



Audit of JTA Accounts Payable - #749

Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, all agencies of the Consolidated Government, including independent agencies, are subject to audit by the Council Auditor’s Office. As an independent agency of the City of the Jacksonville, the Jacksonville Transportation Authority (JTA), provides two broad functions for the citizens of Duval County. JTA designs and constructs highways and bridges while also providing multiple forms of mass transportation. We performed an accounts payable audit of JTA since we have recently performed similar audits of the City and some of some of its Independent Agencies based on our audit risk assessment.

What CAO Recommends

JTA needs to conduct an analysis to determine a better way to re-distribute some job functions in order to create a better control environment in the accounts payable area. While performing this analysis it may be beneficial to re-consider the merits of two separate payable and check disbursement areas.

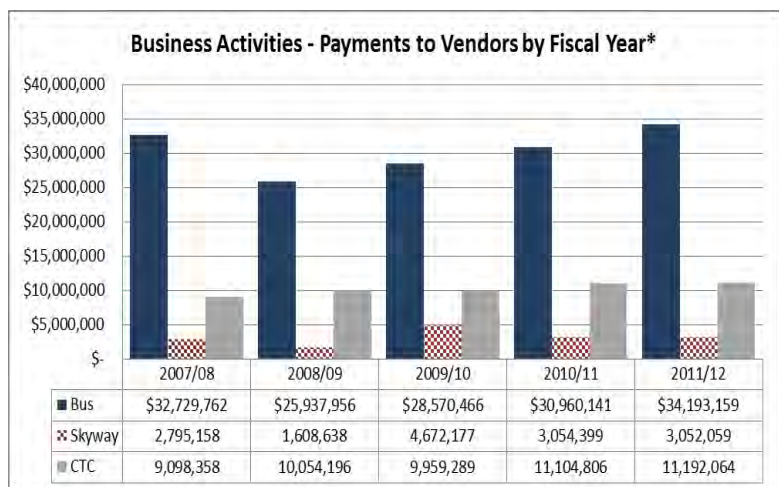
Additionally, policy and procedures need to be updated and bank reconciliations need to be performed in a more timely manner.

What CAO Found

Based on the testing performed, payments made to vendors appeared to be accurate in amount and properly supported and authorized; however, we did find that several payments were not processed in a timely manner and that there were several internal control weaknesses that need to be addressed.

Specifically, we found the following:

- Various segregation of duties problems within the accounts payable and check disbursement processes.
- Limited written policies and procedures related to maintaining information technology systems that are involved with accounts payable and check disbursement functions.
- Payments of invoices were not always occurring within a timely manner as required by the Florida Statutes.
- Bank reconciliations were not being performed within a timely manner.
- Pooled cash accounting was not being utilized, which could simplify the banking operations of JTA.





Council Auditor's Office

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November 15, 2013

Report #749

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AUDIT REPORT #749

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



November 15, 2013

Report #749

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, all agencies of the Consolidated Government, including independent agencies, are subject to audit by the Council Auditor's Office. As an independent agency of the City of Jacksonville, the Jacksonville Transportation Authority (JTA) provides two broad functions for the citizens of Duval County. JTA designs and constructs highways and bridges while also providing multiple forms of mass transportation. The mass transit operations can be broken down to three business type activities. The activities are the Bus Operations, Automated Skyway Express (ASE) and Community Transportation Coordinator (CTC).

The focus of our audit was on JTA's Accounts Payable area, which processes payments for all functions of JTA. In fiscal year 2011/12, JTA had total expenses of \$172,871,546; however, a significant portion of the expenses were attributable to items outside of our scope such as payments to employees, construction related expenses, and other various items.

STATEMENT OF OBJECTIVE

To determine whether payments were accurate in amount, properly supported and authorized, and processed in a timely manner.

STATEMENT OF SCOPE AND METHODOLOGY

Our scope included all Jacksonville Transportation Authority payments (excluding construction and payroll) issued from October 1, 2011 to September 30, 2012. To draw a conclusion on our objective, we obtained a listing of all payments (excluding construction and payroll payments) for the period of October 1, 2011 to September 30, 2012. We confirmed completeness of the payment listing by comparing it to the checks that cleared the bank from October 2011 to October 2012. Based on this comparison, we felt we could reasonably conclude that the payments excluded were in fact payments that fell outside of the audit scope.

A sample size of 93 was statistically determined to be reasonable based on the assessed risk and population of 10,346. We randomly selected 93 payments for testing from the entire population. After reviewing the type of payments that were included in our sample for testing, we added an

additional 39 payments to the sample to obtain a better representation of all the types of payments that comprise our population. This resulted in a total sample size of 132 payments to be tested.

Since we pulled our population from data provided by JTA's accounting system, we confirmed that information such as vendor name and check amount matched the check images that had cleared the bank. We used the supporting documentation provided by JTA to confirm whether payments were accurate in amount, properly supported and authorized, and processed in a timely manner. We also reviewed the payments to vendors included in our sample to confirm the vendors were legitimate businesses.

We also performed additional testing on the population for any type of unusual activities. Examples of this included:

- We obtained a listing of the addresses of JTA employees and vendors to see whether any employee was receiving inappropriate payments.
- We reviewed organizations that have relationships with JTA Board Members and key employees based on information obtained from the Florida Secretary of State's website.
- We utilized our auditing software to identify possible duplicate payments. We reviewed the flagged payments manually and removed anything that could easily be explained and requested supporting documentation for all other payments.
- We reviewed payments and deposits in the last two weeks of September 2011 and 2012 and the first two weeks of October 2011 and 2012 for items that may be attempts to misrepresent the true balance of an item on the balance sheet and/or income statement via timing differences.

REPORT FORMAT

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.

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 the Jacksonville Transportation Authority, via Henry Li, Chief Financial Officer (CFO), in a memorandum dated May 12, 2104.

AUDIT CONCLUSION

Based on the testing performed, payments made to vendors appeared to be accurate in amount and properly supported and authorized; however, we did find that several payments were not processed in a timely manner and that there were several internal control weaknesses that need to be addressed.

AUDIT OBJECTIVE AND FINDINGS

To determine whether payments were accurate in amount, properly supported and authorized, and processed in a timely manner.

ICW 1 *Various Segregation of Duties Issues*

During our audit testing period, JTA maintained two separate accounts payable areas. Each area was in charge of its own set of accounts and performed both the accounts payable and traditional treasury functions. This organizational set-up created many of the issues noted below because JTA needed to separate the job functions over fewer people, while still ensuring that back-up personnel were in place to continue processing payments when employees are out.

Below are examples of the segregation of duties issues noted within the accounts payable areas:

- 1) Individuals in charge of check remittance (and wire transfers) were involved with the bank account reconciliation and review process.
- 2) Individuals responsible for printing checks were involved with the creation and remittance of the positive pay file. The positive pay file is a listing of checks sent to the bank to notify them of checks written. Any discrepancies between the positive pay file and the checks as they are coming into the bank are flagged. JTA is then given the opportunity to research any such issues prior to the bank releasing the funds.
- 3) Two managers and one other employee had the ability to approve their own wire transfers.
- 4) Employees in charge of making disbursements were able to set up and change vendor information in the system.

- 5) Employees that prepared and input journal entries also issued checks (or prepared wires).

Proper segregation of duties establishes a system whereby the risk of fraud and error is reduced to an acceptable level. One concept that must be considered is the cost and benefit of implementing certain controls; however, the control issues mentioned above can be addressed (without increasing staffing levels) by eliminating the separate accounts payable areas and switching to separate accounts payable and treasury functions.

Recommendation to ICW 1

We recommend that management review the duties of all employees in the finance area and re-evaluate the idea of having two separate accounts payable areas. These job functions may be able to be combined to eliminate repetitive activities and attain an optimal segregation of duties at the current staffing levels.

Auditee Response to ICW 1

Agree Disagree Partially Agree

The Jacksonville Transportation Authority (JTA) has used the H.T.E./AS400 accounting system and “green screen technology” for more than twenty years. This system was originally set up to have two separate accounts payable modules and this could not be easily changed.

The Oracle implementation process started in July 2013 and at that time management reviewed the duties of both the Mass Transit and Engineering/Projects AP teams and made the decision to have a single Accounts Payable module in the new system. Finance and Accounting staff began using the Oracle Financials module including AP on May 5, 2014. The functionality available in the Oracle system was the best opportunity to establish a single accounts payable unit for the JTA. However, the process and corporate culture changes involved with transitioning from the obsolete “green screen technology” to a web based Oracle system is substantial. As a result, a staggered approach is currently underway for A/P staff to cross-train.

The complete consolidation of the Mass Transit and Engineering/Projects AP teams into a single A/P team will be completed by September 30, 2014.

ICW 2 *Limited Written Policies and Procedures Related to Systems*

We noted issues within the JTA Information Technology (IT) policies and procedures as listed below:

- 1) While JTA’s IT Division stated that it performed daily monitoring of system activity for anomalies relating to wrongful access, there was no written policy regarding this practice and we were not provided with proof of this monitoring activity.
- 2) There were no written policies and procedures for how existing access level changes or new access requests are to be initiated and approved.
- 3) There was no written disaster recovery plan.

- 4) There were no policies and procedures in place for software patches and updates received from vendors and performed by the IT Division.
- 5) There was no written policy in place for the process of how Human Resources notified the IT Division of any terminations.

If well-written policies and procedures are not maintained, employee turnover could lead to the loss of institutional knowledge regarding the various Information System processes and it could result in a lack of understanding of proper protocols.

Recommendation to ICW 2

We recommend that the IT Division properly implement and document in writing their policies and procedures. Furthermore, when possible, the division should maintain proper documentation of the review taking place to confirm compliance.

Auditee Response to ICW 2

Agree Disagree Partially Agree

The JTA Technology and Innovation Department is currently in the process of creating, updating, revising and appropriately documenting all departmental policies and procedures in accordance with best practices. JTA has hired a Technical Writer to work with its departmental staff and technical services provider to appropriately document all standard operating procedures and practices for the department. As a part of this process, JTA plans to document procedures for all IT audit findings which identified a lack of proper documentation and procedures. JTA has budgeted and obtained a proposal to develop a disaster recovery plan including identifying the hardware and software needed to support a remote disaster recovery site for redundancy purposes. JTA will engage an outside consultant to begin developing the disaster recovery plan no later than June 2014. It is anticipated that plan will be completed within four to six months.

Finding 1 *Payment Timeliness Issues*

We found that 16 of the 127 (or 12.6%) payments tested for timeliness were not processed within 45 days of the date the invoice was issued. Per Chapter 218 of Florida Statutes, the payment due date for a local governmental entity's purchase of goods or services is 45 days. Even though no vendors charged JTA interest for payments we tested, payments not made within the time specified bear interest at a rate of one percent per month when requested by vendors. JTA's process of handling invoices did not require invoices to immediately go to accounts payable, which increased the processing time in certain instances during our audit scope.

Recommendation to Finding 1

JTA should make sure payments are processed within 45 days as required per the Florida Statutes. To do this, invoices should be immediately sent to accounts payable. Furthermore, management needs to review compliance.

Auditee Response to Finding 1

Agree Disagree Partially Agree

Since the period covered in this AP audit; JTA has implemented procedures to ensure payments are processed within payment terms.

Last summer, JTA's new management team immediately identified opportunities for improvement in this area and implemented the Accounts Payable Invoice Processing procedure on June 19, 2013. To further increase the efficiency of receiving invoices, an Accounts Payable email address for the Authority (AccountsPayable@jtafla.com) was established on January 7, 2014. This email address streamlines the process of routing an electronic copy of the invoice for approval. To further this initiative the Oracle AP system has been setup to have electronic copies of the invoices attached and electronically routed for approval. This invoice approval workflow and an Accounts Payable aging report from Oracle are both reviewed on a weekly basis by the Accounting management team to ensure prompt payment to vendors.

Finding 2 *Lack of Supporting Documentation*

We noted that two separate \$1,000 payments made to a JTA employee did not have proper supporting documentation on file. These check payments were made to the employee so that the employee could go and purchase items on behalf of JTA for an upcoming event. In order to make the purchases at the local store, the employee first had to cash the checks. The information originally provided to us did not include supporting documentation. There was a note stating that the employee needed to provide receipts documenting that the JTA funds were used for the intended purpose; however, no such receipts were added to the disbursement package. After we noted that there was not adequate support, JTA contacted the employee, who had to obtain receipts from the business since she did not retain the receipts provided at the time of the purchases. In the end, the employee had to make a refund of \$5.87 to JTA.

Recommendation to Finding 2

JTA should make sure that proper supporting documentation is kept on file, and payments should not be approved until such documentation is provided for all payments.

Furthermore, JTA should avoid making any direct payments to employees for goods due to the increased risks associated with these types of disbursements. If possible, it would be advantageous for JTA to open a company account with certain businesses so that JTA can make purchases on credit and then pay the corresponding invoices at a later date.

Auditee Response to Finding 2

Agree Disagree Partially Agree

JTA's management team understands the importance of minimizing payments made directly to employees for goods and the need to include sufficient and proper supporting documentation on

those disbursements. JTA's current management team uses an Authority issued check, whenever possible to pay for goods.

Finding 3 *Untimely Bank Account Reconciliations*

We found the following in our testing of bank account reconciliations for the fiscal year ended September 30, 2012:

- For ASE, none of the monthly bank account reconciliations were performed in a timely manner given that the reconciliations were not completed until December 2012. This means that some were completed more than one year after month end.
- For the Bus Operations, as of December 2012 the bank account reconciliations were not completed for eleven out of twelve months. The only bank account reconciliation that was performed was completed in December 2012, which was not timely.
- For the CTC, no bank account reconciliation issues were noted.

These issues created a situation where JTA may not have detected a misappropriation of funds or any bank errors in a timely manner, if at all. This could have prevented them from taking appropriate corrective action.

Since they utilize positive pay accounts, some of the risk is limited; however, positive pay does not absolve all issues. Furthermore, JTA might not have an accurate understanding of their checkbook balance, which could lead to issuing checks with insufficient funds and unnecessary overdraft charges.

Recommendation to Finding 3

We recommend that monthly bank account reconciliations be performed in a timely manner. Best practice would be to perform the reconciliation and resolve all issues within 30 days of the bank statement date. In addition, the person performing the bank account reconciliations should not be associated with the processing and issuance of payments as noted in ICW #1.

Auditee Response to Finding 3

Agree Disagree Partially Agree

JTA's management team agrees that bank reconciliations should be performed on a monthly basis and has ensured reconciliations are reviewed monthly as part of the monthly accounting close process to ensure compliance. This is supported by the lack of timely bank reconciliations observation being shown as addressed or no longer relevant in the FY13 audited financial statements.

Finding 4 *Missing Bank Signature Card*

For 8 of the 15 bank accounts operated by JTA, we found that the bank signature cards for our audit scope were not on file. The General Records Schedule GS1-SL for State and Local

Government Agencies issued by the Florida Department of State requires that agencies maintain financial account authorization records for “5 fiscal years after authorization superseded, expired, or cancelled provided applicable audits have been released.”

Recommendation to Finding 4

We recommend that JTA maintain proper records of the bank signature cards as required by the State’s record retention policy.

Auditee Response to Finding 4

Agree Disagree Partially Agree

JTA maintains bank signature cards and will implement a retention policy to ensure bank signature cards are retained for the required timeframe per the State's record retention policy.

Opportunity for Improvement 1 *Pooled Cash Accounting*

Based on the testing performed, we found that the current processes for bank operations are convoluted due to the lack of a pooled cash method. JTA maintained individual bank accounts for each operating area. Due to normal cash flows of JTA operations, this created a situation where several large cash transfers needed to occur between accounts to maintain ample operating cash in each account to pay expenditures. The use of one physical bank account shared by multiple areas eliminates the need for these transfers from a cash management perspective, while also increasing efficiency and reducing risks associated with the transfers. Specifically, the use of a pooled cash accounting method greatly reduces the need to use “due to/due from” accounts, requires fewer bank reconciliations to be performed, and eliminates the need for bank transfers in order to move money between operations within JTA.

Recommendation to Opportunity for Improvement 1

We recommend that JTA switch to a pooled cash system and eliminate unnecessary bank accounts. Based on discussions with JTA staff, we understand that JTA is currently in the process of switching to a new Enterprise Resource Planning software, so it might not make sense to make this change immediately. However, during the implementation process JTA should transition to the pooled cash method.

Auditee Response to Opportunity for Improvement 1

Agree Disagree Partially Agree

JTA management agrees that the change to pooled cash should not happen immediately. However, the Oracle Enterprise Resource Planning system has been set up to allow for pooled cash and JTA management will continue to transition to the pooled cash method.

Respectfully submitted,

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