projects that are funded, in part, by private non-City entities.	\$5,000

880 – Community Neighborhood Renaissance Fund	Providence Neighborhood Revitalization Project <i>(1 Project)</i>	This fund was established for the purpose of aiding the revitalization and/or stabilization efforts in the City’s inner-city neighborhoods. Monies for this fund are appropriated by the City Commission.	\$9,795
100 – Special Projects Fund	Vehicle Grant from the Federal Government for the Fire Department, and a Community Development Block Grant Master Project <i>(2 Projects)</i>	This fund was established to account for miscellaneous grants not accounted for in other funds. Examples include reimbursable grants the City receives, as well as grants provided by the City.	\$13,835
315 – Future Capital Bond Construction Fund	Sidewalk Project on Alabama Street <i>(1 Project)</i>	This fund is made up of monies generated through the sale of bonds. Those bond proceeds are used for construction of capital assets (e.g., sidewalks) as designated in the specific bond covenants.	\$20,000
302 – Gas Tax Construction Fund	Sidewalk Project on Fourth Avenue <i>(1 Project)</i>	This fund is made up of the City’s portion of the tax on gasoline purchases levied in Leon County and is used for the acquisition or construction of transportation improvements (assets).	\$50,000
830 – Deficiencies Fund	Storm Recovery Projects <i>(7 projects)</i>	This fund is financed through transfers from the General Fund (Deficiencies Fund) and is used sparingly and by appropriation of the City Commission. Typically this fund is used to pay for repairs resulting from catastrophic events such as hurricanes and tropical storms. Projects established for storm events typically only incur expense activity during and immediately after the storm. Storm-related expenditures are often eligible for reimbursements from the Federal Emergency Management Agency (FEMA) and these projects are not closed until all reimbursements from FEMA have been received.	\$57,830
301 – Sales Tax Construction Fund	Roadwork Project on Blairstone Road <i>(1 Project)</i>	This fund is regulated by Section 212.055(2)(d), Florida Statutes, which provides specific restrictions on the use of sales tax funds. Unused money returned from projects funded by the sales tax construction fund must be allocated to other infrastructure projects.	\$893,240
<b>Total City Dollars</b>			<b>\$1,055,507</b>



857 – Community Redevelopment Agency (CRA) Tourist Development Fund	Downtown CRA Johns and Clemons Property Project (1 Project)	This fund originates from an additional county-wide one-cent tourist development tax dedicated exclusively for costs associated with a performing arts center to be located in the Downtown Community Redevelopment Agency District. Monies from the tourist development tax can only be used to reimburse the CRA for authorized costs related to the payment of debt service, construction, and/or operational costs for a performing arts center in the Downtown CRA District. Otherwise, the monies will be returned to the Leon County Tourist Development Trust Fund.	\$293,426
856 – CRA Frenchtown/Southside Project Fund	FY 2010 Land Acquisition, Development, and Expansion Project (1 Project)	This fund originates from tax increment financing related to the Greater Frenchtown / Southside Community Redevelopment Agency District and can only be used for development and redevelopment costs associated in the enhancement or prevention of slum area or blighted areas within the defined CRA district.	\$1,075,172
<b>Total CRA dollars</b>			<b>\$1,368,598</b>
<b>Total City and CRA dollars</b>	<b>18 (Note 1)</b>		<b>\$2,424,105</b>

Note 1: Eight of the projects that were closed did not have a remaining balance that needed to be returned.

While 96 percent (\$54,946,111 of \$57,276,731) of the available balances reviewed is being used for projects that are ongoing and will remain active, the identification and closing of “open” projects for which future activity is no longer anticipated and the associated release of approximately \$2.4 million indicates the funding status of City projects needs to be better monitored and managed to comply with Commission Policy 218. We recommend City staff enhance their review of open projects to identify and release available unused monies in a timelier manner.

**Objective 2:** Determine whether projects are classified accurately in the City’s financial system to ensure capital assets and related depreciation expenses are properly accounted for and reported in the City’s financial records and reports.

**Our audit results showed that for 87 of 93 projects (94%), the asset classification was correct in the City’s PeopleSoft Financials System. Accounting Services has initiated corrective actions to improve classification issues identified in other external and internal audits recently issued.**

As described in the background section, capital projects often result in a new or significantly improved City asset (building, road, hardware system) for which the costs should be capitalized and recorded as a capital asset (new or improved) in the City’s financial records and reports. However, in some instances capital projects do not result in a new or significantly improved City asset and, as a result, no new or improved asset should be recorded in the City’s financial record and reports. Examples of the latter would be a capital project that represented

significant maintenance or repair of an existing City asset without extending that asset's useful life or service capacity. As also explained in the background section, some operating projects occasionally result in the generation of a new or significantly enhanced asset that should be capitalized and recorded in the City's records and reports.

To ensure proper accountability of the City's capital assets (including the accurate tracking and recording/reporting of related depreciation on those assets), it is important that capital and operating projects be correctly classified as to whether a new or significantly enhanced asset will result from the project. In several recent audits of City operations, it was reported that some capital projects were not properly classified and, as a result, related assets were not being recorded and accounted for in City records and reports. Specifically, the misclassification of capital assets issue was identified during (1) the annual audit of the City's Comprehensive Annual Financial Report (CAFR) for the Fiscal Year ended September 30, 2012, and (2) the City Auditor's Audit of Aviation Capital Projects (report #1308).

During this audit, we reviewed the asset classification in the PeopleSoft Financials System for each of the 93 projects reviewed in connection with this audit (see "Scope, Objectives, and Methodology" section of this report for description of projects reviewed). We found the asset classification was recorded correctly for 87 of those 93 projects (94%). In regard to the other six projects, we noted the following:

- For five of the six projects, capital assets were expected to be generated through the projects; however, in each instance the project was classified to indicate no asset would be generated. This increased the risk that, once those projects were completed, the resulting asset would not have been recorded in the City's records and reports, resulting in a lack of accountability for those assets and related depreciation expense.

- For the sixth instance, the project was incorrectly flagged for a capital asset to be capitalized when no such asset was to be generated.

In response to this audit, corrective action was taken as needed to properly classify those projects.

Notwithstanding those six instances, we found Accounting Services has initiated corrective actions to address the misclassification issue reported in the other recent external and internal audits. Actions in progress as identified through this audit included:

- 1) The City's fixed asset policy is being revised to clarify the responsibilities of the departments and Accounting Services in relation to the capitalization of assets from a project.
- 2) Accounting Services is meeting and working with City departments to ensure projects are properly classified and recorded in regard to whether they will result in new capital assets.
- 3) Accounting Services is evaluating whether it would be beneficial to modify the default settings in the PeopleSoft Financials System so each project is initially classified to result in the addition of a capital asset, with changes to that initial classification made only upon a subsequent determination by Accounting Services that a project will not result in the acquisition/construction of a capital asset.

Each questionable classification identified during this audit was re-evaluated and corrected by Accounting Services as appropriate. Further review of Accounting Services' corrective actions related to (1) the classification of assets for capitalization purposes and (2) meeting and working with departments to ensure projects are properly classified will be addressed in our subsequent follow-up audit on our previously issued audit on Aviation Capital Projects.

We commend Accounting Services for their efforts in addressing the asset misclassification issue. We recommend Accounting Services complete their evaluation of whether or not to modify the default settings in the PeopleSoft Financials System so each project is initially classified to result in the addition of a capital asset.

### *Other Issue Related to Projects*

**While most City financial reports showed correct balances of available project funds, certain City project reports incorrectly showed a balance of unused monies.**

During this audit, we noticed several closed projects still had a balance of available (unused) funds showing in the PeopleSoft Financials System. We judgmentally selected 21 of the 134 closed projects that had a recorded balance of unused monies remaining on the project to determine if those unused monies could be re-appropriated and/or reallocated to other projects or purposes.

Our review of the 21 projects showed those balances of unused funds in closed projects as reflected in the project reports were incorrect, as there were no remaining monies allocated to those projects (i.e., the balances did not exist). Further analysis by Accounting Services showed the reported balances for all 134 of the City's closed projects with recorded remaining balances were not accurate (balances did not exist). Additional review and discussions with Accounting Services staff showed the incorrect reporting of available unused funds for closed projects occurred because OBP staff was not being consistent in their project closing procedures. For the majority of projects closed, OBP staff recorded entries in the financial system to reduce the project budget and eliminate the balance. However, this process was not performed during the closing of the 134 projects that have a remaining balance. This circumstance involving the incorrect reporting of project balances for closed projects only impacted specific "project reports" generated from the financial system. Other reports (e.g.,

reports prepared at the fund level) properly reflect the balance of available funds.

OBP management agreed there are inconsistencies in project closing procedures within the OBP. In response to this matter, OBP management agreed the current closing process needs to be reviewed and revised as appropriate to provide consistent and appropriate recording and reporting of project balances. Such a review and any resulting revision are necessary to ensure management has complete information for project oversight and management.

We recommend OBP evaluate the process used in closing projects to ensure consistent and appropriate project information (balances) is recorded and reported so as to assist department management and project managers in their oversight responsibilities.

### *Conclusion*

Overall, we concluded the following:

- 1) Thirty-six (58%) of the 62 "open" (non-closed) projects with no expense activity between October 2009 and April 2013, or no expense activity since the project was opened if the project was opened after October 2009, were confirmed to be active projects with ongoing plans for continuation and completion. Those 36 still active projects accounted for approximately \$55 million of the \$57 million (96%) in total funding established (appropriated) for the 62 reviewed projects. Based on our audit, the remaining 26 projects were found to no longer be active viable projects and were therefore closed, resulting in the release/return of \$2.4 million to the funds from which the project monies were originally appropriated. Of the \$2.4 million released/returned, \$1,055,507 pertained to the City, and \$1,368,598 pertained to the CRA.
- 2) Eighty-seven of the 93 projects reviewed (94%) were correctly classified in the City's PeopleSoft Financials System as to whether project costs should be capitalized as a

capital asset and depreciated. For the remaining six projects, the asset classification was not correctly recorded in the financial system. Each questionable classification identified during this audit was re-evaluated and corrected by Accounting Services as appropriate. We commend Accounting Services for their efforts in addressing the asset misclassification issue.

- 3) Certain City project reports incorrectly showed a balance of unused (available) monies in 21 closed projects reviewed. In response to our inquiry, Accounting Services determined the reported balances for those and all other closed projects with remaining balances (total of 134) were not accurate and the monies were not actually available. This circumstance was attributable to OBP staff not being consistent in their project closing procedures. OBP management agreed that an appropriate process needs to be developed and implemented so the information in the financial system is consistently recorded to ensure project balances are accurate and can be utilized effectively by departments.

To address issues identified, we recommend:

- 1) Departments should continue to improve their review of project statuses in order to close and release unused funds of inactive projects in a timelier manner.
- 2) Accounting Services should complete its evaluation as to whether the default settings in the PeopleSoft Financials System should be modified so each project is initially classified to result in the addition of a capital asset.
- 3) The Office of Budget and Policy should evaluate and revise as appropriate the process used in closing projects to ensure consistent and proper information is reported to department management and project managers.

We would like to thank and acknowledge the full and complete cooperation and support of all City departments during this citywide audit, especially DMA's Office of Budget and Policy and Accounting Services.

### *Appointed Official's Response*

#### **City Manager:**

We appreciate the City Auditor's work on the Audit of City Projects. We have reviewed the various recommendations and will thoroughly evaluate these. I am pleased with the cooperation and professionalism demonstrated by the City Auditor's team and staff of the various audited departments. I am sure the evaluation of the recommendations will result in continued improvements of our financial and capital management practices and policies.

I would like to thank again the City Auditor as well as staff that were involved with this audit.

## Appendix A – Management’s Action Plan

Action Steps	Responsible Employee	Target Date
<b>A. Objective 1:</b> Timely close and reallocate funds on applicable inactive projects.		
1) OBP will send a memorandum to departments requesting they provide adequate documentation during OBP’s annual review process substantiating why projects with no recent expense activity should remain open.	Heath Beach	January 31, 2014
2) OBP will reevaluate the process used in closing projects to ensure consistent and appropriate project balance information is recorded and reported to assist department management and project managers in their oversight responsibilities.	Heath Beach	January 31, 2014
<b>B. Objective 2:</b> Determine whether projects are classified accurately.		
1) Accounting Services will complete its evaluation as to whether it would be beneficial to modify the default settings in the PeopleSoft Financials System so projects are initially classified to result in the addition of a capital asset.	Rick Feldman	March 1, 2014

Copies of this audit report #1402 may be obtained from the City Auditor’s website (<http://www.talgov.com/auditing>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([auditors@talgov.com](mailto:auditors@talgov.com)).

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