

COUNCIL AUDITOR'S OFFICE

RECREATION AND COMMUNITY SERVICES BANK ACCOUNTS AUDIT



Background

Imprest checking accounts are utilized to assist with purchases of low priced items that are needed immediately and when it is not cost effective (and/or feasible) to issue a check in a normal manner. At the time of our audit, Recreation and Community Services maintained five imprest checking accounts. They were located in the below areas and were utilized for the listed purposes. All references to office, division and department names are those in place during our audit scope of FY 2009/10.

- Office of Special Events - to assist in the need for a quick turnaround of available funds for events put on by the City.
- Military Affairs, Veterans and Disabled Services Division - to assist homeless veterans in their return to productive society.
- Behavioral and Human Services Division
 - Supplemental Security Income (SSI) - to meet federal timing requirements
 - Victim Services - to purchase items related to the division.
- Adult Services Division - to reimburse volunteers in the Retired and Senior Volunteer Program (RSVP) for mileage.

Audit Conclusions

- 1) It appears that RCS did not comply with the City's policy and procedure manual that establishes internal controls for imprest checking accounts.
- 2) Overall, it appears that the disbursements from the RCS checking accounts were properly supported and authorized; however, we did find multiple issues with the Special Events imprest account.

Significant Audit Findings

During our testing we noted the most problems with the imprest account managed by the Office of Special Events. During our work performed on the Special Events Account we found the following:

- 1) Special Events filed misleading documentation and did not operate the imprest account as an imprest account. The misleading documentation resulted in \$1,958,676 in expenditures (and revenue) not being properly reflected on the City's Annual Financial Report between October 1, 2006 and April 6, 2011.
- 2) Special Events made payments to family members of employees.
- 3) Special Events did not comply with event financial reporting deadlines as required by the City's Municipal Code.
- 4) Special Events did not consistently follow the Procurement Code.
- 5) The amount authorized for the Special Events imprest account appears to be in excess of the amount needed.
- 6) Special Events did not get approval from OGC and the CFO prior to entering into contracts as required by the Municipal Code.
- 7) Special Events created invoices to support replenishment requests in multiple instances.

We also found the following that affected other accounts within the Recreation and Community Services Department:

- 1) Bank reconciliations did not take place each month for three of the accounts as required by City policy.
- 2) Two imprest accounts had little activity and do not warrant remaining open.
- 3) Overall, bank signature cards were not updated in a timely manner.

Activity by Checking Account

Description	Special Events		Veterans Services		SSI		Victim Services		RSVP	
	FY 09	FY 10	FY 09	FY 10	FY 09	FY 10	FY 09	FY 10	FY 09	FY 10
# of Cleared Checks	396	360	192	120	9	8	7	1	27	15
Total Dollar Amt.	\$842,900	\$893,348	\$10,838	\$ 8,010	\$ 6,934	\$27,187	\$ 291	\$ 18	\$ 969	\$ 445
Highest Check Amt.	\$ 60,840	\$ 49,469	\$ 202	\$ 192	\$ 1,911	\$11,842	\$ 96	\$ 18	\$ 83	\$ 46
Lowest Check Amt.	\$ 2	\$ 3	\$ 7	\$ 5	\$ 338	\$ 440	\$ 15	\$ 18	\$ 12	\$ 24

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

**Recreation and Community Services
Bank Accounts Audit**

June 27, 2011

Report #715

Released on: May 31, 2012

AUDIT REPORT #715

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



June 27, 2011

Report #715

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we examined the imprest checking accounts of the Recreation and Community Services Department (RCS). The scope of our audit was October 1, 2009 through September 30, 2010. Therefore, all references to office, division and department names are those in place during that time.

Pursuant to City policy, imprest checking accounts are utilized to assist with purchases of low priced items that are needed immediately and when it is not cost effective (and/or feasible) to issue a check in a normal manner. The imprest checking accounts are meant to assist and not circumvent the City's procurement and accounting code policies. Imprest accounts by design provide additional controls due to the fact that the only deposits into the account are in the form of replenishments. These replenishment requests are reviewed by the City's Accounting Division prior to the replenishment being processed.

Prior to the reorganization, RCS maintained five imprest checking accounts. They were located in the divisions below and utilized for the following purposes:

- Office of Special Events – to assist in the need for a quick turnaround of available funds for events put on by the City.
- Military Affairs, Veterans and Disabled Services Division – to assist homeless veterans in their return to productive society.
- Behavioral and Human Services Division – one account is utilized to assist in meeting the Supplemental Security Income (SSI) federal requirements relating to the timing of payments and the other is utilized to purchase items related to the Victim Services Center.
- Adult Services Division – to reimburse volunteers for mileage in the Retired and Senior Volunteer Program (RSVP).

Account Activity										
Description	Special Events		Veterans Services		SSI		Victim Services		RSVP	
	FY 09	FY 10	FY 09	FY 10	FY 09	FY 10	FY 09	FY 10	FY 09	FY 10
# of Cleared Checks	396	360	192	120	9	8	7	1	27	15
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Lowest Check Amt.	\$ 2	\$ 3	\$ 7	\$5	\$ 338	\$ 440	\$ 15	\$ 18	\$ 12	\$ 24

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine whether internal controls were in place and functioning as intended for the imprest checking accounts maintained by RCS.
2. To determine whether disbursements from the RCS imprest checking accounts were properly supported and authorized.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of our audit was October 1, 2009 through September 30, 2010. Therefore, all references to office, division and department names are those in place during that time and do not reflect changes made in the reorganization legislation approved in December 2011. To complete the audit, we conducted interviews with applicable personnel and reviewed supporting documentation relating to reconciliations and disbursements. More specifically, we:

- Obtained a listing from the City's Treasury Division of all imprest checking accounts of the City and their location.
- Reviewed all supporting documentation on file with the Treasury Division relating to the custodian, authorized signers, reconcilers and authorized amounts for each of the RCS imprest checking accounts.
- Documented the process to issue a check for each imprest checking account in RCS.
- Obtained the signatures forms on file with the bank for all checking accounts in RCS.
- Obtained inquiry access to the on-line banking system so that we could review cancelled checks.
- Tested all disbursements that cleared the bank in November 2009 and May 2010 for proper support and authorization. In instances where there was minimal activity for the fiscal year, we tested the entire fiscal year.
- Confirmed whether bank reconciliations were taking place every month and re-performed the reconciliations for November 2009 and May 2010.
- Verified that the checkbooks were being properly secured when not in use.

While performing our testing of the Office of Special Events imprest account we noted certain items that raised questions. Specifically, we found a replenishment request that noted that two checks had been voided when in fact these two checks cleared the bank for an amount totaling \$74,168. We determined this issue warranted a need to expand the testing of the imprest checking account. We expanded our scope to include payments from any Office of Special Events funding source to vendors from October 1, 2009 to April 6, 2011 where the total of the disbursements to the vendor was greater than \$2,500. Furthermore, we expanded our scope to include the time period of October 1, 2006 to April 6, 2011 for select payments to select vendors. These select vendors include payments to employees (and family members) and vendors with any questionable payment (e.g. the vendors which were paid with the checks marked as void or where there were payments for the same amount close together). For this expanded testing we performed additional procedures. Specifically, we:

- Verified support for disbursements.
- Verified that vendor addresses did not match that of employees.
- Reviewed the back of the cleared check to determine where the funds were deposited, when possible.
- Verified there were no duplicate payments for the same invoice and that deposits paid for events were properly deducted from final payments.
- Verified whether the IRS Form 1099s that were being completed by Special Events were properly filled out.
- Verified that different companies did not have the same address.
- Verified there were two signatures on disbursements.
- Verified that the corporate officers for the vendors were not employees of the Office of Special Events.
- Summarized the total for each event by fiscal year for the items tested, and compared to information presented on Special Events' reports.

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objectives. Internal control is a process implemented by management 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 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 operations.

Suggested Additional Audit Work

In limiting the scope of this audit, we did not review cash collection procedures at various City events handled by the Office of Special Events. Due to the inherent risk associated with cash collections at City-sponsored events, this would be a good area to audit in the future.

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 the Finance Department responses via C. Ronald Belton, Chief Financial Officer, in a memorandum dated February 28, 2012.

We received the Office of Special Events responses via C. Ronald Belton, Chief Financial Officer, and Tonisha Landry-Gaines, Special Events Manager, in a memorandum dated May 10, 2012.

We received the Adult Services Division responses via Lisa Marshall, Acting Chief of Senior Services Division, in a memorandum dated March 9, 2012.

We received the Behavioral and Human Services Division responses via Dr. Delphia S. Williams, Chief of Behavioral and Human Services Division, in a memorandum dated February 28, 2012.

We received the Military Affairs, Veterans and Disabled Services Division responses via V.G. Guillory, Director of Military Affairs, Veterans & Disabled Services Department, in a memorandum dated February 29, 2012.

AUDIT CONCLUSIONS

By Objective:

1. It appears that RCS did not comply with the City's policy and procedure manual that establishes internal controls for imprest checking accounts.
2. Overall, it appears that the disbursements from the RCS checking accounts were properly supported and authorized; however, we did find numerous issues with the Special Events imprest account.

AUDIT OBJECTIVE #1

To determine whether internal controls are in place and functioning as intended for the imprest checking accounts maintained by RCS.

Finding 1 – 1 *Overall - Lack of Monthly Reconciliations and Replenishment Requests*

None of the five accounts tested are requesting replenishment on a monthly basis as required by Treasury's policies and procedures relating to imprest accounts.

Additionally, there is not a monthly bank account reconciliation taking place for the Veterans Services, SSI Reimbursement, and Victim Services accounts as required by Treasury’s policies and procedures relating to imprest accounts. Furthermore, the individual assigned to perform the reconciliation of the Veteran’s Services account (per the paperwork on file with Treasury) was the custodian of the account, which does not provide for proper segregation of duties.

Pursuant to City policy, “The imprest/petty cash fund will be reimbursed on an ‘as needed’ basis, but the fund must be reconciled and reimbursed at the end of each month submitting the Petty Cash/Imprest Fund Reimbursement Form to the Accounting Division no later than the tenth day of the following month.”

The potential effects from a failure to comply with the City’s procedure is that it may be difficult for the Accounting Division to take any action regarding questionable expenditures given the lapse of time and bank errors may not be caught within the time period allowed to dispute a transaction.

Recommendation to Finding 1 – 1

The custodians should send replenishment requests to the Accounting Division monthly as required by City policy.

There should be a reconciliation performed each month on all accounts as required by City policy. Additionally, the custodian and the reconciler should not be the same employee for any account.

Behavioral and Human Resources Division Response to Finding 1 – 1

Agree Disagree Partially Agree

The division has worked with the Administrative Services Division (ASD) on a new process for the petty cash imprest account. The new process will be: division staff member as the fund custodian, ASD will perform the monthly reconciliation and prepare the monthly reimbursement request which will be signed by the fund custodian and the chief. Upon signing, the reimbursement request will be submitted monthly to the Accounting Division as required. This process will clearly divide the fund custodian duties and the reconciler’s duties.

RSVP Response to Finding 1 – 1

Agree Disagree Partially Agree

The Senior Services Division concurs with this finding and recommendation.

With reference to the Senior Services Retired and Senior Volunteer (RSVP) imprest account, we submitted a request to Treasury that this account be closed as staff is now processing check requests through the FAMIS Accounting system.

Special Events Response to Finding 1 – 1

Agree Disagree Partially Agree

The Special events imprest account custodian will submit monthly replenishment requests as required.

Veterans Services Response to Finding 1 – 1

Agree Disagree Partially Agree

Replenishment requests will be done monthly given there are checks written against the Imprest Fund in any given month.

Similarly, reconciliation will be performed each month given that there are activity against the Imprest Fund in any given month.

(Council Auditor’s Comment: Please note we removed the section of the Veterans Services response which stated the names of the newly assigned custodian and reconciler. This information is on file with the Council Auditor’s Office.)

Finding 1 – 2 *Overall - Outdated Bank Signature Cards*

The bank signature authorization forms are not being updated in a timely manner. Good business practices dictate that bank authorization forms be updated whenever there is a change in responsibilities related to a bank account. Two individuals that were no longer employed within RSVP as of April 2007 and April 2010 were still authorized to sign checks. In fact, only one of the authorized signers on the account was still employed with the City, which is a violation of the City’s imprest procedures requiring two signers for each check. The Office of Special Events had one individual who was no longer employed still authorized to sign checks per the authorization form filed with the bank. This individual’s employment ended in March 2009.

Recommendation to Finding 1 – 2

Upon any change in authorized signers the proper paperwork needs to be filed with the Treasury Division.

RSVP Response to Finding 1 – 2

Agree Disagree Partially Agree

The Senior Services Division concurs with this finding and recommendation.

An updated Bank Signature Authorization form is not required due to utilization of the FAMIS Accounting system, which will require the manager and the accountant senior's authorization on all check requests.

Special Events Response to Finding 1 – 2

Agree Disagree Partially Agree

An updated signature card was provided to Treasury for the bank on 9/29/11. An updated imprest fund change form was provided to Treasury on 3/28/12 as Special Events changed employee responsibilities for custodian and reconciler of the imprest account.

Finding 1 – 3 *Special Events - Misleading Custodian and Authorized Signer Forms*

The custodian form submitted by the Office of Special Events is inaccurate. Pursuant to City policy, the reconciliation is supposed to be performed by someone who is not the custodian and the reconciler is to receive an unopened bank statement to perform the reconciliation. On the latest imprest account form submitted by the Office of Special Events, the employee listed as the custodian does not actually perform the duties associated with the custodian function. For example, this employee does not even have access to the checkbook. In practice, the reconciler of the account also performs custodial duties. By allowing this employee to perform both of these duties, the Office of Special Events has violated basic segregation of duties and City policy. This leads to a weakened internal control system and increases the risk for fraud to occur.

Recommendation to Finding 1 – 3

The Office of Special Events needs to update the forms detailing the custodian, authorized signers and reconcilers. Additionally, Special Events needs to have different employees assigned to the custodian and reconciler positions both on paper and in practice so that proper segregation of duties is maintained.

Special Events Response to Finding 1 – 3

Agree Disagree Partially Agree

An updated imprest fund change form was provided to Treasury on 3/28/12 as Special Events changed employee responsibilities for custodian and reconciler of the imprest account.

Finding 1 – 4 *Special Events - Falsified/Misleading Reporting & Improper Operation of Imprest Account*

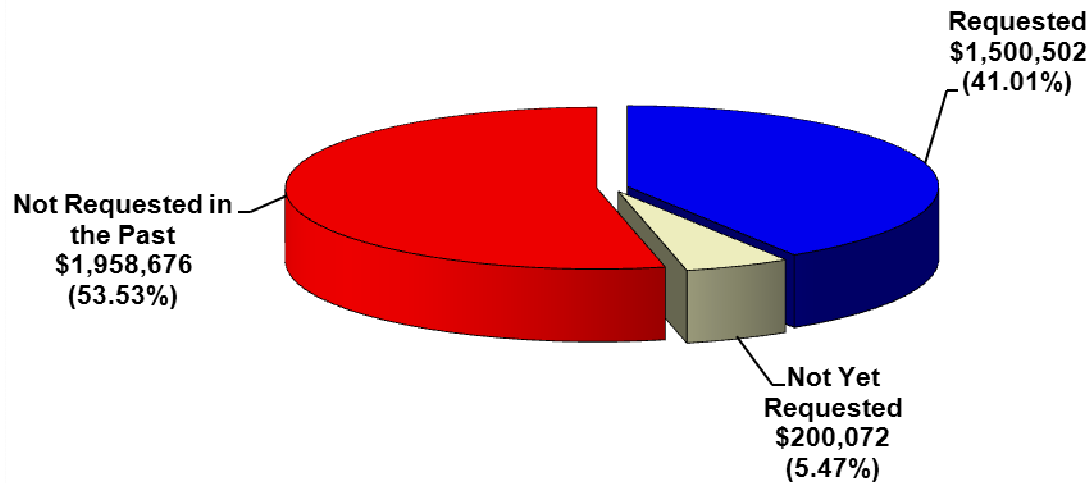
The Office of Special Events imprest checking account was not being utilized as an imprest checking account. By definition, imprest accounts are not to have any deposits, except replenishments for substantiated disbursements. During our audit period, the Office of Special

Events was depositing other funds, such as monies collected at events, directly into the imprest checking account and then using these deposits to make disbursements. This resulted in some instances of there being no oversight of payments made from the Special Events imprest account outside of the Special Event's Office. The following problems occurred as a result of the account not operating as an imprest account.

- The Office of Special Events was able to have a checkbook balance above the currently authorized amount of \$100,010 due to other funds being deposited directly into the account. For example, at the end of November 30, 2009, Special Events had a checkbook balance of \$169,276.
- In order to receive the replenishment requests, the Office of Special Events falsified their checkbook balance on account replenishment requests. For example, on June 23, 2010, Special Events stated the checkbook balance was \$14,732 on the replenishment request form to the City's Accounting Division when in fact the true checkbook balance was at least \$68,279.
- Because Special Events was utilizing deposited event funds to write checks, they did not request replenishment in a timely manner. For example, on August 30, 2010, Special Events requested replenishment in the amount of \$98,150 which included checks written between February 3, 2010 and May 13, 2010. However, there was \$329,406 in checks written after May 13, 2010 and before August 30, 2010 that was not included on this request.
- The Office of Special Events selectively requested replenishments for checks, and therefore prevented the Accounting Division from acting as an oversight for some disbursements. The expenses for which replenishment was not sought were never reviewed by anyone outside the Office of Special Events and never recorded in the City's General Ledger. For example:
 - There were \$126,476 in checks written during FY 2009/10 that was intentionally not requested for replenishment and marked as "Not Reimbursable" on replenishment requests.
 - There were \$74,168 in checks written during FY 2009/10 that were marked as "Void" on the replenishment requests that took place during FY 2009/10 when in fact the checks had not been voided and had cleared the bank.
 - There were \$492 in checks marked as "Stop Payment" on the replenishment request for FY 2009/10 that cleared the bank.
- In FY 2009/10, Special Events wrote checks totaling \$879,065 from the Office of Special Events imprest checking account; however, Special Events only requested replenishment for \$374,956 during the year and \$27,927 of the replenishment related to prior years. Therefore, there were \$532,033 in expenditures that were never represented on the City's financial statements.
- During the time period, October 1, 2006 to April 6, 2011 (expanded scope); the Office of Special Events wrote checks from the imprest account totaling \$3,659,250 that cleared the bank. Of this total, \$1,958,676 (or 53.53%) were marked as not reimbursable, void or stop payment on the replenishment or left off the replenishment request entirely. This means that over 50% of the checks written during this time period did not have any oversight by the City's Accounting Division. See the chart below.

Request Status of Cleared Checks

*In total \$3,659,250 Cleared the Bank
(Between October 1, 2006 and April 6, 2011)*



Recommendation to Finding 1 – 4

We recommend the following:

- The Office of Special Events must make nightly deposits into the Tax Collector's bank account and submit a cash receipt with the Tax Collector's Office that will request the funds be recorded in the Special Events Trust Fund, which is a separate account from the imprest checking account. Specifically, no check should ever be deposited into the imprest account that is not written by the City's Accounting Division to replenish the account. Furthermore, all checks written from the imprest account should go through the normal replenishment process for reimbursement.
- The Office of Special Events must work with the City's Accounting and Treasury Divisions to establish a plan to bring the imprest account back into the properly authorized amount so that in the future it can operate as an imprest account within the authorized limits. One way to bring the imprest account back into the properly authorized amount is to have the imprest account cut a check back to the Special Events Trust Fund.
- The City's Administration must take the appropriate disciplinary action against the employees who falsified documents for several years to circumvent the City's internal controls.

Special Events Response to Finding 1 – 4

Agree Disagree Partially Agree

Bullet 1: Since the audit field work, Special events has been depositing revenue with the Tax Collector's Office. They will continue to do so going forward. They have been re-depositing start up cash directly into the imprest checking account but will include the start up cash on the reimbursement/replenishment request submitted to Accounting going forward.

Bullet 2: The Finance Department is working with the Office of Special Events to provide guidance regarding the current reimbursement request to bring the imprest account back to the authorized amount. Prior year deposits and expenditures need to be reviewed to determine if all expenditures were authorized and reimbursable. A sampling of transactions will initially be reviewed to determine how much additional review should take place. If expenditures are determined to be unauthorized for reimbursement to the trust fund, then a discussion will take place with the external auditors before proceeding.

Bullet 3: The Administration is currently reviewing the available data.

Council Auditor Response to Special Events Response to Recommendation to Finding 1 – 4

Bullet 3: We have provided the Office of Special Events Manager examples of checks marked as void on the replenishment requests submitted to Accounting. The checks were marked as void on both the replenishment request spreadsheet and on a copy of the check that was included in the replenishment request as support. Furthermore, we provided the Office of Special Events Manager a copy of every replenishment request within our audit scope which shows the check book balance was falsified. Although there may be no proof of fraud occurring, these are still significant issues and divergences from City policy that require some action to be taken.

Internal Control Weakness 1 – 1 *Special Events – Excessive Authorized Amount*

The current authorized amount of the Special Events imprest account exposes the City to a large amount of risk if a theft occurs. The current authorized amount of the imprest account is \$100,010. Since this account is not established as a positive pay account, the City is open to a risk of loss of the full \$100,010. If the account was established as a positive pay account the City would be protected against some threats. If this was a positive pay account, the City would essentially send the bank a list of the account number, check number, dollar amount and issue date of each check. For any check that did not match the listing, the bank would send the information to the City to approve or deny on an individual basis.

Of note, during testing it became evident that many checks were being written from the imprest account that could be written on a standard city check. This leads us to believe the authorized amount could be reduced which would lessen the risk to which the City is exposed.

Recommendations to Internal Control Weakness 1 – 1

The City should switch the imprest checking account to a positive pay checking account and consider significantly reducing the authorized amount.

Finance Department Response to Internal Control Weakness 1 – 1

Agree Disagree Partially Agree

Current authorized amount of Special Events Imprest Account \$100,010.00 is under review for a balance reduction. Special Events staff has been trained on proper procurement procedures and are now processing advance event payments through Procurement and Accounts Payable. Upon completion of several large events, a review of immediate cash needs will be completed with an appropriate reduction in the imprest cash balance. Treasury will also train the fund custodian with Wells Fargo CEO on-line positive pay access to enter valid issue checks.

Special Events Response to Internal Control Weakness 1 – 1

Agree Disagree Partially Agree

The Finance Department will determine the best course of action and will work with the Office of Special Events to ensure proper implementation and adherence to policy.

Opportunity for Improvement 1 – 1 *RSVP and Victims Services - Closing of Accounts*

Two of the accounts have extremely low activity and should be closed because they create an unwarranted risk to the City. Pursuant to City policy, the monthly usage should be above \$1,000 for an imprest account. For the RSVP account, there were only 15 payments made during fiscal year 2009/10 for a total dollar amount of \$445.30. The Victims Services current bank balance is \$3.50, with only one transaction taking place during the fiscal year 2009/10. Reduced usage through the years appears to have eliminated the need for the separate imprest checking accounts in these areas.

Recommendation to Opportunity for Improvement 1 – 1

These two accounts should be closed. All of the checks issued for the RSVP and Victim Services Programs should now be processed by the City’s Accounting Division.

Behavioral and Human Services Division Response to Opportunity for Improvement 1 – 1

Agree Disagree Partially Agree

At the recommendation of this audit, the Division Chief via memorandum dated March 23, 2011 to the City Treasurer, requested that the Victim Services Program bank account and the imprest/petty cash fund custodial number PCV446802 be closed (see attached documentation).

The bank account was closed on November 30, 2011. Please note, RSVP is part of the Adult Services Division not Behavioral and Human Services.

(Council Auditor's Comment: Please note we did receive the attachment referenced above in the response from the Behavioral and Human Services Division, which did confirm the account was closed. Their attachment is not included in this report, but is on file with the Council Auditor's Office.)

RSVP Response to Opportunity for Improvement 1 – 1

Agree Disagree Partially Agree

The Senior Services Division concurs with the opportunity for improvement and recommendation to close the RSVP account. As noted above, this has already been accomplished and staff is now processing check requests through the City's FAMIS Accounting system.

AUDIT OBJECTIVE #2

To determine whether disbursements from the RCS imprest checking accounts were properly supported and authorized.

Finding 2 - 1 *Special Events - Double Payments*

We found a few instances where Special Events made duplicate payments to vendors for the same invoice. We believe this was caused by the difficulty in tracking payments to vendors from multiple funding sources. Specifically, we noted during our expanded testing of payments to vendors with activity greater than \$2,500 between October 1, 2010 and April 6, 2011, there were two payments for the same service/product. These two duplicate payments totaled \$410.50 or 0.01% of the \$3,718,661.81 tested. Additionally, during our expanded testing of payments to select vendors between October 1, 2006 and April 1, 2011, there were two payments for the same \$2,800 invoice or 0.1% of the \$2,151,303.46 tested.

Recommendations to Finding 2 - 1

Special Events needs to comply with City purchasing procedures and reduce the amount of expenditures from the imprest account to reduce the risk of duplicate payments.

Special Events Response to Finding 2 - 1

Agree Disagree Partially Agree

Special events is currently using JaxPro and FAMIS for as many transactions as possible. This has reduced the number of checks being written from the imprest account. The imprest account is being used for start up money and to pay expenditures that cannot practically be paid through FAMIS, such as for items that must be paid COD.

Finding 2 - 2 *Special Events - Creating Invoices*

During our testing we found examples where it appeared as though the Office of Special Events created invoices to submit with replenishment requests. The paying department should never create invoices to substantiate payments. We observed in multiple instances where the format of different invoices from different entities was exactly the same. Upon asking the auditee regarding this matter, it was stated that invoices are created in some instances, such as for payments to some non-profit vendors and for payments to some outside help during events.

Recommendations to Finding 2 - 2

Whether or not it is for legitimate business reasons, the Office of Special Events should never create invoices to substantiate a payment for any reason. If no other support can be provided, payment should be withheld until proper support is provided by the vendor.

Special Events Response to Finding 2 - 2

Agree Disagree Partially Agree

For both the World of Nations Celebration and the Florida-Georgia Weekend, the Office of Special Events must submit payments to the participants. In the first instance, the participants are reimbursed for meal and drink tickets redeemed at their booths. In the latter, a portion of sponsorship or merchandise proceeds is submitted to the schools in accordance with the Memorandum of Understanding currently in place. In the future, the details, calculations and back-up for these types of occurrences will be tracked and documented in a spreadsheet which will accompany the payment as its support/back-up. The vendor will sign-off on the amount paid.

Finding 2 - 3 *Special Events - Lack of Signature on Receipts*

An employee from the Office of Special Events did not always sign invoices or receiving reports indicating that a good or service was received. Proper segregation of duties requires that a party separate from the approval and payment process confirm receipt of the good or service. Out of 165 imprest checks tested, 119 (or 72.12%) did not contain some form of employee

acknowledgment of receipt of goods or services. This results in an increased risk that Special Events may pay for a good or service that is not received.

Recommendations to Finding 2 - 3

The Office of Special Events needs to have an employee sign each invoice or receiving report to confirm receipt of goods or services on payments from the imprest account.

Special Events Response to Finding 2 - 3

Agree Disagree Partially Agree

Going forward, Office of Special Events staff will either sign each invoice or receiving report to confirm receipt of goods or services, or attach a copy of the email approval to the invoice.

Finding 2 - 4 *Special Events - Failure to Obtain OGC and CFO Approval*

Section 111.105 (a) of the Municipal Code allows for the Office of Special Events to enter into contracts as needed to put on events. However, this section requires the Chief Financial Officer (CFO) to certify that funding is available to cover the special event in question and that the Office of Special Events has the Office of General Counsel (OGC) review the contract as to form.

The CFO does not appear to sign any of the contracts certifying that funding is available. We also found that Special Events does not have OGC review contracts under \$15,000. We were able to verify that at least some contracts over \$15,000 were reviewed by OGC for the performers in the 2011 Jazz Festival; however, the Office of Special Events stated that contracts under \$15,000 are not reviewed. This results in the City being open to unneeded risks.

Recommendations to Finding 2 – 4

Special Events should request the CFO to substantiate availability of funding and OGC to review to form all contracts entered into by the Office of Special Events from the Trust Fund as required by the Municipal Code.

Special Events Response to Finding 2 - 4

Agree Disagree Partially Agree

To comply with the Ordinance Code, all contracts will be reviewed for funds availability by the Chief Financial Officer and approved as to form by the Office of General Counsel.

SUPPLEMENTAL ISSUES

Finding 1 *Special Events - Not Following the Procurement Code*

The Office of Special Events did not follow the City's Procurement Code for some of the purchases from the Office of Special Events imprest checking account. All City purchases should comply with the City's Procurement Code. This includes purchases from imprest accounts. Per the policies promulgated by the Treasury Division, "the imprest/petty cash fund is intended to be an adjunct to the City's procurement and payment mechanism; it is not intended to by-pass existing Purchasing and Accounting code policies." By not following the City's Procurement Code, the Office of Special Events could be missing out on savings through City contracts, could be conducting business with a barred vendor, or even showing favoritism in awarding business to certain vendors. Below, are two examples of the types of findings that we found.

- We noted instances where they processed payment to a vendor for an amount in excess of the awarded amount with the imprest account.
- We noted an instance where a purchase order could have been utilized as it was in the past, but they chose not to issue one.

Recommendations to Finding 1

The Office of Special Events should conduct all purchases in compliance with the Procurement Code, whether that requires an administrative award, blanket order, purchase order, or any other mechanism allowed. Furthermore, unless not possible, all payments should be processed with a standard City check.

Special Events Response to Finding 1

Agree Disagree Partially Agree

Special events has begun consistently utilizing Procurement. An administrative award, purchase order or some other form of contract is now being obtained for all purchases. Additionally, see response to Recommendation to Finding 2 - 1.

Finding 2 *Special Events - Payments to Family Members*

During our testing, we noted in total there was \$8,167.50 in checks written to family members of the former head of the Office of Special Events, of which \$6,667.50 was from the imprest account. Utilization of a family member for a service needs to be vetted and be outside the control of the conflicted party so as to avoid the appearance of favoritism in selection of a vendor or employee candidate. Furthermore, Section 602.1203 of the City's Municipal Code requires compliance with Florida Statute 112.313 (3) regarding doing business with one's agency. These

payments may be a violation of this statute regarding purchasing of services from family members.

Recommendations to Finding 2

The Office of Special Events should avoid utilizing family members for services in the future.

Special Events Response to Finding 2

Agree Disagree Partially Agree

[No comment provided by Special Events except for their agreement with the recommendation.]

Finding 3 *Special Events - Improper Handling of Outstanding Checks*

Prior to having the Special Events Imprest checking account with Wachovia, the account was with Bank of America. The process of closing the Bank of America account was not handled properly. Either the account should have remained open until the checks cleared and/or they were remitted to the state as unclaimed property as required by Florida Statute 717.1035. Instead, the Office of Special Events wrote a check for \$8,190.34 to the City and deposited the funds associated with the outstanding checks into their trust fund. Please note that some of these checks had stop payments issued, and therefore, are probably not a problem. This finding was caused by miscommunication between the Treasury Division and the Office of Special Events at the time of the switch in banking institutions.

Recommendations to Finding 3

The City needs to confirm that none of the outstanding Bank of America checks at the time of the closing of the account have had a new check written as a replacement and remit the remaining funds to the State.

Finance Department Response to Finding 3

Agree Disagree Partially Agree

Treasury will obtain Bank of America check registers and statements from Special Events and working with the Special Events Fund Custodian compile a list of any outstanding obligations resulting from Bank of America and Wachovia/Wells Fargo checks issued from the Imprest account. After the required due diligence to locate and notify the payees, the outstanding funds will be reported and remitted to the State of Florida.

Special Events Response to Finding 3

Agree Disagree Partially Agree

The Finance Department will work with the Office of Special Events to ensure proper implementation.

Finding 4 *Special Events - Failure to Meet Event Reporting Deadlines*

Special Events is not filing event reports with the Council Auditor’s Office within the required time frame after events. Pursuant to Section 111.105 of the Municipal Code, the Office of Special Events is required to provide a complete accounting of revenues by source and expenses by category within 30 days of the last day of an event. For the event reports from fiscal years 2007/08, 2008/09, 2009/10 and the beginning of 2010/11, it took on average 453 days to file the report with the Council Auditor’s Office, assuming the report was filed.

Recommendations to Finding 4

The Office of Special Events needs to comply with the ordinance code requirement.

Special Events Response to Finding 4

Agree Disagree Partially Agree

The Office of Special Events will provide the Council Auditor's Office with reports within the stated timeframe. It should be noted that data may be provided as incomplete as processing and reconciliations may extend the 30 day period. All remaining data being made available as soon as finalized.

Council Auditor Response to Special Events Response to Recommendation to Finding 4

This response fails to acknowledge the fact that under current practice the reports are filed on average over a year later and address how they are now going to file a report within 30 days. If the final report still takes over a year, we are still in the same place we are now. The point of the report is to provide timely and accurate information on the financial operations of events put on by the Office of Special Events.

Internal Control Weakness 1 *Special Events - Issue with Preparation of IRS Form 1099-MISC*

The Internal Revenue Service (IRS) requires that a form 1099-MISC (1099) be filed for all recipients deemed reportable by IRS guidelines to whom payments exceed a set threshold during the year. The 1099 forms associated with payments from the Office of Special Events imprest checking account are handled separately by the Office of Special Events rather than the City’s Accounting Division. Under the current practice, the accountant in the Office of Special Events

obtains blank IRS 1099 forms from the City's Accounting Division. During our review of this we noted a few instances where the Office of Special Events did not file a form 1099 when it should have. The instances we noted all involved relatively small amounts.

The reason that these forms are not processed with the other 1099 forms completed by the City's Accounting Division is that the disbursements from the imprest checking accounts do not get entered into the City's accounting system by vendor. Instead the information is entered into the financial and accounting system at the total replenishment request amount. For most imprest accounts this is not a problem. Under current practice, there is a risk that the 1099 forms may not be properly filled out or a form may not even be completed as required by the IRS.

Recommendations to Internal Control Weakness 1

The City's Accounting Division should prepare all of the City's 1099 forms to ensure that the City will be in compliance with IRS requirements.

Finance Department Response to Internal Control Weakness 1

Agree Disagree Partially Agree

Currently, the Special Events Office receives 1099 MISC forms from the Accounting Division to complete for vendors paid through the Special Events imprest checking account. Before the forms are mailed to the IRS, the Accounting Division reviews these forms for accuracy and IRS compliance. Once reviewed, the Accounting Division sends all 1099 MISC forms to the IRS at one time. However, the Special Events Office has been sending the 1099 MISC forms to their vendors.

It is crucial that all city vendors receive a 1099 MISC form at year end when required. At present, the Accounting Division does not review the Special Events imprest checking account expenditures to determine which vendors are 1099 reportable. In the future and to ensure that vendors receive 1099 MISC forms, the Accounts Payable supervisor will review the Special Events Office imprest reimbursement package sent to Accounts Payable and pull the invoices for the vendors that are 1099 reportable. At year end, Accounting will complete and send the 1099-MISC forms to the vendors and the IRS.

Special Events Response to Internal Control Weakness 1

Agree Disagree Partially Agree

The Finance Department and the Office of Special Events will work together to ensure proper implementation.

We appreciate the assistance and cooperation we received from the Recreation and Community Services Department throughout the course of this audit.

Respectfully submitted,

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