



**Council Auditor's Office**

**Follow-up Report**

**November 18, 2013**

**Report # 758**

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



November 18, 2013

Report #758

Honorable Members of the City Council  
City of Jacksonville

The purpose of this report is to document our annual follow-up review of past reports to determine whether or not corrective action has been taken in response to our findings and recommendations. We are providing this special written report in accordance with Ordinance Code Section 102.102. This report does not represent an audit or attestation conducted pursuant to Government Auditing Standards.

In determining our population for this follow-up review, we included all of our reports that had not been included in previous follow-up reviews. We then excluded our more recent reports (e.g. reports issued within the previous twelve months) in order to provide auditees the time necessary to implement our recommendations. We also excluded reports which do not require or lend themselves to a follow-up review, such as the quarterly summary financial reports. This process resulted in the following list of eight reports requiring follow-up review. Typically, our review includes outstanding items from the previous follow-up, but due to the timing of the start of this review and the release of the previous follow-up Report #737, we did not review those items. Those items will be analyzed in our next follow-up report. The Clerk of the Courts Audit Report #685 was excluded due to the timing of beginning of our follow-up review and the short time period in which the newly elected Clerk had been in office. This audit will be included in the next follow-up review or conducted as a separate audit.

**Eight Reports Requiring Follow-up Review**

1. Audit of Miscellaneous Bank Accounts #698
2. JEA Accounts Payable Audit #701
3. City Council Revenue Review #704
4. Housing and Neighborhoods Department Bank Accounts Audit #705
5. Procedures Surrounding City Imprest Accounts #706
6. Jacksonville Economic Development Commission Audit #711
7. Recreation and Community Services Bank Accounts Audit #715
8. Jacksonville Sheriff's Office Aviation Audit #718

We sent follow-up letters inquiring as to the status of the original audit report recommendations. We reviewed the recommendations from our audit reports, the auditees' responses to the recommendations, and the auditees' responses to our follow-up letter. We then performed limited testing on a judgmentally selected sample of findings to verify that our recommendations have been implemented as stated in the auditees' responses. The following is a brief summary of the results of our follow-up inquiry and testing.

1. **Audit of Miscellaneous Bank Accounts #698 (April 2011)**

Based on the responses received from each of the audited agencies and our follow-up testing of a judgmentally selected sample, it appears that the agencies have complied with our audit recommendations with the following exception:

- A. Internal Control Weakness 1-1 found that the custodian and reconciler for the Real Estate imprest account was the same person; however, our follow-up testing showed that even though the reconciler and custodian were reflected as different people on the imprest forms as we recommended, the person performing the reconciliation is not the person identified as the reconciler.

***Real Estate Response to the Follow-Up of Internal Control Weakness 1-1***

Agree                       Disagree                       Partially Agree

*The Executive Assistant now operates as the Fund Custodian and the Public Works Finance Manager now operates as the Reconciler.*

2. **JEA Accounts Payable Audit #701 (June 2011)**

Based on the responses received from JEA and our follow-up testing of a judgmentally selected sample, it appears that JEA has complied with our audit recommendations with the following exception:

- A. Internal Control Weakness 1-2 found that Accounts Payable (AP) personnel were able to add employees and vendors to the approved vendor list in the system. JEA responded stating that they have removed permissions for AP personnel to add vendors. JEA further indicated that this compatibility is now limited to Procurement personnel who need it to perform job functions. However, we found that the Manager of Procurement Services has the ability to create new vendors, which is not a necessary job function for the position. This permission should be removed from the Manager of Procurement Services.

***JEA Response to the Follow-Up of Internal Control Weakness 1-2***

Agree                       Disagree                       Partially Agree

*JEA has removed the ability to create new vendors from the Manager of Procurement Services system access and limits this ability to only Procurement Staff assigned to this function.*

3. **City Council Revenue Review #704 (October 2011)**

Based on the responses received from the Council Secretary/Director and our follow-up testing of a judgmentally selected sample, it appears that Legislative Services has complied with our review recommendations with the following exceptions:

- A. Finding 2 stated that Legislative Services' files did not include a copy of the check for zoning appeal legislation payments as required by the City's Cash Receipts Standard Operating Procedures (SOPs). The Council Secretary responded saying that they will follow the City's Cash Receipts Policy. However, we discovered that one out of the two zoning appeals files that we reviewed did not have a copy of the check included in the file.

***Council Secretary/Director Response to the Follow-Up of Finding 2***

Agree                       Disagree                       Partially Agree

*The Auditor's finding and recommendation are accepted. The Legislative Staff will be informed of the following and the following provision added as corrective action. Zoning Appeals – A copy of the check must be placed in the file - As a reminder this addition will be placed in the front section of the Log Receipt Book as a reminder.*

- B. Internal Control Weakness 3 stated that Legislative Services staff did not appear to be familiar with the City's Cash Receipts Standard Operating Procedures. The Council Secretary responded saying that written materials have been provided to all applicable personnel and training on the policy will be given. However, we discovered that one new employee began initiating cash transactions months before acknowledging in writing her receipt of the City's policy.

***Council Secretary/Director Response to the Follow-Up of Internal Control Weakness 3***

Agree                       Disagree                       Partially Agree

*The Auditor's finding and recommendation are accepted. The Legislative Staff will be informed of the following and the following provision reinforced as a form of corrective action. Council Staff are provided with a very detailed Standard Operating Procedure for Legislative Services Cash Handling Procedures. Each employee is required to review the document and sign saying that they not only have received the document but are familiar with the processes set forth within the document. The Chief of Legislative Services as well as the Director of City Council has had one on one session with each person through-out the year on proper use of the material provided. Therefore, the employee using the term of unfamiliarity of the Cash Handling Process is not an acceptable response for their failure to perform the task as set forth in the SOP. A meeting will be held with all personal on this issue.*

*The Legislative Staff provided training to the new employee of the Council. During the training the new employee, was given hands on training. Thus, the new employee signed the document as the initiator of the receipt. The new employee was being trained on many facets of the office and while the individual was provided with the SOP... it was not appropriate to allow the individual to independently perform the task of Cash Handling or sign the receipt book during the training process. This employee was in the same shadowing mode and not allowed to handle other job responsibilities independently. In the future, new employees will not be allowed to sign the receipt book until their SOP has been received and training is complete.*

*The Office of the Staff Services is committed to meeting a high standard of efficiency and professionalism. A special “thank you” to the Council Auditor’s for their guidance in assisting us to maintain peak performance levels within the Department.*

4. **Housing and Neighborhoods Department Bank Accounts Audit #705 (November 2011)**

Based on the responses received and our follow-up testing of a judgmentally selected sample, it appears that the majority of our audit recommendations have been satisfied.

However, due to Housing and Neighborhoods’ continued efforts to address outstanding items, Finding 1-2 and Internal Control Weakness 2-1 regarding the appropriation of excess collateral deposit account funds will be revisited in the next follow-up report.

5. **Procedures Surrounding Imprest Accounts #706 (November 2011)**

Based on the responses received from the Treasury Division and our follow-up testing of a judgmentally selected sample, it appears that Treasury has complied with our audit recommendations with the following exception:

- A. Internal Control Weakness 1-2 stated the Treasury Division should require departments to file the authorized bank signature forms with Treasury annually to ensure that information is accurately maintained. They responded saying that the fund custodians, reconcilers, and check signers are now confirmed annually. Although it appears annual confirmations are being done, follow-ups on non-responders are not being completed in a timely manner. In our testing, we discovered that non-responders were not followed up on for almost a year after the initial annual confirmations were sent.

***Treasury Response to the Follow-Up of Internal Control Weakness 1-2***

Agree                       Disagree                       Partially Agree

*Annual confirmations for imprest, change funds and petty cash accounts are sent. The majority of requests regarding imprest checking accounts were responded to in a timely manner. There remain some delayed responses from those with change and petty cash accounts. Treasury will work to improve the timeliness of respondents replies through follow-up with the custodians, reconcilers and division chiefs/department heads.*

6. **Jacksonville Economic Development Commission Audit #711 (December 2011)**

Based on the responses received from the Office of Economic Development (OED), formerly the JEDC, and our follow-up testing of a judgmentally selected sample, it appears that OED has complied with few of our audit recommendations.

- A. Finding 1-1, Finding 1-2, Finding 1-3, Finding 2-1, Finding 2-3, Internal Control Weakness 3-2, Finding 3-2, Finding 3-3, Internal Control Weakness 4-1, Internal Control Weakness 4-2, Internal Control Weakness 4-3 stated JEDC should develop, implement, and continuously update detailed standard operating procedures for all of their operations. We found that no standard operating procedures had been established with the exception of Cecil Leases and Forestry Contract SOPs. Also, the Forestry policy should be updated due to it referencing a department that is no longer in existence.

***Office of Economic Development Response to Follow-up of Findings and Internal Control Weaknesses above***

Agree                       Disagree                       Partially Agree

*The Office of Economic Development continues to develop Standard Operating Procedures. OED has continued to make improvements to SOP's in the months following this audit.*

- B. Internal Control Weakness 1-1 stated that JEDC should establish verification controls for the jobs reports submitted by the incentive recipients and that incentive payments should be made only after some type of verification takes place. JEDC should require recipients to submit additional supporting documentation at their request for compliance verification with the jobs creation requirements. OED responded saying that a copy of the Jobs Report is attached to every agreement that is approved by City Council and that there is a clause that allows OED to request additional information.

Finding 1-1 stated that JEDC should seek reimbursement of at least \$156,000 from two companies due to non-compliance with the minimum job creation requirements, and JEDC should verify the employment data for all years that reports were submitted and request reimbursement where necessary. It also stated that JEDC should establish procedures to verify that job creation data by incentive recipients is accurate. OED responded saying that they will continue to seek repayment from incentive recipients that have provided inaccurate information and that OED has initiated procedures requiring job creation be verified before incentive payments are made.

However, we found that OED did not verify employment data for all years in which reports were submitted. We also found no evidence of reimbursement for one of the two companies that was found to owe \$40,000 due to noncompliance with the minimum job creation requirements.

***Office of Economic Development Response to the Follow-up of Internal Control Weakness 1-1 and Finding 1-1***

Agree                       Disagree                       Partially Agree

*The Office of Economic Development, working closely with the Council Auditors Office has made significant changes in incentive payment compliance to include job creation verification and regularly updated performance reports posted directly to the OED website. However, at the time of this audit, improvements were being identified for implementation. These changes have been implemented and we look forward the Auditors next follow-up.*

- C. Internal Control Weakness 1-3 stated that when a company reports its compliance with JSEB requirements, JEDC should document its compliance verification process by printing out and filing the City’s JSEB webpage with companies’ JSEB certification information. OED responded saying OED will begin to print out each company listed as a JSEB as verification that it has monitored the company’s use of City certified JSEBs.

Finding 1-2 stated that JEDC should establish SOPs to ensure that mandatory reports are submitted by the companies and reviewed by JEDC before any incentive payments are made and that incentives are paid to companies upon verification of the jobs creation requirements. OED responded saying the incentives approved by City Council do not have requirements for mandatory reports except when OED demands the report and that OED does verify the job creation requirements before any incentive payments.

We found no mandatory JSEB reports for the companies in our sample and no job verification being performed.

***Office of Economic Development Response to the Follow-up of Internal Control Weakness 1-3 and Finding 1-2***

Agree                       Disagree                       Partially Agree

*JSEB activity and OED review of JSEB goals will continue to be a priority for OED; SOP’s are currently in development and we look forward the Auditors next follow-up.*

- D. Finding 2-1 stated that JEDC should seek reimbursement for the expenses (plus markup), not allowed by the Cecil Commerce Center maintenance contract, but billed to the City. OED responded that the former JEDC supported the expenditures described in Finding 2-1. We found that no reimbursements were received by OED for the unallowable expenses per the maintenance contract.

***Office of Economic Development Response to Follow-up of Finding 2-1***

Agree                       Disagree                       Partially Agree

*OED has two individuals reviewing the Cecil Commerce Center maintenance contract. The monthly invoice is scrutinized to ensure all billings fall within the scope of the work of the contract and OGC opinions are sought when in doubt.*

**Council Auditor's Office Conclusion**

*OED (and the former JEDC) has continually disagreed with this finding. Due to the fact that we cannot enforce recommendations that are the ultimate responsibility of management, we have decided to consider this finding closed. We have deemed it no longer valuable to the taxpayers to dedicate resources for its follow-up.*

- E. Internal Control Weakness 3-1 stated that JEDC should make it a standard operating procedure to request and review detailed supporting documentation for all variable payments. OED responded saying they will request additional supporting documentation be submitted for all variable payments. However, we reviewed three housing complex payments and found that OED did not receive the required monthly gross receipts reports.

***Office of Economic Development Response to the Follow-up of Internal Control Weakness 3-1***

Agree                       Disagree                       Partially Agree

*OED will continue to work with the Auditors to evaluate and implement required changes to current SOP's.*

- F. Internal Control Weakness 4-2 stated that all incoming mail should be opened by a designated employee (without recordkeeping responsibilities) who should restrictively endorse checks and prepare a list of all checks received before forwarding to the person responsible for deposits. OED responded saying they would review the procedures to determine the best way to handle checks given their limited resources. We found three out of the eight checks reviewed in our sample that were received by OED were not signed off as received by someone before the deposit was created.

***Office of Economic Development Response to the Follow-up of Internal Control Weakness 4-2***

Agree                       Disagree                       Partially Agree

*OED has improved our tracking and recordkeeping of receiving incoming payments since the last audit follow-up. We look forward the Auditors next follow-up.*



- G. Due to a lack of response from the State of Florida Department of Economic Opportunity, Finding 1-3 regarding the State balances of local QTI projects will be revisited in the next follow-up report.

7. **Recreation and Community Services Bank Accounts #715 (May 2012)**

Based on the responses received from the Sports and Entertainment Office (part of which was previously called the Office of Special Events), Neighborhoods Department, Military and Veterans Affairs Department (formerly Veterans Services), and the City Finance Department, and our follow-up testing of a judgmentally selected sample, it appears that these departments have complied with our audit recommendations with the following exceptions:

- A. Finding 1-1 stated that reconciliations should be performed each month on all accounts as required by City policy. It also stated the custodian and the reconciler should not be the same employee for any account. The departments agreed.

However, during our follow-up testing, we found that Military and Veteran Affairs is not submitting monthly replenishment requests and their authorization form that defined the current responsibilities of their imprest account was not up to date. Also, the custodian is performing the bank reconciliations and the reconciliation was not balanced – the checkbook balance was lower than the bank balance.

We also found that although Special Events is attempting to perform bank reconciliations, the reconciliations themselves appear to be performed incorrectly. There is no documentation of comparison of the “checkbook” balance to the bank balance. In addition, the reconciliations are not consistently signed by the preparer and reviewer. Special Events should seek assistance from the Treasury Division for proper reconciliation practices.

***Military and Veterans Affairs Department Response to Follow-up of Finding 1-1***

Agree                       Disagree                       Partially Agree

*Military Affairs and Veterans Department did not submit monthly replenishment reports for those months in which no activity was accomplished. Going forward, the Department will submit monthly replenishment request even if there are no checks written during that month.*

*We reached out to the Treasury Division and it was determined that all authorization forms are updated.*

*Concerning the reconciliation matter, the Department is conducting an internal audit (from 10/01/07 to date) to find out why checkbook balance is slightly different than bank balance. One finding thus far is that in May of 2008, fees of \$83.18 was charged in error by the bank for checks but that charge was not captured on the checkbook balance at that time.*

***Sports and Entertainment Office Response to Follow-up of Finding 1-1***

Agree                   Disagree                   Partially Agree

*Special Events has begun, and will continue to follow correct procedures in reconciling accounts.*

- B. Internal Control Weakness 1-1 stated the City should consider significantly reducing the authorized amount of the Special Events imprest checking account. The City Finance Department responded saying a full review of checking activity, balance and volume is underway for the consideration of a reduction in this account nearly a year after the audit report was released. We again found the \$100,000 balance for the Special Events imprest account may no longer be necessary. We reviewed 12 months of activity for the imprest account and noticed that 8 out of the 12 months had little to no activity.

***City Finance Department Response to the Follow-Up of Internal Control Weakness 1-1***

Agree                   Disagree                   Partially Agree

*The recommendation to reduce the Special Events imprest checking account was enacted in August 2013. After a review of the activity and needs of the department, their imprest checking account was reduced by \$20,000, thereby leaving a monthly balance of \$80,000. The department does not use the account every month, but when they do, they require a larger balance. We are confident that the new balance provides sufficient, but not excess, capacity to meet special event needs.*

- C. Due to the continued effort to resolve issues surrounding outstanding checks from the Special Events imprest account, Finding 3 will be revisited in the next follow-up report.

**8. Jacksonville Sheriff's Office Aviation Audit #718 (July 2012)**

Based on the responses received from the JSO and our follow-up testing of a judgmentally selected sample, it appears that the JSO has complied with our audit recommendations.

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We would like to thank the various departments and agencies for their cooperation in conducting this follow-up review.

Sincerely,

Kirk A. Sherman, CPA  
Council Auditor