

City of Fort Lauderdale, Florida

Schedule of Findings and Questioned Costs (continued)

Recommendation

In connection with the implementation of a new property control system, the City should perform a physical inventory of all capital assets to ensure that all recorded assets exist and the carrying amounts, depreciable lives and salvage value are proper.

Management Response and Corrective Action Plan

The original physical inventory will be taken as part of the data gathering project to build a new data base. Part of the overall project is to develop procedures for the acquisition, depreciation, disposal and periodic physical inventories. The expected completion date is summer 2015.

PY-3 Calculation of Compensated Absences

Criteria

Controls over the process of calculating the liability for compensated absences should be designed and operating effectively to ensure that the amounts recorded in the financial statements are an accurate representation of the amounts actually due to employees as of the end of the fiscal year.

Condition/Cause

During our testing of the compensated absences liability, we identified errors in the underlying data used in the calculation. Specifically, we noted that accumulated sick hours per the City's compensated absences detail did not always correspond to the City's payroll system records. The City performed an analysis to extrapolate the errors identified and estimate the total dollar impact on the liability. An estimate was necessary as the City could identify the number of sick hours owed to employees as of fiscal year end based on the payroll system records, however, the rate of pay corresponding to the hours owed was estimated by using an average rate. Per City policy, sick days are accrued at the pay rate in effect in the period in which they are earned and days taken are used on a last in first out (LIFO) basis. Accordingly, applying the employees' current rate of pay to the hours owed as of fiscal year end would overstate the actual amount of the liability since part or all of the hours owed may have been earned at lower rates of pay. A manual process is completed at employee termination in order to determine the actual payment amount based on the rate of pay as sick time was earned and used over the period of employment. As performing the manual calculation for all employees was not feasible, an average rate of pay over the length of employment for each individual was used.

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Effect

Compensated absences of the City may not reflect actual liability amounts, based on the method of estimation. Payouts to employees could be substantially different from the accrued amount, based on the change each individual employee's rate of pay at the time the compensated absence hour was earned.

Recommendation

We recommend that the City review the current inputs into the compensated absences calculation process and implement monitoring controls to ensure that the data used in the calculation is accurate and complete. Further, the City should review the mechanics of the sick leave payable and determine if the process can be automated in order to alleviate the need for manual calculations.

Management Response and Corrective Action Plan

In order to ascertain that current inputs into the compensated absences calculation process were accurate and complete for financial reporting for fiscal 2011, the Human Resource Department manually calculated, from a listing of all active employees, the sick leave payout balances for 30 employees as of September 30, 2011. The manual calculations were compared to calculations based upon the payroll system provided rates of pay with accrued hours at each rate of pay. We determined the percentage of error and adjusted our original calculation to more accurately approximate the manually calculated amounts. Using this process, we believe we will more than likely find that only a certain percentage of the population will need adjusting due to the incorrect data conversion in 2002. Hires after that date should equal or approximate the manual calculation. We have partially implemented this plan; however, the data base in place is not sufficient to eliminate the manual procedures described.