COUNCIL AUDITOR'S OFFICE

JEA ACCOUNTS PAYABLE AUDIT

Authority & Background

Pursuant to Section 5.10 of the City of Jacksonville Charter and Chapter 102 of the Jacksonville Municipal Code, we conducted an audit of JEA's Accounts Payable (AP) Division. Our audit period was September 1, 2008 through October 31, 2009. Due to a JEA computer system conversion, we expanded the scope to include payments issued during April 2010.

AP is responsible for remitting all payments owed by JEA for goods, services, and internal operations, such as reimbursements to employees for travel and tuition.

AP has six employees who process payments. During fiscal year 2008/09, 19,374 payments totaling approximately $2 billion were issued.

Audit Conclusions

1) Although payments made to vendors appeared to be properly approved, correct, timely and appropriate in nature as compared to approved vendor listings and other supporting documentation, we noted a finding, and several internal control weaknesses (ICWs) and opportunities for improvement (OFIs), including:

   - No written policy on maintenance of the master list of all approved vendors.
   - AP staff had access to add vendors to the approved vendor list.
   - Prevalent use of two-way match rather than three-way match, exposing JEA to greater risk that payments could be made without receiving goods.
   - AP staff had system access to process their own reimbursements.
   - JEA had no written policy establishing performance targets for staff for payment deadlines.
   - 30 out of 405 payments were over 30 days old and 14 of the 30 were over 45 days old.

2) Payments appeared to be properly reviewed but were not always made in accordance with applicable laws, regulations and internal policies and procedures. Several ICWs and Findings were noted, including:

   - AP and Procurement Managers had the ability to override budgeted funds for purchases.
   - Contract information was not maintained consistently, so we were unable to determine whether contract thresholds were exceeded for our audit period.
   - Blanket orders (i.e. lump sum amount allotted for purchases to the same vendor over an extended period) were manually deducted from contract balances.
   - Same person had the ability to submit and approve a purchase requisition.
   - Employee Benefits contracts were not handled and maintained by Procurement and were not approved by the Awards Committee.
   - No written policy for write-off of AP balances.
   - Need to update written policies allowing JEA to utilize purchase orders in place of contracts for certain purchases.
   - Need to enhance existing policies for reimbursements to employees for tuition, travel, petty cash and business promotion.

(Please refer to the full report for more detailed information)

JEA
Accounts Payable Audit

January 3, 2011

Report #701

Released on: June 23, 2011

EXECUTIVE SUMMARY

AUDIT REPORT #701

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building

January 3, 2011

Honorable Members of the City Council
City of Jacksonville

Report #701

INTRODUCTION

Pursuant to Section 5.10 of the City of Jacksonville Charter and Chapter 102 of the Municipal Code, all agencies of the Consolidated Government, including the independent agencies, are subject to audit by the Council Auditor's Office. As an independent agency of the City of Jacksonville, JEA provides electric, water and sewer services. The focus of this audit was JEA's Accounts Payable (AP) Division.

JEA's AP Division processes all payments for goods, services and reimbursements to employees for travel and tuition. The three payment methods are check, ACH (Automated Clearing House) and wire, which are all issued by JEA's Treasury Division. AP receives either an invoice or a payment request document in order to process payment.

There are six employees who process all invoices and payment requests submitted to JEA. During fiscal year 2008/09, AP processed 19,374 payments totaling approximately $2 billion. All payments are processed through the AP module within the computerized purchasing system. This system was upgraded to a newer version in April 2010.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine whether payments made to vendors were timely, correct and appropriate in nature as compared to approved vendor listings, bank signature cards and other supporting documentation.

2. To determine if payments were made in accordance with contracts, internal policies and procedures, and laws and regulations and whether each payment included proof of a proper review by accounts payable personnel.

STATEMENT OF SCOPE AND METHODOLOGY

Our original audit scope consisted of all payments processed during the period of September 1, 2008 through October 31, 2009. During our audit JEA performed a system conversion for its

computerized purchasing system. For this reason we expanded our scope to include payments made from the new system during the month of conversion which was April 2010.
Based on the population of payments, we:

- Statistically selected random samples of payments using data extraction software.
- Judgmentally selected a sample of payments for the months of September 2008 and October 2009 to examine end of the year and beginning of the year payments.
- Judgmentally selected a sample of potential duplicate payments based on amount, date and vendor name.

We performed the following testing for the samples listed above:

- We compared vendor payments to approved vendor lists to determine that only approved vendors were receiving payment.
- We compared date of invoice to date of payment to determine timeliness.
- We compared date of invoice receipt by Accounts Payable staff to the date of entry into the computerized payables system.
- We compared supporting documents to payments to determine sufficiency of documentation.
- We compared signatures on checks to the approved authorized signer document to determine that only approved personnel signatures were present.
- We compared vendor addresses to employee addresses to test for "fictitious" vendors.
- We reviewed all applicable policies and procedures related to payments.
- We reviewed electronic copies to determine whether appropriate documentation was included with the payment as compared to the requirements of policies and procedures.
- We requested and reviewed additional documentation as needed.
- We reviewed the approval process and obtained approver titles to determine whether each approver had authority to approve the original requisition for the payment.
- We determined whether funds overrides had taken place for payments and whether proper approval had been obtained and whether sufficient documentation was available.
- We reviewed electronic copies of payment voucher packets to determine whether there was proof of proper review evidenced by AP staff.
- We reviewed contracts associated with payments within our sample to determine if proper signatures were included.
- We reviewed payments associated with each contract to determine whether they were within contract thresholds.
- We reviewed payments to organizations affiliated with JEA Board Members to determine appropriateness.
- We reviewed payments in the new system to determine whether payment processing was functioning properly.

Payments processed by the Accounts Payable Division are directly related to the purchases processed by the Procurement Division. Because of the close association of these two functions, our review of payments sometimes led us to make inquiries of Procurement. Based on those responses, there are several recommendations that relate to the Procurement Division.

Our report is structured to identify Internal Control Weaknesses (ICW), Audit Findings and Opportunities for Improvement (OFI) as they relate to our audit objectives. Internal control is a process implemented by the JEA to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the JEA's internal controls or is an area in which there are currently no internal controls in place to ensure that objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance the JEA's operations.

Suggested Additional Audit Work
In limiting the scope of this audit, we did not pursue the following areas, and as such they should be considered for future audit work:

- JEA's Procurement Division, Procurement Code and procurement process.

- JEA's tracking and recordkeeping of contracts.

STATEMENT OF AUDITING STANDARDS

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

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from JEA's Procurement Division, via John McCarthy, Director, in a memorandum dated June 3, 2011.

AUDIT CONCLUSIONS

By Objective

1. Although payments made to vendors appeared to be properly approved, correct, timely and appropriate in nature as compared to approved vendor listings and other supporting documentation, we noted in some instances that Accounts Payable personnel did not input invoices into the system within a timely manner. In addition, we noted several internal control weaknesses that will need to be addressed.

2. Overall, Accounts Payable personnel properly reviewed payments but payments were not always made in accordance with applicable laws and regulations and internal policies and procedures. In addition, JEA was not able to provide documentation for verification that payments were made in accordance with contracts. We also noted several internal control weaknesses related to funds overrides and contract monitoring that should be addressed.

AUDIT OBJECTIVE #1

To determine whether payments made to vendors were timely, correct and appropriate in nature as compared to approved vendor listings, bank signature cards and other supporting documentation.

INTERNAL CONTROL WEAKNESSES (ICW)

ICW 1 – 1 *No Written Policy for Vendor List Maintenance*

The Procurement Division does not have written policies and procedures for adding vendors to the master vendor list, which is maintained electronically. In addition, there is no policy requiring a periodic review and maintenance of the vendor list to ensure that authorized vendors are added and unqualified vendors are properly removed. If the approved vendor list is not up to date the AP Division is at a higher risk of processing payments for prohibited vendors.

Recommendation to ICW 1 – 1

We recommend that the Procurement Division create and implement written policies that address how vendors should be added to the vendor file and how changes to vendor information will be processed. In addition, the policies and procedures should describe steps required to ensure the accuracy of the vendor listing, including a periodic review.

Auditee Response to ICW 1 – 1

Management Response / Corrective Action Plan

Agree ☒ Disagree ☐ Partially Agree ☐

JEA has been maintaining its Vendor list. In the two years leading up to the Oracle R12 ERP system conversion, the Vendor List was reduced from ~ 26,000 vendors to its current level of ~ 6,000 vendors.

JEA did not have written policies and procedures for Vendor File Maintenance prior to the CAO Audit. A new procedure has been implemented since the audit.

<u>ICW 1 – 2 *AP Staff Can Access and Add Vendors to the Approved Vendor List*</u>

AP personnel are able to add employees and vendors to the approved vendor list in the system. This is a segregation of duties issue. Only the Procurement Division should be able to set up vendors in the system to minimize the risk that unauthorized vendors receive payments.

<u>Recommendation to ICW *1* – 2</u>

We recommend that the AP Division's ability to add vendors to the approved vendor listing be removed from the system and that only the Procurement Division be granted the authority to add vendors to the system in the future. As stated in the recommendation for the ICW titled "No Written Policy for Vendor List Maintenance" we also recommend that the Procurement Division create and implement written policies and procedures to provide guidance for the maintenance of the approved vendor file. These policies should include a review process of the vendor file and timelines for when the review process should take place.

<u>Auditee Response to ICW 1 – 2</u>

Management Response / Corrective Action Plan

Agree ☒ Disagree ☐ Partially Agree ☐

AP Division's permissions to add vendors to the Approved Vendor List have been removed. Written policies are addressed in JEA's response to ICW 1-1.

<u>ICW 1 – 3 *AP Employees Capable of Processing Own Reimbursements*</u>

AP personnel are capable of keying their own reimbursement payments into the system. There is no system in place (electronically or procedurally) to prevent AP personnel from processing their own travel or tuition reimbursements. Although AP Managers do conduct a daily review of payments, personnel could potentially process their own reimbursement for an amount greater than the legitimate tuition or travel expenditure.

<u>Recommendation to ICW 1 – 3</u>

We recommend that JEA establish a written policy that prohibits AP staff from processing his/her own reimbursements. Reimbursements to AP personnel should be processed by another employee in the division.

<u>Auditee Response to ICW 1 – 3</u>

Management Response / Corrective Action Plan

Agree ☒ Disagree ☐ Partially Agree ☐

Although there is no report of an infraction within the scope of this audit, JEA will create a *procedure to address this issue. The procedure will be drafted to support this recommendation. It will add control measures that require the deactivation of all of the vendor files for AP Division employees until the time of reimbursement. The vendor file will only be reactivated at the direction of the AP Division Manager for payment to the AP staff and the Chief Procurement Officer for payment to the AP Division Manager.*

FINDINGS

Finding 1 – 1 *Payment Resolution*

1. Eighteen payments out of 153 or 11.76% were input into the system more than two business days after the invoice was received. Ten of these payments occurred when JEA was updating their system because AP staff was not able to enter new invoices during that time. This is contrary to JEA's internal policy titled Invoice Payments Processing, which states, "Invoices will be entered into the system for payment within two business days of receipt." Although these invoices were not entered within the specified timeframe, only one resulted in a late payment to the vendor.
2. JEA maintains an On-Hold Report to show invoices that have been submitted by vendors but have not yet been paid. We requested an On-Hold Report for our audit period. Because this report cannot be generated for prior time periods, we were provided the On-Hold Report from April 12, 2010. We found that 30 of 405 or 7.41% of the payments on the On-Hold Report were over 30 days old and of the 30 payments, 14 or 3.46% were over 45 days old. The Florida Prompt Payment Act requires that payments be made within 45 days of the invoice date.
3. There is no written policy in place defining payment timeliness for the AP Division as a performance measurement. Periodic review of payment timeliness could alert managers of problems associated with payment processing and could also allow managers to resolve issues before the due date. In addition, monitoring payment timeliness may allow managers to determine if staff needs additional training or assistance with payment processing.

Recommendation to Finding 1 – 1

1. We recommend that the AP division reevaluate the internal policy that invoices should be entered within two business days. Since the payments that were not entered within this timeframe were still made in a timely manner, the two-day requirement may need revision.
2. We recommend that the AP Division be pro-active in monitoring invoices that are on the On-Hold Report and encourage other divisions to resolve invoice problems quickly and effectively. We also recommend that AP create a policy that specifies timeframes for corrections of issues relating to payment processing.
3. We recommend that policies and procedures be written and implemented that require management to define the timeliness of payments. These policies should specify what the turn around time is for payment processing and various remedies for overdue payments.

Auditee Response to Finding 1 – 1

Management Response / Corrective Action Plan

Agree ☐ Disagree ☐ Partially Agree ☒

Per the CAO Audit write up, from the 153 payments sampled during the audit,only one (1) resulted in a late payment, showing that payments are being made on time over 99% of the time. As mentioned in the finding, 10 of the invoices were not entered within 2 days due to system implementation downtime. This was an expected period of exception to JEA's internal policy for operational purposes. The two-day processing requirement is a JEA internal policy to encourage performance for the AP Clerks and has been effective in achieving these excellent results.

The Accounts Payable Division will update the Overdue Invoice Review procedure to replace the monitoring of the AP Past Due Aging Report with the monitoring of the On-Hold Report. The update will also address the various remedies for overdue payments. The Accounts Payable Division will continue to monitor the On-Hold report in conjunction with the action plan listed below. It is noted that all 30 of the pending payments needed various courses of action to be resolved by the business area in order to proceed with payment processing.

The A/P Division will update the Invoice Payment Processing procedure to address the requirements concerning the timeframe for correction of issues related to payment processing. The A/P Division will discuss the requirements for timeliness of payment citing the Florida Prompt Payment Act in the policy and the expectations for payment turnaround time.

OPPORTUNITIES FOR IMPROVEMENT (OFI)

OFI 1 - 1 *Routing Notifications*

During our audit, JEA updated its AP computerized system. The system conversion took place in April 2010.

When JEA completed its conversion to the new system we noted that the mechanism for notifying other JEA divisions about outstanding invoices was significantly changed. The new system no longer permits multiple people to be notified about an invoice at the same time and AP staff does not have enough space in the comments field to notate information about the invoice or provide instructions to those receiving the notification.

The invoice notification is used when AP cannot process a payment because additional information is needed or the division that placed the order needs to take further action. If invoices can be sent to multiple people the issue will be remedied in a timelier manner because everyone can communicate and make necessary corrections collaboratively without having to go from person to person. Additionally, if AP has the ability to include comments when the invoice is sent to divisions for correction, there is a potential for reducing the time needed to resolve issues.

<u>Recommendation to OFI 1 - 1</u>

We recommend that JEA contact the system developers to determine the feasibility of changing how individuals are notified about outstanding invoices. If possible, the system should permit AP to send notification of invoices to multiple individuals simultaneously. We also recommend that the notification method include adequate space for AP staff to include any comments.

<u>Auditee Response to OFI 1 – 1</u>

Management Response / Corrective Action Plan

Agree ☒ Disagree ☐ Partially Agree ☐

JEA reviewed this recommendation and has determined it is not cost feasible. Workflow Administrator rights have been granted to AP Division as an alternate solution, and it is working effectively.

<u>OFI 1 - 2 *System Reporting Capabilities*</u>

During our analysis of the new system, we noted that some reporting capabilities previously available to AP staff were removed or modified during the conversion process. The changes in the reporting capabilities make it difficult for both management and staff to monitor the performance, identify potential payment issues and provide relevant information about activities in the system. For example, two of the reports that we noted were previously available to staff under the old system but are no longer available under the new system are:

1. JEA Active Notifications- Informs AP staff about which notifications are active in their notifications box.

2. JEA Invoice Aging with Cost Center- There is an invoice aging report in the new system but it does not list the affected cost centers. Therefore, AP can no longer provide aging based on cost centers. This prevents AP from determining if specific cost centers are consistently having processing issues resulting in late payments.

<u>Recommendation to OFI 1 - 2</u>

We recommend that JEA's Technology Services Division work with the AP staff to identify reporting needs and develop reports that can provide relevant information in an accessible format.

Auditee Response to OFI 1 – 2

Management Response / Corrective Action Plan

Agree ☒ Disagree ☐ Partially Agree ☐

Oracle Reports are being identified to address this issue.

OFI 1-3 *Processing Payment Invoices That Are Less Than Purchase Order Amounts*

The system update affected how AP processes invoices that are different from the amount of the Purchase Order (P.O.). An invoice can be less than the amount on the P.O. if goods or services were provided at a lower cost or smaller quantity than originally anticipated. In the old system the invoice would just be processed at the lower amount.

The new system now requires the AP Division to create a separate invoice for the difference. The payment is still processed at the original invoice amount but in order to match the invoices to the P.O., this additional invoice must be created. This process may be duplicative since the second invoice is not approved by the Procurement Division.

Recommendation to OFI 1 - 3

We recommend that a limited number of staff within the Procurement Division be granted access to decrease the value of the P.O. in these types of scenarios to match the invoice so that AP does not have to generate two separate invoices.

Auditee Response to OFI 1 – 3

Management Response / Corrective Action Plan

Agree ☒ Disagree ☐ Partially Agree ☐

Internal policies and procedures will be created to address this issue. JEA will also review appropriate tolerance levels to reduce the number of occurrences.

OFI 1 – 4 *Set-Up of Wire Account Information*

JEA's Procurement Division does not set up bank account information for new vendors that wish to receive payments through a wire transfer. Additionally, JEA's AP Division does not verify that each wire is being remitted to the appropriate account. Instead, the Treasury Division has the responsibility for initially setting up the bank account information relative to wire transfers for new vendors and for verifying that each wire transfer is remitted to the correct account.

At the present time, JEA's Procurement Division already sets up the address and also Automated Clearing House (ACH) bank account information for any new vendors. Also, JEA's AP Division verifies that check requests are remitted to the appropriate address and that ACH payments are remitted to the correct bank account based on information on file with Procurement. We believe that AP's review function for AP related wire transfers should be the same verification process as physical addresses or ACH bank accounts.

Additionally, although the Treasury Division has verbally indicated that they verify the bank account information for wire transfers with the vendor, there is no written procedure that requires the Treasury Division to obtain an independent verification that the funds are being wired to the appropriate account. If there are no procedures requiring that Treasury verify the accuracy of the wire payment information and Treasury relies on the wire request from the department, there is an increased risk that payments could be wired to an improper account

Recommendation to OFI 1 – 4

We recommend that JEA evaluate the efficiency of having the Procurement and AP Divisions be responsible for inputting and reviewing the wire account information when vendors are created in the system and when wire requests are made to existing vendors. If it is determined that it is more efficient to have the Treasury Division continue to verify the accuracy of the account to which funds are wired, then we recommend that the Treasury Division establish a written procedure that requires that all bank account information be verified with the vendor.

Auditee Response to OFI 1 – 4

Management Response / Corrective Action Plan

Agree ☐ Disagree ☐ Partially Agree ☒

JEA has determined there is no efficiency to be gained or improvement to internal controls by having the wire account set-up information moved from Treasury Services to Procurement and Accounts Payable Services. Also, allowing Accounts Payable access to the wire transfer system could compromise controls over that system. Both Treasury Services and Accounts Payable Services have been working to reduce the number of wire payments by converting where possible such payments to be set up as ACH in the Oracle R12 system.

All A/P wire transfers in Treasury Services are required to have a two party initiation and review/approval process during which the vendor's banking information is verified to the source documents before any funds are released. Treasury Services will contact the vendor to obtain/confirm the initial banking information and subsequent changes, and keep a copy of this documentation on file. Treasury Services will also update and revise its current procedures to reflect these controls concerning the verification of vendor's banking information. Additionally, Treasury Services will periodically re-confirm existing banking information with the vendors.

Treasury Services has updated its procedure to include the suggested recommendations of this report.

Council Auditor Rebuttal to the JEA Response to OFI 1-4

We disagree with JEA's assessment of our recommendation. We are not recommending that Accounts Payable be granted system access to carry out a wire transaction in the wire transfer system as this would clearly be a violation of internal controls. We are simply recommending appropriate segregation of duties between the parties that enter bank account information and the parties who actually make the payment to the vendor.

The Accounts Payable Division should have the capability to verify wire information such as account number and vendor information prior to or after payment remittance with inquiry only access. At this time, wire information is not available to the Accounts Payable Division so this information is not verified by Accounts Payable Staff when payments are processed.

AUDIT OBJECTIVE #2

To determine if payments were made in accordance with contracts, internal policies and procedures, and laws and regulations and whether each payment included proof of a proper review by accounts payable personnel.

INTERNAL CONTROL WEAKNESSES (ICW)

ICW 2 – 1 *Funds Overrides by Procurement and Accounts Payable Managers*

There is no system control in place preventing the Procurement and AP Managers from performing funds overrides and there are no policies and procedures in place to provide guidance. A funds override will allow a cost center or division to make purchases when the purchase would exceed the budgeted amount for the cost center or division. Funds overrides may take place at the discretion of the Procurement Manager when a JEA cost center or division wishes to exceed its budgeted funds. The AP Manager also has this capability but we did not observe any instances during our testing.

Recommendation to ICW 2 – 1

We recommend that JEA remove the funds override capability from the Procurement module within the purchasing system, preventing staff within the Procurement and AP Divisions from approving purchases in excess of budget. The decision to allow such a purchase should be made by JEA's Budget Division. Therefore, we recommend that JEA's Budget Division be responsible for approving fund overrides. We also recommend that written policies and procedures be created and implemented to provide guidelines for how JEA divisions should handle the need for additional funds.

If JEA's Technology Services Division is not able to remove the override rights from Procurement and AP, then we recommend that the vendor be contacted to determine how these rights should be removed.

<u>Auditee Response to ICW 2 – 1</u>

Management Response / Corrective Action Plan

Agree ☐ Disagree ☒ Partially Agree ☐

In the past Procurement was asked to override funding for Purchase Requisitions for a limited variety of scenarios including reimbursable Work Orders, certain types of project cost allocation, and potentially true Operational Emergencies. Procurement Manager brought the override issue forward to the organization Spring 2010 where a process improvement effort was conducted to assess the various scenarios where it was occurring and make upstream process changes where necessary and feasible. The effort concluded with a JEA Procedure created and posted on Quest with an effective date of October 19, 2010, and was independent of this audit issue. At this time, Procurement has retained the security access to override Purchase Requisitions for true major Operational Emergencies authorized by the executive management team where written documentation would be provided to Procurement to override funding for a Purchase Requisition until specific budget can be obtained to support the emergency purchase. Operational Emergencies that are approved by the executive management team with written documentation are the only cases where Procurement has the authority to perform override funding for Purchasing Requisitions, and we expect these situation to rarely occur.

<u>Council Auditor Rebuttal to the JEA Response to ICW 2 – 1</u>

Although the operational emergencies leading to funds overrides are expected to be infrequent and Procurement intends to obtain and maintain documented approval from the Executive Team, these actions do not demonstrate good internal controls. JEA's Procurement Division should not be able to purchase goods and override budgetary controls that have been put into place to ensure that budget capacity is not exceeded.

We believe that only JEA's Budget Division should have the override capability. Per discussions with JEA, the capability does not exist within the system to grant the Budget Division the override capability without also providing the ability to approve purchase orders. This would create a new segregation of duties issue. Due to this system limitation, we recommend that JEA contact Oracle for discussion of possible system resolutions in order to correct the current segregation of duties issue.

<u>ICW 2 – 2 *Contract Records Not Maintained Consistently in System*</u>

JEA has no written policy or procedure detailing how contract records should be kept by each of the JEA's Procurement Buyers. Because there is no standardized policy and procedure in place, the information JEA maintains related to initial contract amounts and remaining balances has been maintained inconsistently. As a result, there is an increased risk that JEA could issue payments to vendors which exceed the contract limitations.

During our testing of contractual payments, we requested a system generated report showing contract thresholds and remaining balances, but we were informed this type of report was not available. We then attempted to obtain this information ourselves from the system but we were not able to determine original contract amounts or total dollars spent based on the information in the system. Next, we requested that the JEA's Procurement Buyers provide detailed information. After reviewing their information, we found that the information input by Buyers in the Procurement Division was inconsistent from one contract to the next and from one Buyer to the next. We concluded that for the sample of contractual payments we tested, JEA was not able to provide consistent information that we felt we could rely upon to determine whether payments to vendors were made in accordance with the terms of the contracts.

<u>Recommendation to ICW 2 – 2</u>

The AP Division relies solely on the information input into the system by Procurement for contractual payments. If original contract amounts, purchase orders, blanket orders and remaining balances are not accurately reflected, AP is at a greater risk for processing payments that exceed contract thresholds. AP can only determine whether each request for payment is within the threshold of the individual purchase or blanket order, but not the contract as a whole.

We recommend that written policies and procedures be created and implemented to provide guidance for JEA's Procurement Buyers for contract monitoring and maintenance within the system. Contract information within the system should be consistent from one contract to the next and available balances should be easily obtainable by JEA Divisions. Buyers should not have to go to various screens within the system to obtain general information for a contract.

<u>Auditee Response to ICW 2 – 2</u>

Agree ☐ Disagree ☒ Partially Agree ☐

The control of ensuring contracts are not exceeded rests in Procurement and not AP. This control ensures PO's against Contracts will not be issued in Oracle if the Contract Cap has been exceeded. Standalone PO's are issued and approved by the appropriate approving authorities based on value. Regarding consistency, initial Contract Purchase Agreements (CPAs) are entered by one Purchasing Assistant. Changes are performed by each buyer and the notes of those changes are reflected in the attachments to the CPA.

<u>Council Auditor Rebuttal to the JEA Response to ICW 2 – 2</u>

Although JEA states that there are controls within the system that prevent contract totals from being exceeded, we were not able to test these controls during our field work because of the inconsistencies noted above. Subsequent to our field work and during the draft phase of this audit report, JEA provided a report showing current contract balances but we did not test the balances on this report.

ICW 2 – 3 *Manual Adjustments for Blanket Orders*

The total dollar value of a contract must be manually adjusted in the computerized purchasing system to reflect the creation of a Blanket Order (B.O.) A blanket order is used instead of a standard purchase order when recurring purchases will be made from the same vendor over an extended period. If the manual adjustment is not performed correctly for these B.O.s, and the contract balance is not appropriately reduced, future payments could ultimately exceed contract limits.

The total dollar value of a contract is entered into the system when it is created. When purchase orders (P.O.) are created and applied against a contract, the new balance is automatically calculated to reflect the remaining contract value. For example, if a contract for $3 million is entered into the system and a P.O. is applied for $2 million, then the remaining contract balance shown in the system would be $1 million. No manual intervention is required for P.O.s.

However, when a B.O. is created, a Buyer must manually adjust the dollar value of the contract balance in order to accurately reflect the remaining dollar amount. If this manual calculation is not made, the B.O. will not be reflected in the contract balance and therefore it would show an amount greater than what is actually available. For instance, if a contract for $2 million is entered into the system and a P.O is applied for $1 million and a B.O. is created for $1 million, the balance of the contract would still be shown as $1 million until the buyer manually deducts the B.O. for $1 million. Therefore, AP staff could approve payments based on inaccurate information in the system, allowing overspending to occur.

We were unable to test contract balances to ensure that all B.O.s had been accurately offset against the contract due to the inconsistency in information included in the system by each of the different Buyers in the Procurement Division.

Recommendation to ICW 2 – 3

We recommend that JEA contact their software vendor to discuss possible alternatives to the necessary manual adjustments. If it is determined that the vendor cannot resolve the issue through economical steps then we recommend that Procurement discuss the issue with JEA's Technology Services Division and determine possible solutions.

Auditee Response to ICW 2 – 3

Agree ☐ Disagree ☐ Partially Agree ☒

JEA implemented a workaround solution for this Oracle system issue, prior to the CAO Audit, to address this issue. When Blanket Orders are used, the entire amount of the Contract Purchase Agreement (CPA), is transferred into the Blankiet Order at the beginning of the contract. That way, PO's issued against the Blanket Orders are automatically deducted from the Blanket Order, and the value of the CPA is kept at 0.

The Oracle system change issue will be studied for cost feasibility.

ICW 2 – 4 *Purchase Requisitions Submitted and Approved by Personnel*

Managers and other personnel have the ability to submit and approve requisitions in the computerized purchasing system. This presents a segregation of duties issue and could potentially lead to payment for inappropriately authorized goods or services.

When a division decides to make a purchase an employee must submit a purchasing requisition in the system. Either a manager or an authorized employee approves the requisition prior to it being submitted to the Procurement Division. The submitting and approving personnel should always be different to ensure proper approval of purchases.

Recommendation to ICW 2 – 4

It is our understanding after discussions with JEA's Technology Services staff that it is not possible for system controls to be put in place to prevent the same person from submitting and approving purchase requisitions. Given this limitation, at a minimum we recommend that JEA create and implement a written policy that prohibits the same employee from submitting and approving a requisition. The Procurement Division should review the submitting and approving employee and verify the two are not the same. If an approver does have to initiate a requisition on a rare occasion, the back-up approver should be required to approve the requisition.

Auditee Response to ICW 2 – 4

Agree ☒ Disagree ☐ Partially Agree ☐

JEA's Technology Services staff has determined it is possible for system controls to be put in place to prevent the same person from submitting and approving purchase requisision. JEA plans on making this change and developing new policy and procedure to support the change.

ICW 2 – 5 *Benefits Contracts Are Not Centrally Maintained by Procurement*

During the course of our review of supporting documentation for payments, we found that JEA's Procurement Division does not centrally maintain all contracts. We requested copies of contracts for payments that were greater than $200,000 since a contract is required for all such purchases pursuant to JEA's Procurement Code. We found that the Contract Specialist in Procurement had to contact the Benefits Division within JEA in order to locate employee benefits related contracts.

JEA's Procurement Operational Procedures state that "The Appointed Contracts Specialist shall be responsible for maintaining copies of documents related to all contracts that JEA awards, unless a contract or agreement is exempt from Procurement review as identified by the Code, or exempted by the JEA Board."

See also Finding 2 – 1 concerning JEA's employee benefits contracts.

Recommendation to ICW 2 – 5

We recommend that all applicable contracts be maintained by the Procurement Division as stated in JEA's Operational Procedures. If it is JEA's intent for Procurement to only centrally maintain contracts approved through the Awards Committee, then we recommend that JEA revise their Operational Procedures to mirror this practice.

Auditee Response to ICW 2 – 5

Agree ☒ Disagree ☐ Partially Agree ☐

JEA will update its Procurement Operational Procedures to better define applicable contracts to those contracts that are approved by the JEA Awards Committee.

ICW 2 – 6 *No Written Policy for Write-Off of Accounts Payable Balances

JEA's Financial Reporting Division does not have written policies and procedures or an approval path in place for handling unreconciled amounts between the Financial Reporting and AP modules within the computerized system. Each month AP performs a reconciliation of transaction balances to the Financial Reporting Division's records and notes any differences. Differences generally occur when AP staff performs a transaction in the AP module but the transaction is not uploaded in the system to the Financial Reporting module. The upload does require manual action.

We reviewed the monthly reconciliations for the period of October 2008 through April 2010 and found that there were several months showing unreconciled amounts. We found all accumulated unreconciled amounts totaling $60,098 were written off during April 2010 and another write off was performed during May 2010 totaling $160,967 for a total write-off of $221,065. JEA did not provide any supporting documentation when we initially requested it to justify why these write-offs were made. Also, there was no indication of approval for the write-offs.

However, upon receiving our draft audit report, JEA indicated that they did have supporting documentation for these write-offs. We met with JEA to review their support. Although JEA verbally explained the reason for the write-offs, the documentation did not clearly demonstrate why the write-offs were necessary nor was an approval path clearly noted on the documentation subsequently provided. Additionally, during this subsequent review with JEA, JEA informed us about a second account from which AP write-offs were made totaling $983,326. JEA never disclosed this account to us during the course of our audit. Per JEA, all of these write-offs, which were made in April 2010, were related to an accounts payable system conversion that took place in 1999.

Recommendation to ICW 2 – 6

We recommend that written policies and procedures be put in place to provide guidance to both the AP and the Financial Reporting Divisions as to how unreconciled amounts should be handled. All unreconciled amounts should be thoroughly researched and documented by both divisions and documentation should be maintained for future reference. The policies and procedures should also indicate the appropriate level of approval for write-offs.

Write-offs should only be performed when research as to the cause has been exhausted and it is determined by both division managers that there is no other alternative. Proper approval should be evident on the documentation.

Auditee Response to ICW 2 – 6

Management Response / Corrective Action Plan

Agree ☐ Disagree ☐ Partially Agree ☒

The write-offs of $60,098 and $160,967 referenced in the Council Auditor's Report were related to the clean-up of old A/P transactions and the $983,326 represented the clean-up of old receipt accrual transactions. In 1999, during the conversion process to Oracle 10.7, batches of A/P transactions and receipt accruals were not uploaded to the general ledger which caused a permanent difference between the detailed Accounts Payable Accounts and the A/P Control Accounts in the General Ledger. Consequently, these amounts were carried as reconciling items during the reconciliation process. As part of the upgrade to Oracle R12 in April 2010, an opportunity existed to bring the accounts back into balance by transferring only valid A/P invoices into the Oracle System. All of the old reconciling differences, which did not represent valid A/P transactions, were written off. These write-offs were considered a non-recurring event and were carefully reviewed and documented before the journal entry was posted to the General Ledger. The Manager of Financial Reporting and Manager of A/P reviewed the transactions and the journal entry was approved by the Director of Accounting Services.

JEA has a procedure related to Accounts Reconciliations. In accordance with FS C0200 AS 102 Account Reconciliations, Accounts Payable performs monthly reconciliations of the A/P accounts. Generally, there should not be permanent reconciling differences between the A/P detail and A/P general ledger account; however, we will expand our procedure to include the process of handling any reconciling differences if they occur.

ICW 2 – 7 *Travel Reimbursement for the CEO*

JEA's Management Directive allows for the approval of the CEO's travel reimbursement by a "Corporate Officer" which is defined as the Chief Financial Officer or Chief Operating Officer. The CEO's travel reimbursement does not require Board approval.

Recommendation to ICW 2 – 7

We recommend that the Chairman of the Board sign the travel reimbursement form for all CEO travel. This requirement should be included in JEA's Travel policy. This policy will better demonstrate the appearance of separation of authority by not putting a subordinate in the position of potentially denying a reimbursement request for the CEO.

Auditee Response to ICW 2 – 7

Management Response / Corrective Action Plan

Agree ☐ Disagree ☐ Partially Agree ☒

All CEO trips and estimated expenses are approved in writing by the Board chair or Vice Chair prior to travel. Appropriate support documents are on file. Also, three people review the CEO's actual expenses: the CEO's Admin. Assistant, the COO who approves them in Oracle, and the travel coordinator in AP, who scrutinizes everyone's travel, including the CEO's.

To provide additional control over actual CEO travel expenses, a print-out of the expense report from Oracle will be given to the Board Chair along with the travel authorization form he already signed. He will compare them after the fact, confirm that they are in agreement, and sign off on the expense report. All pertinent documents will be retained by the CEO's Administrative Assistant. Procedures will be adjusted accordingly.

ICW 2 – 8 *Written Policies Do Not Reflect Actual Practice*

Some of the AP Division's written policies and procedures do not reflect actual practice. During our audit, we reviewed policies and procedures relating to overdue invoices, check request processing, and vendors who claim they have not received a check payment. Specifically we found the following:

1. AP does not prepare and distribute a monthly past due aging report to JEA Divisions as required by the Overdue Invoices Policy.
2. The check request policy states that contract employees may not receive payments via check request but this is the way they are paid.

If written policies are not congruent with organizational practices the risk of errors occurring in payment processing increases.

Recommendation to ICW 2 – 8

We recommend that AP review and revise its policies and procedures to reflect current organizational requirements. Operations should be conducted in accordance with standard operating procedures. The policies should be periodically reviewed and updated to reflect any changes in JEA's business practices that enhance internal controls.

Auditee Response to ICW 2 – 8

Management Response / Corrective Action Plan

Agree ☒ Disagree ☐ Partially Agree ☐

JEA will revise its written procedures for the Overdue Invoices and Check Requests processes to comply with this finding. The majority of the issues related to this finding were the result of JEA's recently installed Oracle system.

ICW 2 – 9 *No Policy for Contributions to Not-For Profit Organizations*

We noted that JEA issued several payments for sponsorships and employee membership dues to not-for-profit organizations. We initially requested these policies and procedures during the course of our audit, but we were informed that written policies and procedures did not exist.

However, after receiving a draft copy of our report, JEA indicated they did have policies and procedures addressing payments to not-for-profit organizations for employee memberships and community outreach. Because the policies were provided long after we had completed detailed testing, we did not evaluate particular payments to not-for-profit organizations for sponsorships and employee membership dues to determine if they were in compliance with JEA's policies and procedures.

Recommendation to ICW 2 – 9

Our initial recommendation was for JEA to create and implement specific written policies and procedures regarding payments to not-for-profit organizations. It appears that JEA's policies and procedures provided subsequently to us do address our recommendation. Therefore, we recommend that JEA inform all individuals responsible for approving and/or processing payments about the policies governing these types of payments. We recommend that JEA periodically review written policies and procedures regarding payments to not-for-profit organizations. The policies should address approval process, approval hierarchy, and dollar limits imposed. In order to ensure that the JEA's goals and mission are being pursued, we recommend that payments to not-for-profit organizations be guided by these specific policies and procedures and require approval by JEA's Board.

Auditee Response to ICW 2 – 9

Management Response / Corrective Action Plan

Agree ☐ Disagree ☐ Partially Agree ☒

JEA's policies and procedures relating to payments to not-for-profit organizations will be re-communicated to AP personnel. Although these payments are already limited by budget constraints, we will consider revising the procedures to contain more specific approval *processes and limits. Since the JEA Board has delegated authority for developing and implementing policies and procedures to the CEO and his management team, we do not expect that these items will be brought to the Board for approval.*

FINDINGS

Finding 2 – 1 *Employee Benefits Contracts Are Not Approved by the Awards Committee*

During conversations with JEA concerning contracts not maintained by the Procurement Division (Refer to ICW 2-5), we found that two benefits contracts that we requested from JEA were not approved and awarded by JEA's Awards Committee. Benefits contracts are not exempted from JEA's Procurement Code and therefore should be procured in the same manner as other goods or services. Total payments during our audit period for these two employee benefits contracts were $44,117,013.

Recommendation to Finding 2 - 1

We recommend that all contracts be approved by JEA's Awards Committee unless specifically exempted by their Procurement Code.

Auditee Response to Finding 2 – 1

Management Response / Corrective Action Plan

Agree ☒ Disagree ☐ Partially Agree ☐

JEA will review its Purchasing Code and make appropriate revisions.

Finding 2 – 2 *Need to Update Procedures for Materials Contracts*

We tested 21 Contract Purchase Agreements (CPAs) associated with payments totaling $9,052,697 to determine whether there were underlying contracts and whether the contracts had been properly approved.

Of the 21 CPAs, we found that two did not have underlying contracts but according to JEA did have P.O.s issued. According to the Contract Management Specialist at JEA, a P.O. was issued in place of contracts for these two companies. JEA stated that the P.O. had all of the same terms that a contract would include. However, based on our review, neither of the two P.O.'s included information on the contract terms and conditions. One P.O. was issued for $8.5 million and the other was for $2,983,818. We were informed that sometimes P.O.'s are issued instead of contracts when a one time purchase is to take place. However, we noted there were multiple purchases from and payments to these two companies.

Section 10.1 of JEA's Procurement Operational Procedures states that "All formal awards shall use a contract as the means of establishing the definitive agreement between the parties. A P.O. referencing the contract may be used for accounting and tracking purposes, but should not restate or modify terms of the contract." Section 5.0 of the Operational Procedures defines a formal purchase as $200,000 or more.

Subsequent to our audit work and during the draft report phase, JEA provided the P.O.s and the Request for Proposals (RFPs) for both agreements listed above. This documentation included the terms and conditions between JEA and the supplier.

Recommendation to Finding 2 – 2

We recommend that JEA's Procurement Division abide by their Operational Procedures and utilize contracts for all purchases over $200,000 unless specifically exempted. If contracts are not to be used for specific purchase types, the Operational Procedures should be updated to reflect this practice.

Auditee Response to Finding 2 – 2

Management Response / Corrective Action Plan

Agree ☒ Disagree ☐ Partially Agree ☐

JEA's Operational Procedures have been revised to reflect this change.

Finding 2 – 3 *Testing Results for Payments to or on Behalf of Individual Employees*

We tested a random sample of 28 out of 2,667 payments, or 1.05%, made to or on behalf of individual employees at JEA in order to determine whether certain criteria had been met for the payments of tuition, travel, petty cash and business promotion reimbursements. These payments were made during the period of September 1, 2008 through October 31, 2009.

Of the 28 payments made to or on behalf of individuals, we found the following:

1. Seven or 25.00% of the payments tested did not include sufficient documentation for payment.
2. For four of the payments tested or 14.29 % of the payments, appropriate approvals were not evident based on the supporting documentation.
3. There were five travel reimbursements in our sample that included air travel and hotel reimbursement. For all five of these payments, the supporting documentation did not include proof that the lowest fees/fare available was paid. JEA's Travel Expense and Reimbursement Policy, as well as the Sections 106.706 and 106.707 of the City's Municipal Code require JEA to utilize the lowest/coach airfare or provide written documentation from the air carrier certifying that the coach rate was not available and to also obtain the most economical lodging.

<u>Recommendation to Finding 2 – 3</u>

1. We recommend that AP put written policies in place that state the types of documentation required for payment processing.
2. We recommend that documentation of approval from the employee’s supervisor be obtained and kept by AP to properly document the approval path for each traveler.
3. We recommend AP research and document the lowest airfares and room rates for each trip.

<u>Auditee Response to Finding 2 – 3</u>

Management Response / Corrective Action Plan

Agree ☐ Disagree ☐ Partially Agree ☒

1. The Accounts Payable Division will revise its procedural guidelines and conduct a training class on the proper documentation necessary for payment processing.

2. The new Oracle R12 upgrade came with an IExpense module that documents the approval path for each traveler in AP's records. This provides the documenation for the approval path for each traveler.

3. The Accounts Payable Division will implement a procedure that requires the travelers to document the lowest airfares and room rates for each trip based on a pre-determined set of guidelines.

<u>Finding 2 – 4 *Overall Testing Results*</u>

We tested a random sample of 150 out of 20,192 payments, or .74%. The 20,192 payments included 19,374 payments issued between October 2008 and September 2009 and 818 payments issued in April 2010, which was during the new system conversion.

Of the 150 payments tested we found the following:

1. For five or 3.33% of the payments, the underlying requisition was submitted and approved by the same person. This is a segregation of duties issue. This issue is also noted in our report as an Internal Control Weakness (See ICW 2-4).
2. For two or 1.33% of the payments, the approver did not have authority to approve the underlying requisition since the approver was not a manager and had no direct reports. This violates JEA’s internal policy titled Requisition Entry which states that “Approval authorization is given only to Managers, Directors and VPs.”

    Subsequent to our field work and during the draft report phase of our audit, JEA provided documentation showing that one of the approvers in #2 was a manager at the time the requisition was approved. However, this person was not listed as a manager at the time of our audit and additional documentation was not provided at that time.

3. For two or 1.33% of the payments, a budget/funds override was performed by a Procurement Manager. This means that the funds were not available within that cost center's budget but the purchase was approved anyway. No policy exists for funds overrides. This issue is also noted in our report as an Internal Control Weakness (See ICW 2-1).
4. For seven or 4.77% of the payments, we were unable to get to the approval screen to determine whether the requisition was properly approved due to a system limitation. Requisitions that are not properly approved violate JEA's internal policy titled Requisition Entry, which states that all purchases over $2,500 require a purchase requisition (PR). All seven payments were greater than $2,500.

   Subsequent to our field work and during the draft report phase of our audit, JEA provided five of the seven requisitions that we were unable to find during our field work. We were informed that the reason we could not find these requisitions in the system was because the requisitions did not transfer from the old Oracle system, R11.5.9, into the new system, R12, during the system conversion process. Given the fact that we no longer had system access when these requisitions were provided to us, we were not able to review the requisitions in the system and therefore are not able to confirm that the requisitions were in place during our field work and properly approved.

5. One or .67% of the payments was for a fellowship to a local university. We found that there is no policy in place to provide guidance for the determination of recipients, terms of fellowship agreements and how payments should be processed. This issue is also noted in our report as an Internal Control Weakness (See ICW 2-11).

<u>Recommendation to Finding 2 – 4</u>

1. It is our understanding after discussions with JEA's Technology Services staff that it is not possible for system controls to be put in place to prevent the same person from submitting and approving purchase requisitions. Given this limitation, at a minimum we recommend that JEA create and implement a written policy that prohibits the same employee from submitting and approving a requisition. The Procurement Division should review the submitting and approving employee and verify the two are not the same. If an approver does have to initiate a requisition on a rare occasion, the back-up approver should be required to approve the requisition. This recommendation is also made in ICW 2-4.
2. We recommend that system controls be put in place preventing unauthorized personnel from approving requisitions.
3. We recommend that JEA remove the funds override capability from the Procurement module within the purchasing system, preventing staff within the Procurement and AP Divisions from approving purchases in excess of budget. The decision to allow such a purchase should be made by the Budget Division. Therefore, we recommend that JEA's Budget Division be responsible for approving fund overrides. This recommendation is also made in ICW 2-1.
4. We recommend that JEA follow its internal policy OS A0500 PS 509 titled Requisition Entry and require that a requisition be submitted by the requesting division prior to a purchase order being issued.

5. We recommend that JEA create written policies and procedures to provide guidance for all payments that are not associated with JEA's core mission and strategy such as fellowships and sponsorships. This recommendation is also made in ICW 2-10.

<u>Auditee Response to Finding 2 – 4</u>

Management Response / Corrective Action Plan

Agree ☐ Disagree ☐ Partially Agree ☒

Item 1 was previously addressed in ICW 2-4.

The second item was approved by an appointed employee; however, it was not approved by an appointed supervisory employee as stated in the Management Directive (MD.) The A/P Division will update the procedure to place the responsibility to ensure compliance with MDs and Procedures with the A/P Division. It should be noted that the substantiation for the other item was proven and vindicated during the audit response period.

Item 3 was previously addressed in ICW 2-1.

For Item 4, JEA will create a procedure to ensure requisition information is documented, if applicable, when manual blanket releases are created. It should be noted that the substantiation for the remaining five payments was proven and vindicated during the audit response period.

Item 5 was previously addressed in ICW 2-10.

<u>Council Auditor Rebuttal to the JEA Response to Finding 2-4</u>

The statement made by JEA that information was "proven and vindicated during the audit response period" is incorrect. JEA was provided detail on all of our audit findings in December 2010 and given the opportunity to clear up any of these issues at that time. It was not until after we met with JEA on the draft report in May 2011 that we received responses to clear these issues, which was well after the completion of our audit field work.

Respectfully submitted,

Kirk A. Sherman, CPA
Council Auditor