


**Collier County
Clerk of the Circuit Court
Internal Audit Department**

Management Advisory 2008 – 2

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Analysis of Transactions Posted to General Ledger Account: Other Miscellaneous Services

BACKGROUND

The Finance & Accounting Department recently discovered that Domestic Animal Services (DAS) had been incorrectly coding shortages and overages of pet license fees received from participating veterinarians to General Ledger (GL) Object Code 649990, Other Miscellaneous Services. At the request of the Finance & Accounting Department, we reviewed the extent of the postings to the general ledger object code account and assisted them in resolving the coding issue. During our review of the DAS generated transactions posted to GL 649990, we also saw a large volume of other transactions posted to the account, some containing significant dollar amounts that appeared to be misclassified and not belonging to a miscellaneous category.

The State of Florida Bureau of Accounting, Department of Financial Services, is responsible for setting up and maintaining a uniform classification of accounts including the Object Code element for the state accounting system as well as for local government entities. Collier County's Financial Management System (SAP) further expands on the required classification of accounts through the addition of supplemental account codes as a mechanism to provide management with more in-depth financial information.

As mandated by Section 218.33, Florida Statutes, reporting units should use this chart of accounts as an integral part of their accounting system so that the preparation of their

annual financial reports will be consistent with other local reporting entities. This does not preclude local entities from maintaining more detailed records for their own use.

The County's Financial Management System, SAP uses the required framework and elements of the State's mandated classification of accounts. Specific functional categories in SAP are described below.

Fund – A fund is an independent fiscal and accounting entity consisting of a self-balancing set of accounts for recording cash and/or other assets together with related liabilities, reserves and equities.

Fund (Cost) Center – A Fund Center is a set of similar funds used to represent organizational units in a hierarchy, such as areas of responsibility, departments, and projects.

GL Account/Object Code – The GL Account designates the type of revenue, expense, or balance sheet item being recorded by a transaction. The first digit of the six-digit GL Account sequence indicates the broad type of account as described below:

- 1xxxx: Assets
- 2xxxx: Liabilities and Fund Equity
- 3xxxx: Revenue
- 4xxxx: Revenue – Other Sources (Transfers In, Expense Reimbursements, etc.)
- 5xxxx: Expenditures - Personal Services (e.g. Salaries & Benefits)
- 6xxxx: Expenditures - Operating
- 7xxxx: Capital Outlay
- 87xxx: Debt Service
- 88xxx: Grants & Aids
- 9xxxx: Other Uses (Expenditures for Transfers, Contributions, Reserves, etc.)

Object codes or GL accounts are further used to identify the type of services, materials, or other charges for which funds are expended such as Personal Services, Operations, Capital Outlay and Debt Service. The Other Miscellaneous Services GL account is an example of an Operating Expenditure and is the focus of this review

This fund structure is the backbone of SAP, the County's Financial Management System. County Departments and Clerk's Finance & Accounting staff post transactions to SAP utilizing the appropriate GL account. Operating expenditure Object Codes such as GL 649990, Other Miscellaneous Services, are used to identify the type of services, materials, or other charges for which funds are expended. Accurate coding of transactions helps insure accurate financial reporting and provides management with information needed to prepare the annual budget and control the budgeting process, and make informed cost comparisons for various services and materials.

The purpose of this analysis was to determine the type of expenditures and revenues typically posted to the Other Miscellaneous Services account in order to identify transactions that might be improperly classified according to the State and County Uniform Accounting System structure. The commonly accepted accounting definition of miscellaneous items includes minimal infrequent expenditures for services not otherwise specifically classified.

The total net balance in the GL 649990 account for FY2007 totaled \$3,103,589 and included 3,729 debit and credit items. We sampled debit transactions, excluding adjusting entries and posting corrections, for the period October 1, 2006 through September 30, 2007 that met an expenditure threshold of more than \$900.

RESULTS OF ANALYSIS

For Fiscal Year 2007, we noted over one thousand expenditure transactions that County Departments posted to General Ledger Account 649990, Other Miscellaneous Services that seemingly should have been posted to a different account. These transactions were misclassified either at the Purchase Requisition stage or the Vendor Goods Receipt stage and cover a number of expense categories including maintenance, software, rent and travel. The Other Miscellaneous Services account should only be used for infrequent expenditures related to goods/services not otherwise specifically classified. In addition, one of the County transactions was a capital expenditure of \$1,000 with a useful life over one year that had not been recorded as a fixed asset or included on the County's physical inventory list.

We reviewed SAP to identify alternative GL accounts that would be more appropriate for these transactions. We isolated a number of existing GL accounts that better represent the nature of the transactions, such as Building R&M, Software, Rent-Buildings, Rent-Equipment, and Out-of-County-Travel.

The following table summarizes FY 2007 transactions that seem to have been improperly posted to the General Ledger Account, Other Miscellaneous Services, and delineates alternative General Ledger accounts that better represent these transactions. The table also specifies cases where there does not appear to be an alternative General Ledger account and the creation of a new account may be warranted.

**Fiscal Year 2007 Transactions Misclassified in
General Ledger Account: Other Miscellaneous Services**

Issue #	Description/Type of Expenditure	Estimated Amount	Primary Source of Transaction	Approximate Number of Entries	Recommended Account for Transaction Posting
1	Maintenance on County buildings (Capital Projects Fund 301) such as painting, plumbing, window filming, and mechanical and electrical services. (net)	\$492,900	Facilities Management Department	85	646110 – Building R&M
2	Credit card Merchant Fees (net)	192,633	Various Departments & Finance	770	Create new GL account
3	Skire software-related expenditures including \$150,000 for computer software license fees, \$25,860 for system setup and \$5,579.31 for travel	181,439	Information Technology Department	4	652920 – Computer Software
4	Real Estate Rent – IT Admin 2685 Horseshoe Dr.	132,922	Information Technology Department	13	644100 – Rent - Buildings
5	Various Other Expenditures (FPL deposit reimbursement, petty cash replenishments, advertising, other operating supplies, storage, equipment, and maintenance)	85,734	Various Departments	68	Various accounts
6	Generator Rentals 800 MHZ	19,200	Emergency Management Department	8	644600 – Rent - Equipment
7	Fire & safety maintenance	15,906	Facilities Management Department	37	646270 – Fire System Maint
8	Bank Charges & Admin fees (net)	13,757	Finance	181	Create new GL account
9	Wellness promotions & publications	11,100	Risk Management	3	647110 – Printing and/or Binding - Outside Vendors
10	Interest paid on Impact Fees	8,903	Clerk's Finance & Accounting Department	50	Create new GL account
11	Material testing services – Fleet Facility Capital Project	8,547	Facilities Management	6	631400 – Engineering Fees
12	Country Jam event costs – Hotel rooms & travel	4,898	Parks and Recreation Department	17	Create new GL account
13	Title commitment services for Transportation Department's right-of-way acquisitions	4,125	Transportation Department	11	761100 – Land Capital Outlay
14	Laptop Warranty	3,968	Code Enforcement	1	646910 – Data Processing Equipment R&M

Issue #	Description/Type of Expenditure	Estimated Amount	Primary Source of Transaction	Approximate Number of Entries	Recommended Account for Transaction Posting
15	Water meter & Tapping fees, City of Naples	3,407	Utilities Department	2	649995 – Water Connection Charge
16	Copier Maintenance	2,981	Utilities Department	23	646710 Office Equipment R&M
17	Interest charges	1,990	Cash Interface through CD-Plus	4	Create new GL account
18	Employee expense reimbursements (e.g., supplies used for Human Services clients)	1,619	Various Departments (e.g., Human Services Department)	34	652990 Other Operating Supplies or 652810 Personal Care Items for Human Services Dept. 631231 County Employee Physicals
19	Fire service steering committee contribution to East Naples Fire Control District for 2005-2006 (Committee minutes refer to the charge as “dues”)	1,425	Emergency Medical Services Department	1	654210 Dues & Memberships
20	Hotel payment - Travel Expenses	1,249	Comprehensive Planning	3	640300 Out-of-County Travel Professional Development
21	Equipment purchase: * Menu Board - \$1,000	1,000	Parks and Recreation Department	1	764310 Office Furniture
	Total Dollar Value of Transactions Potentially Posted in Error to the Miscellaneous Account**	1,189,703			
	Total Dollar Value of Miscellaneous Account (<u>not including year-end adjustments and posting corrections</u>)	\$1,697,782			
	Percentage	70%			

* The current capital asset policy governing the recording and subsequent depreciation of property with a useful life of 1 year or more requires acquisitions of \$1,000 or more be capitalized and properly accounted for on the County's physical inventory list.

** We sampled 70% of the dollar value of the Miscellaneous Account based on a selection of debit transactions greater than \$900 and related transactions. Every transaction sampled appeared to be posted to the Miscellaneous Account in error. However these results should not be extrapolated to the entire account since many of the remaining transactions, which are relatively small in dollar value, seem to represent “over” and “under” postings. Clerk's Finance & Accounting will recommend the creation of a new general ledger account to use for “over” and “under” items.

CONCLUSION

Moving forward it is imperative that County departments post transactions to the correct General Ledger account as this will provide an accurate picture for budget forecasting, financial reporting, and operational decision-making. Further, the correct use of the coding structure is essential for the comprehensive and timely identification and verification of capital assets that are required to be captured in the fixed asset inventory list and annual financial statements. Capital items embedded in a miscellaneous account would not be captured by the Clerk's Fixed Asset Accountant, who analyzes capital accounts in maintaining the inventory list.

The Clerk's Finance & Accounting Department plans on preparing and disseminating guidance materials to County departments outlining the proper use of the Miscellaneous Account and highlighting the most commonly used accounts with definitions and example transactions. The Clerk's Finance & Accounting Department will also be evaluating the need to create new General Ledger accounts for transactions routinely posted to the Miscellaneous Account in which there is not currently a worthy alternative, such as impact fee interest and "over" and "under" entries. Finally, the Clerk's Fixed Assets Accountant is adding the fixed asset item identified in this review (Issue #21) to the County's physical inventory list.