



Capital Assets Audit - #824

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, we conducted an audit of the City's capital assets function as performed by the Accounting Division. This area was chosen for audit based on the periodic City-wide risk assessment performed by our office.

The Accounting Division has a team of staff members, the capital assets group, who are directly responsible for identifying and tagging assets, managing and performing inventories, processing changes in the City records, and maintaining related support.

At the close of fiscal year 2016/17, the City had 30,666 separately listed active asset records in the capital asset tracking system. Of this amount, 28,229 (or 92%) were listed as furniture, equipment and library book type assets, which was the focus of our audit. The furniture, equipment and library book type assets recorded in the system had an original cost of \$489,876,117 and accumulated depreciation of \$317,590,629.

What CAO Found

The Accounting Division has established controls and procedures to identify, record, and track the City's tangible personal property; however, some of those controls and procedures are insufficient, outdated, and/or not operating effectively. Specifically:

- Users of the capital asset tracking system have inappropriate or unnecessary access.
- Asset transactions (changes in the system) were performed without proper review, due to the fact they were performed by the reviewer/manager.
- The annual inventory form does not facilitate compliance with Florida Administrative Code requirements.
- Some City assets were not able to be located.
- Incomplete and inappropriately authorized supporting documentation.
- Untimely and erroneous entries in the system.
- Incomplete and out of date policies and procedures.
- Various limitations and possible Florida Administrative Code compliance issues with the current system being used.
- Discrepancies between the capital assets system and Note 6 on Capital Asset Activity in the City's Comprehensive Annual Financial Report (CAFR).

What CAO Recommends

Our recommendations in the report include:

- Establish an access review process.
- Appoint an alternate employee for reviewing transactions performed by the manager.
- Adhere to the requirements of the Florida Administrative Code.
- Reevaluate the random inventory process.
- Establish benchmarks for the timely entry of transactions in the system.
- Review and update policies and procedures.
- Utilize the pending system implementation to address system limitations and compliance issues.
- Discrepancies between the capital assets system and the CAFR need to be researched and resolved.



Council Auditor's Office

Capital Assets Audit

6/26/2018

Report #824

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EXECUTIVE SUMMARY

AUDIT REPORT #824

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



June 26, 2018

Report #824

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville (“City”) and Chapter 102 of the Municipal Code, we conducted an audit of the City’s capital asset function as performed by the Accounting Division. The capital asset group, within the Accounting Division, currently consists of three full-time staff members. This group is responsible for creating and maintaining the property records for all of the City’s capital assets. This process includes:

- identifying capital assets purchased or received by the City,
- tagging and recording the City’s assets,
- managing the annual tangible personal property inventory,
- tracking and updating the status of assets and any related transactions,
- calculating and applying depreciation on a monthly basis, and
- providing asset information to the external auditors for financial reporting purposes.

The capital asset group uses the City’s purchasing system (“JaxPro”) to identify capital purchases, which are typically but not always purchased from capital accounts. On July 1 each year, the capital asset group initiates the annual physical inventory of all City property, as required by the Florida Administrative Code. When an asset is transferred, surplus, or reported lost/missing/stolen, a transfer form is used to document the activity. The capital asset group uses a database to maintain the listing and produce reports.

At the close of fiscal year 2016/17, the City had 30,666 separately listed active asset records in the capital asset tracking system. Of this amount, 28,229 (or 92%) were listed as furniture, equipment and library book type assets, which was the focus of our audit. The furniture, equipment and library book type assets recorded in the system had an original cost of \$489,876,117 and accumulated depreciation of \$317,590,629.

STATEMENT OF OBJECTIVE

To determine if the City’s Accounting Division has established sufficient controls and procedures for the identification, recording and tracking of the City’s tangible personal property and if those controls and procedures are operating effectively.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of the audit included furniture, equipment and library book type assets possessed by the City on September 30, 2017 and those that were added, transferred, deleted or had a price change during fiscal year 2016/17. All other asset types were excluded, such as real property (including land, buildings, infrastructure and improvements), intangibles, and works of art. It was also our intent to exclude some assets within the furniture, equipment and library book type assets from our testing at the population level as explained below, but this was not possible systematically due to how items are categorized in the system. Therefore, we ended up excluding them from testing in circumstances where the controls and procedures are different from other furniture, equipment and library book type assets. Items excluded from testing included on-road vehicles (cars, trucks, buses, etc.) under the control of Fleet Management, firearms under the control of the Jacksonville Sheriff's Office, and IT (computer and network) equipment under the activity of the City's Information Technology Division. These assets have additional considerations, a different control structure, and are tracked by different areas due to their overall mobile nature.

We conducted staff interviews to obtain an understanding of the capital asset process. We reviewed the applicable rules, laws, and regulations regarding capital assets. We evaluated the current processes and tools in place to identify, record, and monitor City owned capital assets. We also reviewed the information system controls that were relevant to our audit objective.

Objective 1

We reviewed the standard operating procedures used by the capital asset group for overall adequacy, explanation of proper compliance, and periodic reviews and updates. We acquired the population of asset and transaction data from the capital asset tracking system and isolated the furniture, equipment and library book type assets.

We performed a physical inventory check on a random sample of assets. The sample size for this testing was statistically determined to be 124 furniture, equipment and library book type assets. This was based on the overall population with the understanding that we would remove furniture, equipment and library book type assets outside of the intended scope as described above. This ended up reducing the sample to 87.

During our site visits to verify the existence of the 87 sample items, we separately judgmentally selected one or two apparent capital assets in each area to trace back to the capital asset tracking system in order to verify completeness of the City's asset listing. Due to various factors such as having the same location coming up twice within the existence testing of the 87 sample items (or using alternative measures from a site visit to verify existence), we ended up tracing back 67 items to the capital asset tracking system.

We performed detail testing on a random sample of 50 purchase orders in excess of \$1,000. We reviewed the purchase orders to determine if the items purchased should be capitalized or expensed and compared our evaluation to how the capital asset group treated the item.

We also randomly selected a sample of transactions entered into the capital asset tracking system. The size of the sample was determined statistically and was 93. The transactions fit into the following categories:

- Additions – 35,
- Transfers – 30,
- Surpluses and Disposals – 12,
- Lost/Missing/Stolen – 8,
- Price Changes – 4, and
- Deletions – 4

We located the hard copy supporting documentation for each transaction to evaluate the accuracy and timeliness of the entries made in the system. We also reviewed the entries for compliance with applicable State and local record requirements.

We performed analytical testing on all active assets and recent activity in the system. We investigated any irregularities in the data, such as transactions performed in an incorrect fiscal year, anomalies in asset values, the frequency and magnitude of lost/missing/stolen transfers, the reasonableness and timing of deleted assets, and the reasonableness of additions based on budgeted expenditures.

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objective. 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 management's 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 pursue the following areas, and as such they should be considered for future audit work:

- The Procurement Division's purchasing and surplus sales processes;
- Non-furniture, equipment and library book type assets such as real property (including land, buildings, infrastructure and improvements), intangibles, and works of art;
- Grant compliance for assets purchased with grant funding.

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

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from the Accounting Division, via Kevin Stork, Comptroller, Accounting Division Chief, in a memorandum dated April 1, 2019.

AUDIT CONCLUSION

The Accounting Division has established controls and procedures to identify, record, and track the City's tangible personal property; however, some of those controls and procedures are insufficient, outdated, and/or not operating effectively.

AUDIT OBJECTIVE

To determine if the City's Accounting Division has established sufficient controls and procedures for the identification, recording and tracking of the City's tangible personal property and if those controls and procedures are operating effectively.

Internal Control Weakness 1 *Inappropriate User Access Rights*

We identified some access rights issues related to the computer system that is used to record and track the City's capital assets. Records indicate that there are 28 different users with functional access to the system. We found that 14 (or 50%) of those users have inappropriate or unnecessary access. Specifically, we found:

1. 1 account for an Accounting Division employee who is no longer part of the capital assets group.
2. 2 accounts are for City Information Technologies Division employees that no longer support the system.
3. 11 are accounts for the City's desktop support vendor who does not support the system. Also, 1 of the 11 is no longer employed by the vendor.

System user access should be reviewed regularly and limited to only users needing access to perform their job functions. An abundance of unnecessary access increases the potential for intentional or unintentional manipulation of system data.

Recommendation to Internal Control Weakness 1

We recommend that the Accounting Division establish a written access review process for this system which would be performed periodically but not less than once annually.

Auditee Response to Internal Control Weakness 1

Agree Disagree Partially Agree

The Accounting Division will create an SOP by May 31, 2019 for the access review process and we would process annually. The Accountant Principal has been suspending unnecessary access to the Assets Tracking System by changing the access in the Admin mode for employees who previously have been working with the Capital Assets Group (CAG) and stopped working with this group. Even if an employee had the available application on their personal desktop, they cannot get access to the system. We will discuss with ITD by April 30, 2019 their process for removing permanent access to the capital asset system.

Internal Control Weakness 2 *Improper Segregation of Duties*

We identified some issues regarding segregation of duties. The main issue was between the data entry and review. We found that 1,766 out of 8,220 (or 21.5%) transactions entered into the capital asset tracking system during fiscal year 2016/17 were performed by the manager of the capital assets group. Per the Division, this manager is the only person who performs reviews of system entries, as such, that manager is reviewing their own work. Proper segregation of duties dictates that the responsibility of processing transactions and reviewing transactions should be separated between different employees. With the current structure in place, transactions could be input into the asset tracking system without proper or adequate review. The entries could contain intentional or unintentional errors that may lead to incorrect amounts being transferred into the City's general ledger system.

The other issue with segregation of duties involved the manager of the capital assets group having the ability to create new requisitions in the City's procurement system. This access was related to when the employee worked in another area of the City. The access had not been shut-off properly when the employee switched areas. Although no requisitions were created by this employee during the period the employee was with the capital asset group, this employee should not have had this access.

Recommendation to Internal Control Weakness 2

We recommend that a process be put in place and documented that dictates an alternate employee be made responsible for reviewing transactions performed by the manager, if any. Additionally, we recommend members of the capital assets group not be able to create new requisitions in the City's purchasing system.

Auditee Response to Internal Control Weakness 2

Agree Disagree Partially Agree

In FY2017, due to lack a of personnel, segregation of duties was interrupted. This is not the usual way that the Capital Asset Group operates. Currently, proper segregation of duties is in place. The Accountant Principal will create an SOP by May 31, 2019 for segregation of duties. An increase in staffing for the Fund Accounting Section will be submitted in the FY2020 budget process and plans are to be able to move an Accountant position into the Capital Assets Group.

We agree that employees assigned to the Capital Assets Group should not have access to create requisitions in the Purchasing System and access from the Accounting Division had not been requested. The access for requisitions carried over from when the Accounting Principal had worked in another Department. We will contact that Department this week to ensure that the access has been removed.

Internal Control Weakness 3 *Incomplete and Out of Date Policy and Procedures*

We found that some of the policies and procedures used by the capital assets group are incomplete or out of date. Specifically, there are no policies and procedures detailing or providing an explanation of the proper support needed to report a price change (e.g. accounting for items that a part of an overall asset). Additionally, two of the eight policies and procedures that we reviewed do not appear to be up-to-date and include explanations and processes that are no longer applicable to current operations. One has not been updated since December 9, 2008, while another has not been reviewed or updated since November 30, 1999.

If well-written policies and procedures are not maintained, employee turnover could lead to the loss of institutional knowledge regarding the various processes.

Recommendation to Internal Control Weakness 3

We recommend that the capital asset group review the written policies and procedures for accuracy and revise as necessary.

Auditee Response to Internal Control Weakness 3

Agree Disagree Partially Agree

The majority of SOPs are in place and are reviewed every year since FY2017. The Accounting Division does not have a Price Change SOP in place and will create one by May 31, 2019. One of the non updated SOPs is not in effect. The SOPs that do not apply to current operations will be deleted by April 30, 2019.

Finding 1 *Compliance Issues with Annual Inventory Form*

The inventory form, used by the City to perform the annual physical inventory, is not compliant with Florida Administration Code Chapter 69I-73.006. This section requires the City to perform a complete physical inventory at least once annually. Part (2) of this section details the information required to be included on the inventory forms. Part (2)(e) specifically lists the assets “present physical condition” as a required item. In reviewing the fiscal year 2016/17 annual inventory, we noted that the forms did not list the present physical condition of the asset nor was there a designated area for the condition to be indicated by the Departments.

Recommendation to Finding 1

We recommend the Accounting Division make the necessary changes to the inventory forms to be in compliance with the requirements of Florida Administration Code Chapter 69I-73.006.

Auditee Response to Finding 1

Agree Disagree Partially Agree

The current capital asset tracking system limitations do not include assets' "present physical condition" in physical inventory. We have submitted all of the State required field to be included in the new ICloud ERP implementation.

Finding 2 *City Assets Unable to be Located*

Of the 87 City assets that we tested for existence, 2 (or 2.3%) were unable to be located and do not appear to be in the City’s possession. These assets had an original book value of \$5,280 and a net book value of \$315 as of September 30, 2017. These items were marked as being located during the inventory performed during the summer of 2017. These items have since been moved to the listing of lost, missing, or stolen assets.

Each year, a random inventory of approximately 200 assets is performed by the capital assets group as a check on the most recently completed annual tangible property inventory, which is performed by the various departments through-out the City. We reviewed the Accounting Division’s random inventory that was initiated in January 2017. As of July 2017, 27 of 201 (or 13.43%) randomly selected assets were not yet verified. As of January 2018, 3 had still not been resolved and ultimately 4 assets were moved to the lost, missing and stolen listing as a result of the random inventory.

Based on our inventory and the Accounting Division’s, it appears that the annual inventories performed by the various departments, in some cases, are not being performed properly.

Recommendation to Finding 2

We recommend that the Accounting Division reevaluate the random inventory process being performed. The Accounting Division should consider the number of assets being selected, the

method in which assets are selected, and identify specifics on when inventory findings will result in additional testing.

Auditee Response to Finding 2

Agree Disagree Partially Agree

After receiving the audit findings and having previous discussions with the Council Auditor's staff, the FY2018 inventory method of selection was different: annually, ITD pulls random 200 assets for the previous year inventory verifications; since in FY2017 GAD received many missing/stolen assets from JFRD, Public Works and Parks and Recreation Departments, the Accounting Division decided to do a stratified random sample to concentrate on these three departments. A list of all 200 random assets have been pulled by ITD for the departments mentioned above and will be performing these samples over FY2019 and FY2020. An increase in staffing for the Fund Accounting Section will be submitted in the FY2020 budget process and plans are to be able to move an Accountant position into the Capital Assets Group. We expect to be able to sample more assets starting with FY2020.

Finding 3 * Untimely Entry of Transactions into the System *

We found that there were significant delays in the timing of recently purchased assets being added to the capital assets tracking system. Additions and system transactions in general can be separated into two distinct periods. "Period 1" relates to a time period where entries are put on hold to accommodate for the prior years' annual financial audit. For example in fiscal year 2016/17, asset additions that fall in "Period 1" have a date acquired from October 1, 2016 through April 9, 2017. "Period 2" consists of all asset additions with a date acquired of April 10, 2017 through September 30, 2017. The "Period 2" acquisitions are able to be entered in to the system throughout the year and, per the capital assets group's procedures, should be entered once the acquisition and tagging process has been completed. Below is a table that details the number of days it takes to enter the asset into the database from April 10, 2017 for "Period 1" items and from the acquisition date for "Period 2" items.

Cumulative Additions Within Time Period							
Total Additions	14 Days			30 Days		60 Days	
Period "1"	1,654	453	27.4%	894	54.1%	1,442	87.2%
Period "2"	1,309	203	15.5%	609	46.5%	806	61.6%
	2,963	656	22.1%	1,503	50.7%	2,248	75.9%

This means that 12.8% of "Period 1" and 38.4% of "Period 2" items were not entered within 60 days. Per the Accounting Division, the delays in entering additions into the system are due to complications with the tagging process. These complications included lack of communication between the capital assets group and the various departments, assets being placed into service prior to tagging, and limited staff availability.

Furthermore, we found timeliness issues with other transactions being processed in the capital assets tracking system. While testing on a sample basis, we noted the following:

1. 4 (or 20%) of the 20 applicable transfers tested were not entered within 14 days.
2. 1 (or 9%) of the 11 applicable transfers to lost/missing/stolen were not entered within 14 days.
3. 2 (or 50%) of the 4 price changes tested were not entered within 14 days.

Overall, we noted that the capital assets group has not been consistently stamping all support received with the date it was received. This could cause the appearance of untimely processing. For all but one of these 7 (seven) transactions, we noted that the supporting documentation was not stamped with the date received. As such, this could have impacted our results.

Currently, there are no SOPs regarding the timely entry of transactions into the capital asset tracking system. Also, there is not a capital assets group policy or procedure that indicates supporting documentation (purchase orders, transfer forms, police reports, etc.) should be stamped with the date received. Information should be entered into the system in a reasonable time period to ensure relevant and accurate reporting. Stamping support when received allows timeliness to be better tracked, which can help identify the potential cause of untimely processing.

Recommendation to Finding 3

The Accounting Division should review the tagging and transaction entry processes for ways to increase efficiency. The Accounting Division should develop benchmarks for the timely entry of transactions into the capital asset tracking system and update relevant policies and procedures. Additionally, we recommend that all supporting documentation (submitted purchase orders, transfer forms, police reports, etc.) received by the capital assets group be stamped with the date the office received it.

Lastly, the Accounting Division needs to make sure that they are able to add assets to the system for the current year while the City's Comprehensive Annual Financial Report (CAFR) is being finalized for the prior year.

Auditee Response to Finding 3

Agree Disagree Partially Agree

The normal procedure is to stamp all incoming documents. Due to lack of personnel in FY2017, some steps have been missed. At present, the original procedure of 60 days or less is being followed for entries being made into the system. An increase in staffing for the Fund Accounting Section will be submitted in the FY2020 budget process and plans are to be able to move an Accountant position into the Capital Assets Group. That should help in timeliness of both items noted.

The current capital asset system has limitations due to it being a database system as totals will change with new information. We anticipate the new ICloud ERP system will have the capability to continue working in the next fiscal year while closing the previous fiscal year.

Finding 4 *Lost, Missing, and Stolen Assets not Reported to Council Auditor’s Office*

Of the 437 capital assets identified by departments as lost, missing, or stolen in fiscal year 2016/17, only 14 (or 3.2%) of them were reported to the Council Auditor’s Office. Section 102.104 of the City’s municipal code dictates:

“Whenever a custodian, property officer or accountable officer responsible for public funds or public property discovers a loss, unexplained disappearance or theft of the funds or property for which he is responsible or accountable, he shall report the apparent loss, unexplained disappearance or theft to the Council Auditor's Office at the same time as it is reported to the Office of the Sheriff as required by Section 122.810.”

Recommendation to Finding 4

We recommend that the City adhere to the reporting requirements of Section 102.104 of the City’s Municipal Code when reporting items as lost, missing or stolen. Also, the City should administer mandatory training for all Property and Accountable Offices on how to properly report assets as lost, missing or stolen.

Auditee Response to Finding 4

Agree Disagree Partially Agree

At Inventory Management trainings, we emphasize and explain the importance of Code of Ordinance Chapter 102.104 for reporting missing/stolen assets to City Council Auditor's Office. This reporting is always mentioned in outgoing communications in connection to missing/stolen assets. We did have excellent turnout at the training for this year's inventory classes that were held in conjunction with what is needed for migrating data to the new ICloud ERP system. We will discuss with the Chief Administrative Officer before the next training class is offered about the need to make the Inventory Management trainings mandatory.

Finding 5 *City Assets not Recorded in the System*

We found that some assets in the City’s possession do not appear to be recorded in the City’s capital assets tracking system. We found that 5 (or 7.5%) of the 67 items selected for testing while in the field (in the City’s possession) were not properly accounted for in the capital assets system, as follows:

1. 2 assets appear to warrant capitalization but do not appear to have been capitalized.
2. 2 assets appear to warrant capitalization but do not appear to have been capitalized individually (it is unclear if they were capitalized with facility infrastructure or improvements).

3. 1 asset that was surplused in 2007 was found in the City's possession.

While reviewing the forms used to conduct the annual inventory, we noted there was no area to record assets in the City's possession that were not already included on the asset listing. This may help to explain why these items were not added to the capital asset tracking system as a result of previous annual inventories. Also, Florida Administration Code Chapter 69I-73.006(4) states, "Any property item found during the conduct of an inventory which meets the requirements for accounting and control as defined in rule 69I-71.003, F.A.C., and which item is not included on the inventory forms described above, shall have an inventory form created for the item when located."

Recommendation to Finding 5

We recommend that a section be added or a document attached to the annual inventory form that will allow departments to report assets in their possession that are not currently included in their inventory listing.

Auditee Response to Finding 5

Agree Disagree Partially Agree

Before the annual inventory starts, in the "Annual Inventory Property Certificates" memo, the Accounting Division reminds Departments/Divisions to report assets that are not recorded in the annual inventory at the bottom of the annual inventory certificates. We also focus the Property and Accountable Officers attention on the importance of this reporting at annual Inventory Management trainings. We will create an additional inventory form for the FY2020 inventory, specially designed for additional captial assets that are not recorded on annual inventory asset sheets. We will submit to have an additional field added to the new ICloud ERP system.

Finding 6 *Incomplete and Inappropriately Authorized Supporting Documentation*

During our review of the hard copy supporting documentation retained by the capital assets group, we discovered some incomplete and inappropriately authorized support.

1. We tested 20 randomly selected transfers (between departments) and found that none of them listed the new location (physical address) in the designated area. Additionally, 3 (or 15%) did not indicate the asset's new location (physical address) anywhere on the supporting documentation.
2. We tested 11 randomly selected transfers to lost/missing/stolen and found that 2 (or 18.2%) were authorized by employees that were not the Accountable or Property Officers.

All forms and supporting documentation should be fully completed, properly authorized, contain information that supports the transaction or activity performed in the system, and be used for its intended purpose. Inaccurate capital asset records and supporting documentation could increase the possibility of items being lost and could result in instances of non-compliance with State and City record requirements.

Recommendation to Finding 6

We recommend that the capital assets group review their policies and procedures and include more detail regarding what constitutes complete and proper support for the various transactions performed in the capital assets tracking system. These procedures would need to include details on what to do if a form or supporting documentation is not complete (e.g. return it to the Department to be properly completed).

Auditee Response to Finding 6

Agree Disagree Partially Agree

In the new ERP System, this function will be required in order to transfer assets and this issue will be resolved as soon as the new ICloud ERP system is implemented. The Accounting Division always emphasizes the importance of reporting the new location for transferred assets; in many instances, the Departments/Divisions do not indicate changes of locations on the transfer forms at actual transfer time, despite the transfer form containing a special field for that purpose. Some Departments/Divisions notify the Accounting Division by emails about assets' location change, then we change it officially, using the email as supporting backup documentation.

Finding 7 *Errors in System Entries (Electronic Record)*

During our review of transactions, we identified some minor inaccuracies with entries made in the capital asset tracking system. We noted some City assets that are assigned to unreasonable locations, mainly due to the address not being updated when the asset was transferred (e.g. items that were transferred to another Department, but still have a location of the former Department). We tested 154 City assets for existence and completeness and found that 4 (or 2.6%) of them were listed at an unreasonable location. In addition, we tested 30 recent transfers and found that 4 (or 13.3%) were not properly updated, which can be attributed to incomplete transfer forms, as noted in Finding 6.

We also noted some entries in the electronic record with incorrect information, as follows:

1. Of the 35 additions tested:
 - a. 2 (or 5.71%) listed the wrong PO number,
 - b. 1 (or 2.86%) listed the wrong project number,
 - c. 5 (or 14.29%) listed an inaccurate date acquired,
 - d. 5 (or 14.29%) listed the wrong capitalized amount,
2. Of the 4 price changes tested, 1 (or 25%) resulted in the asset being listed at the wrong capitalized amount.

Recommendation to Finding 7

We recommend that entries in the capital asset tracking system be entered accurately and reviewed for errors by another employee.

Auditee Response to Finding 7

Agree Disagree Partially Agree

These human errors that happen when large amount of data is entered to the assets tracking system manually (typos, omissions, inadvertent errors). Currently, the majority of new assets are entered by the Account Technician and are reviewed by the Accountant Principal. An increase in staffing for the Fund Accounting Section will be submitted in the FY2020 budget process and plans are to be able to move an Accountant position into the Capital Assets Group. That should help in giving the Accountant Principal more time to review entries.

Finding 8 *Incorrect Monthly Depreciation Amounts*

In reviewing the monthly depreciation amounts recorded in the system, we found the amount being depreciated for 49 of the 15,399 (or 0.3%) furniture, equipment and library book type assets being actively depreciated did not match the correct monthly depreciation amounts. The system automatically calculates the straight line depreciation once the user enters the asset purchase price and useful life on the new asset entry form, but this amount can be overridden, which appears to be the cause of the noted discrepancies. Due to this circumventing of system controls, a timing issue may develop due to over or under depreciation.

Recommendation to Finding 8

We recommend that any changes in the capital asset tracking system be reviewed for accuracy. Additionally, the City should ensure that the upcoming ERP conversion limits the extent of the user’s ability to override system calculations and requires that explanations be added if a different amount is being used.

Auditee Response to Finding 8

Agree Disagree Partially Agree

The present capital asset system has some limitations. For example, sometimes the asset tracking system has errors and the depreciation expense is miscalculated by the system. With the system's mass automatic depreciation expense calculation, it is almost impossible to find details for miscalculated amounts. The Accounting Division has the ability to override system calculations, but it is very difficult and time consuming process and we prefer not to unless unavoidable. At the same time, when the capital asset system calculates monthly depreciation expense, it has some deviations with the monthly manually calculated depreciation (in spreadsheets) and we reconcile it monthly and make some adjustments. The current (monthly) depreciation amount is usually changed with a price change transaction, and we document an explanation along with the price change calculations. The new ICloud ERP system should be more efficient and more accurate in monthly depreciation calculations.

Opportunity for Improvement 1 *Possible Compliance Issues and Limitations of the Capital Asset Tracking System*

There are some issues and opportunities for improvement as it relates to the capital asset tracking system. Currently the City is in the process of implementing a new capital asset system as part of an overall enterprise financial/resource management solution. These issues should be considered during implementation in order to better comply with the requirements of the Florida Administrative Code and to provide a better control environment. First, here are the issues with the current system and process that conflict with Florida Administrative Code Chapter 69I-73:

1. During our review of the capital asset tracking system, we discovered that the property records kept in the system do not contain all necessary information as required by State law, including the last inventoried date and condition, responsible custodian, detailed location, method of acquisition, and disposition information including witness of disposal for items cannibalized, scrapped or destroyed. For example, disposition records are only maintained in hardcopy form and custodian information is maintained in a separate spreadsheet, which is organized by City activities and not maintained at the asset level as required.
2. The system is unable to differentiate between historical or current additions, transfers, or price changes. Historical entries would be any entry that is associated with activity that took place in a prior fiscal year. Currently, any historical entries are required to be modified to not cause errors in financial reporting. This results in arbitrary dates, such as 9/30 and 10/1 being used as “date acquired” in some circumstances. Similarly, we found that assets that were purchased in a prior year are being assigned a “purchase price” of \$0 to avoid depreciation issues. We noted that 150 (or 0.5%) of the 28,229 active furniture, equipment and library book type assets are recorded in the system at \$0. Based on system limitations identified, these issues result in inaccurate (possibly non-compliant) records.

These are the issues that impact the control environment that should be addressed during the upcoming implementation:

3. Currently, all system entries are put on hold for a six-month period while the annual financial audit is performed. “On hold” transactions include additions, transfers, price changes, deletions, surplus and depreciation. This limitation is due to the fact that the system cannot provide back dated inventory reports or provide the book value of assets as of a particular date. This results in a backlog of transactions for the first half of each fiscal year.
4. Input data validation for the in-system forms is lacking or nonexistent for several fields. The system’s “Asset Categories” table, which is used to establish asset depreciable life, has incomplete and undefined entries. The output reports created by the asset tracking system require back end (system administrative access) modifications to operate correctly. Furthermore, changes made directly to the database tables or on the main screen create no evidence or audit trail.
5. There is no user authentication at the program (system) level. Any person who has network level access to the program or gains access to the computer station of an approved user can access the system with “system administrative” type access, which will allow the user to manually manipulate data in the master tables, the design of forms and tables and other system administrative functions.

Recommendation to Opportunity for Improvement 1

The City should use the upcoming capital asset system implementation to address the system limitations and potential compliance issues identified.

Auditee Response to Opportunity for Improvement 1

Agree Disagree Partially Agree

Implementation of the ICloud ERP system should fix many identified issues, because many of them are related to the current capital assets tracking system limitations

Opportunity for Improvement 2 *No Evidence of System Entry Review*

The transaction review process could be improved by producing and maintaining evidence of said review. During our testing, we found that no evidence was being compiled related to the capital assets manager’s review of transactions processed in the capital assets tracking system. Currently, the capital assets group manager is responsible for performing weekly reviews of all transactions processed in the system, which are created by the various staff members, but the manager does not sign-off on supporting documentation or create any kind of evidence indicating performance of these reviews. Documentation should be compiled to indicate the performance of this review activity, which is being performed to help limit the possibility of incorrect information being added to the electronic record.

Recommendation to Opportunity for Improvement 2

We recommend that the review be documented. With the current system, this may require that the transaction reviewer sign-off and date the supporting documentation when the review of a transaction or group of transactions is performed. With the new system implementation, transaction reviews may be handled in a more efficient manner.

Auditee Response to Opportunity for Improvement 2

Agree Disagree Partially Agree

We agree that the transaction reviewer needs to sign and date the supporting documentation when the review is done.

Opportunity for Improvement 3 *Untimely and Incomplete Annual Inventory*

The timeliness and completeness of the annual tangible property inventory could be improved. During our testing, we found that only 171 (or 50%) of the 342 tracked inventory forms appear to have been completed and returned to the Accounting Division by the August 31, 2017 deadline. Additionally, as of December 15, 2018, 1 inventory form appears to have never been submitted. The annual inventory currently begins on July 1, allowing the various departments two months to complete and return their inventory forms. The inventory process takes longer for

certain departments such as the Sheriff's Office (4,225 assets as of fiscal year end 2016/17) and the Fire & Rescue Department (5,203 assets as of fiscal year end 2016/17) due to the high number of assets. The IT Division, which accounts for 3,610 of the City's assets, makes a special request each year for the capital assets group to deliver the inventory reports early.

In the past the Accounting Division was providing the Chief Financial Officer with a written report detailing inventories that were untimely or not submitted. This is now being communicated verbally.

Recommendation to Opportunity for Improvement 3

We recommend that the Accounting Division consider moving the start date for the inventory up (e.g. June 1, versus July 1). This early start date could be reserved for departments that have a larger number of assets that need to be inventoried or apply to all Departments.

Furthermore, information related to untimely and not submitted inventories should be communicated in writing to the Chief Financial Officer. The Chief Financial Officer then should determine appropriate action including whether to refer it to the Chief Administrative Officer for corrective or disciplinary action if outside of the Chief Financial Officer's control.

Auditee Response to Opportunity for Improvement 3

Agree Disagree Partially Agree

We will check in FY2019 to see if June 1 as a feasible and appropriate start date for annual inventory.

We have communicated at various times the status of inventories to the CFO by utilizing emails and the weekly situation report. We will reinstitute a written communication memo to the Chief Financial Officer as warranted.

Supplemental Finding *Discrepancy between Capital Asset System and CAFR*

We found discrepancies between the capital assets system and Note 6 on Capital Asset Activity in the City's Comprehensive Annual Financial Report (CAFR). While the total original cost and depreciation amounts for governmental and business type activities tie, some of the separately listed amounts presented in Note 6 for the fiscal year ended September 30, 2017, do not match the data maintained within the capital assets tracking system. The chart below lists the specific line items shown in the CAFR compared to how they are in the system. Note the system amounts presented for Furniture, Equipment and Library Book type assets differs slightly from the amounts presented in the background section of this report since items listed as lost, missing, or stolen are not reported in the CAFR but were tested as part of our audit work.

(Amounts listed in thousands)

	Cost			Accumulated Depreciation			Variance in Net Book Value
	System	CAFR	Variance	System	CAFR	Variance	
Governmental Activities:							
Land	\$ 308,233	\$ 308,225	\$ 8	\$ 7	\$ -	\$ 7	\$ 1
Easement	6,102	6,103	(1)	-	-	-	(1)
Art In Public Places	1,086	1,086	-	-	-	-	-
Buildings	920,000	856,938	63,062	279,369	268,241	11,128	51,934
Improvements	332,767	332,767	-	115,126	118,953	(3,827)	3,827
Infrastructure	2,245,277	2,307,552	(62,275)	1,051,182	1,034,825	16,357	(78,632)
Furniture, Equipment and Library Books	469,751	470,260	(509)	305,489	329,340	(23,851)	23,342
Internal Software	27,274	27,274	-	23,404	23,915	(511)	511
Purchased Software	15,855	16,140	(285)	10,911	10,212	699	(984)
Governmental Activities Total	\$ 4,326,345	\$ 4,326,345	\$ -	\$ 1,785,488	\$ 1,785,486	\$ 2	\$ (2)
Business-Type Activities:							
Land	\$ 99,755	\$ 46,361	\$ 53,394	\$ 51,740	\$ -	\$ 51,740	\$ 1,654
Easement	545	546	(1)	-	-	-	(1)
Buildings & Improvements	593,763	647,216	(53,453)	223,102	274,901	(51,799)	(1,654)
Infrastructure	71,148	71,089	59	18,074	18,015	59	-
Furniture, Equipment and Library Books	16,661	16,660	1	8,677	8,678	(1)	2
Business-Type Activities Total	\$ 781,872	\$ 781,872	\$ -	\$ 301,593	\$ 301,594	\$ (1)	\$ 1
Citywide Total	\$ 5,108,217	\$ 5,108,217	\$ -	\$ 2,087,081	\$ 2,087,080	\$ 1	\$ (1)

While it is unclear as to the full cause of these discrepancies, we have noted some instances of possible changes in the capital assets tracking system that do not appear to have been carried to the City's general ledger or CAFR. Also, in other instances there appear to have been adjustments made outside of the system to place assets into the correct categories for CAFR purposes. For example, the large discrepancy for "Land" and "Buildings & Improvements" in business-type activities is based on an adjustment outside the system that appears appropriate.

Recommendation to Supplemental Finding

We recommend that the Accounting Division research and resolve discrepancies between the capital assets system and the CAFR. This would include adjusting the capital asset system when the CAFR is treating an asset correctly or making a change to the CAFR in future years when the capital asset system is correctly treating the asset.

Auditee Response to Supplemental Finding

Agree Disagree Partially Agree

During the next several months, we will do further review of the classification discrepancies noted in the report, including discussions with the Council Auditor staff on how they pulled their governmental activities information for their reports. Overall in total, the capital assets system is balancing with CAFR. Discrepancies in Enterprise and Internal funds already have been corrected by correcting the asset category in the subsystem. Some of discrepancies in governmental activities is a result of manual assets tracking in asset #90090-Zoo: Assets accounted under "Buildings" in the CAFR and including all Zoo's Building, Improvements and

Furniture and Equipment. Discrepancies in Enterprise and Internal Service funds already have been corrected by correcting the asset category in the subsystem.

We appreciate the assistance and cooperation we received from the City's Accounting Division and the various City departments that we interacted with throughout the course of this audit.

Respectfully submitted,

Kyle S. Billy

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