



Electronic Fund Transfers In Audit - #856

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 electronic fund transfers in (e.g., wires-in) deposited directly into the City's General Deposits account that is managed by the City's Treasury Division. Pursuant to Section 24.201 of the Municipal Code, the Treasury Division is responsible for the custody, investment, and disbursement of all funds belonging to the City.

Most payments received by the City are first received through the Tax Collector and not directly by the Treasury Division. Section 11.01 of the City Charter states, "the tax collector shall be responsible for the collection of all taxes, fees, service charges, and all other revenues of any type due the consolidated government except as the council may otherwise provide with respect to the collection of charges for water and sewer services and any public service tax on the purchase of such services." However, there is a substantial amount of funding received directly by the City's General Deposit account managed by the Treasury Division, which was the focus of our audit.

What CAO Found

We found that electronic fund transfers in received directly in the City's Treasury Division were not always being properly monitored and recorded in the City's financial system in an accurate and timely manner. More specifically, we found:

- Deposits were not being recorded in a timely manner in the financial system.
- Deposits were not always properly recorded in the financial system.
- Timeliness issues with reconciliations
- Issues with completeness of account detail input into the financial system.
- User accounts were not always deactivated in a timely manner upon separation of employees.

What CAO Recommends

- The Accounting Division and the Treasury Division should implement proper accounting procedures to ensure that the electronic fund transfers in are recorded in the City's financial system in a timely manner and that reconciliations are performed timely. Also, the Treasury Division should evaluate all types of deposits directly received to determine whether it should be received by the Tax Collector's Office instead to be more consistent with the City Charter.
- The financial system should either prevent transactions from being input with incomplete accounting code detail or the Accounting Division should periodically (e.g., monthly) run reports to identify any transactions that lack complete detail and then take appropriate actions to fix the issues.
- User access should be deactivated at the system level for all terminated employees.



Council Auditor's Office

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August 31, 2021

Report #856

Released on: March 10, 2022

EXECUTIVE SUMMARY

AUDIT REPORT #856

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



August 31, 2021

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Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of electronic fund transfers in (e.g., wires-in) deposited directly into the City's General Deposits account that is managed by the City's Treasury Division. Pursuant to Section 24.201 of the Municipal Code, the Treasury Division is responsible for the custody, investment, and disbursement of all funds belonging to the City.

Most payments received by the City are first received through the Tax Collector and not directly by the Treasury Division. Section 11.01 of the City Charter states, "the tax collector shall be responsible for the collection of all taxes, fees, service charges, and all other revenues of any type due the consolidated government except as the council may otherwise provide with respect to the collection of charges for water and sewer services and any public service tax on the purchase of such services." However, there is a substantial amount of funding received directly by the City's General Deposit account managed by the Treasury Division. Funds collected by the Tax Collector are first deposited in a Tax Collector bank account until they are distributed to the City's General Deposit account. This transfer occurs based on the information the applicable City Department has provided as to where the funds are supposed to be recognized in the City's financial system via an invoice or cash receipt filled out by the department. When the revenue is directly received in the City's General Deposit account, the Treasury Division has to work through where these funds came from and where the revenue needs to be credited in the City's financial system.

Our audit excluded payments received via the Tax Collector. The focus of our audit was payments received directly from outside parties that were deposited into the City's General Deposits accounts. This area was selected due to the issues with the City not recognizing the receipt of \$8,069,919.30 in CARES Act funding received from the US Treasury for nearly two months and not until after we had specifically requested information about a discrepancy in the amount reported as disbursed by the US Treasury (\$167,120,861.80) and the amount the City had reported as being received (\$159,050,912.50). This discrepancy was not noticed because of reconciliations not being performed timely and because the \$8,069,919.30 was received in a separate payment.

Examples of transactions included in our audit were payments received directly from the United States Department of the Treasury on behalf of federal agencies, payments received from the auction company in charge of selling the City's surplus property, and constitutional gas tax

payments received from the State of Florida. From March 1, 2020, through December 31, 2020, there were a total of 4,610 bank transactions recorded in the City’s General Deposits bank account. From those transactions, we identified 648 electronic fund transfers in totaling \$668,752,315 that were directly received from outside entities as shown in the following table.

Summary of Bank Transactions

Transaction Type	Count	Amount
Credits - Electronic Fund Transfers In	648	\$ 668,752,315
Credits - Other Deposits (Excluded)*	998	\$ 3,252,487,338
Debits – All Excluded	2,964	\$ (3,890,313,750)
Total Transactions	4,610	\$ 30,925,903

*Credits – Other Deposits: these credits included bank deposits received from the Tax Collector, bank transfers from City investment accounts, and rejected/refunded payments. These bank transactions were outside of our audit scope.

STATEMENT OF OBJECTIVE

To determine whether electronic fund transfers in received directly by the City’s Treasury Division were being properly monitored and recorded in the City’s financial system in an accurate and timely manner.

STATEMENT OF SCOPE AND METHODOLOGY

The scope of the audit included all electronic fund transfers in deposited directly into the City’s General Deposits bank account during the period of March 1, 2020, through December 31, 2020. This excluded electronic fund transfers received from the Tax Collector, transfers amongst City accounts, and any rejected/returned payment that was credited back into the General Deposits account. This period was selected to focus on receipts received after the implementation of the City’s new financial system that went live on March 1, 2020.

We obtained all monthly bank statements for the City’s General Deposits account within the audit scope period. Then, we identified a total of 648 electronic fund transfers in within our audit scope. We excluded from testing 5 electronic fund transfers that were immaterial in amount or that were subsequently reversed. This resulted in a total population of 643 electronic fund transfers in to be tested. This reduced the dollar amount of the transactions from \$668,752,315 to \$668,404,654. We subsequently traced each bank transaction line to the respective journal entry recorded in the financial system. We further investigated, with the assistance of the Accounting Division and the Treasury Division, any bank transaction that we were unable to reconcile.

Additionally, we judgmentally selected a sample size of 120 out of the 648 electronic fund transfers in from the General Deposits bank account to be selected at random for further detail testing. We then excluded 2 transactions in our sample that were immaterial in amount (less than

a dollar), which resulted in a final sample size of 118 items. For this sample of 118 items, we verified that the amount of each transaction was accurately deposited based on the supporting documentation on file, funds were recorded timely, and credited to the correct account in the City's financial system.

Unless specifically stated otherwise, based on our selection methods and testing of testing transactions and records, we believe that it is reasonable to project our results to the population and ultimately draw our conclusions on those results. Additionally, for proper context we have presented information concerning the value and/or size of the items selected for testing compared to the overall population and the value and/or size of the exceptions found in comparison to the items selected for testing.

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objective(s). 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.

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 Finance and Administration Department, via Patrick "Joey" Greive, Chief Financial Officer in a memorandum dated February 15, 2022.

AUDIT CONCLUSIONS

We found that electronic fund transfers in received directly in the City’s Treasury Division were not always being properly monitored and recorded in the City’s financial system in an accurate and timely manner.

AUDIT OBJECTIVE

To determine whether electronic fund transfers in received directly by the City’s Treasury Division were being properly monitored and recorded in the City’s financial system in an accurate and timely manner.

Finding 1 * Deposits Not Always Recorded Timely in the Financial System*

We found significant issues with the timing of transactions being recorded in the City’s financial system. Out of 643 deposits tested, 392 (or 61.0%) were recorded in the City’s financial system over 15 days from the date the payments were deposited at the bank. We were unable to find when or if an additional 127 of the of the 643 (or 19.8%) transactions tested were even input into the City’s financial system (See **Finding 2**). This testing was completed as of August 31, 2021, for our audit scope that was March 1, 2020, through December 31, 2020.

The frequency table below breaks down the number of bank deposits by the number of days not recorded (not found).

Days Not Recorded	Transactions Not Found	Transactions	
		Already Recorded	Total Transactions
<= 15 days	-	124	124
16 to 30 days	-	125	125
31 to 60 days	-	152	152
61 to 90 days	-	80	80
91 to 180 days	-	15	15
181 to 365 days	50	17	67
> 365 days	77	3	80
	127	516	643

Recommendation to Finding 1

The Accounting Division and the Treasury Division should implement proper accounting procedures to ensure that the electronic fund transfers in are recorded in the City’s financial system in a timely manner.

Additionally, the Treasury Division should evaluate all types of deposits it directly receives to determine whether these transaction should be received directly by the Tax Collector’s Office instead to be more consistent with the City Charter.

Auditee Response to Finding 1

Agree

Disagree

Partially Agree

Many of the recording and reconciling issues addressed in this audit stem from challenges resulting from the implementation of a new financial system during a global pandemic. As prepared as the City would like to have been, it has taken a significant amount of time to work through the system and internal processes required for these transactions to be properly recorded and reconciled.

Since this audit was completed, the Accounting and Treasury divisions have been collaborating to isolate and mitigate the various factors leading to the inability to record and reconcile incoming EFTs. A new process has been established where Treasury sends Accounting a spreadsheet of deposits received weekly, so that the AR staff can properly account for them in the AR system. Members of both divisions are meeting regularly to address unreconciled items, and both teams are reaching out to those in other City departments who play a part in allowing reconciliations to be completed. In addition, the Treasury Division added one employee in December 2021 to better handle the volume of work related to this and various other Treasury responsibilities.

The Treasury Division is in the process of implementing a daily recording and bank reconciliation process which will assist in documenting the status of the recording receipts and reconciling to the bank statements on a monthly basis. Any unreconciled items will be communicated to the Accounting Division and other City departments and actively investigated until resolution. The goal will be to record any cash receipts within 15 days and formally reconcile bank statements for a particular month by the 15th day of the next month. As new processes and controls are identified, procedures will be updated.

The Treasury Division will also review deposits and ensure those which should (or perhaps could) be received by the Tax Collector's Office are redirected to them.

Finding 2 *Transactions Not Found or Partially Recorded in the Financial System*

During our bank reconciliation review, we were unable to find the journal entry in the City's financial system for 127 out of 643 (or 19.8%) bank transactions tested as of August 31, 2021. It appears that these 127 bank transactions totaling \$10,080,251 might have not been receipted/recorded properly in the City's financial system. The effect depends upon whether the revenue was associated with an open accounts receivable invoice. If it was associated with an open invoice, this would be as simple as a change in asset category of an item switching from accounts receivable to cash; however, if there is not an open invoice this would be more significant because the revenue and associated asset (ultimately cash) would not have been recognized.

In addition to the 127 transactions not found, we also found that 7 out of 643 (or 1.1%) bank transactions tested were only partially recorded since the bank statements did not tie to the transactions found in 1Cloud. These bank transactions total \$12,123,031 per the bank statements;

however, we only found recorded transactions totaling \$6,000,784. We were unable to account for \$6,122,247 in the City’s financial system. Note the difference is mainly related to the receipt of \$8,069,919 related to one CARES Act transaction that the City received in April 2020 that the City:

- created a receivable for \$8,069,919 in September 2020,
- partially received \$2,057,548 in October 2020,
- receipt the remaining amount of \$6,012,371 in October 2021.

Recommendation to Finding 2

We recommend that the Finance Department either identify where the transactions were already recorded in the City’s financial system or process a journal entry to record the transactions in the City’s financial system. The Finance Department should implement proper accounting procedures to ensure that cash deposit transactions are posted to the City’s financial system in a timely manner. This would include having set standards for when deposits at the bank should be recorded in the financial system and the timing of when bank reconciliations should be completed.

Auditee Response to Finding 2

Agree Disagree Partially Agree

The items mentioned in the Management Response to Finding 1 - regular meetings between Treasury and Accounting to review and resolve issues, the weekly spreadsheet, daily/monthly reconciliations, and additional staff - are intended to ensure the deposits are processed correctly and reconciled in a timely manner.

Finding 3 *Revenue Not Properly Recorded in Financial System*

During our detail testing, we found two customer payments totaling \$451,192 that were recorded as miscellaneous receipts (Option 2 below) instead of being applied to an existing invoice (Option 1 below) in the accounts receivable module within the City’s financial system. Since the wrong accounting process was used, this caused the account receivable balance and revenue to be overstated by \$451,192.

Customer payments are generally recorded in the City’s financial system in two different ways as described below:

- **Option 1** - If the payment relates to an existing customer invoice, then the Accounting Division finds the respective invoice and applies the payment to that invoice in the accounts receivable module. This accounting process will debit cash and credit account receivables in the general ledger.
- **Option 2** - If the customer payment received does not relate to an existing customer invoice, then the payment is recorded as a miscellaneous receipt in the accounts receivable module or in the cash management module and the payment is not applied to any customer invoice. This accounting process will debit cash and credit a revenue account in the general ledger.

Recommendation to Finding 3

We recommend that the Accounting Division review these transactions and make proper adjustments to correct the customer invoice of \$451,192 that still appears to be open. Also, the City should ensure that the correct accounting process is used when recording customer payments. If a payment relates to an existing customer invoice, that payment must be properly credited to that customer invoice and not be recorded as a miscellaneous receipt.

Auditee Response to Finding 3

Agree Disagree Partially Agree

Receivables is reviewing the records to ensure this invoice is adjusted properly to correct the Accounts Receivable balance and Revenue total before closing FY21.

Finding 4 *Issues with Completeness of Account Detail Input into Financial System*

We found some transactions that did not have the proper accounting detail for funds credited in the City’s financial system. Specifically, we found 6 out of 643 revenue transactions tested totaling \$4,742,591 and 1 additional transaction outside of our scope of \$41,553 for a total of \$4,784,144 in revenue transactions that were incorrectly recorded without a center. The center is a part of the accounting code. This could result in improper reporting depending upon the level of detail and due to the fact that the center impacts how items are classified for certain state reporting purposes. The 7 transactions all related to FY 2020/21. Per the Accounting Division, after the City’s new financial system went live, they experienced some issues while recording electronic fund transfers in. In multiple instances, revenue was entered into the new City’s financial system without a center account. We confirmed that the Accounting Division already corrected all the issues relating to FY 2019/20; however, they still needed to correct the 7 transactions we found that occurred during FY 2020/21.

Recommendation to Finding 4

We recommend that the Accounting Division identify all revenue/expenditure transactions that do not have a center account assigned to them and make the appropriate accounting adjustments to record these transactions under the correct center in the City’s financial system.

Additionally, the system should either prevent transactions from being input with incomplete accounting code detail or the Accounting Division should periodically (e.g., monthly) run reports to identify any transactions that lack complete detail and then take appropriate actions to fix the issues.

Auditee Response to Finding 4

Agree Disagree Partially Agree

Receivables is reviewing the seven transactions in question to correct before closing FY21. Given that the system does not allow entries to be posted without a center, the accounting strings

provided to Accounting must have had all zeros for the centers. Only balance sheet accounts should be allowed to have all zeros for the centers; we are investigating how to configure the system to require non zero centers for revenue and expense entries. Accounting is also working to establish monthly reports so that Fund Accounting can correct potentially miscoded transactions in a timely manner.

SUPPLEMENTAL ISSUES

Supplemental Finding 1 *Timeliness Issues with Reconciliation*

During our preliminary survey, we reviewed the reconciliation of all bank transactions recorded at the bank from February 1, 2020, through February 12, 2021, that were imported into the cash management module of the City’s new financial system. We found that 16,787 out of 54,374 (or 31%) bank transactions, had not been reconciled as of February 12, 2021, per the reconciliation status noted in the cash management module. The dollar value of the unreconciled transactions totaled \$4.8 billion out of \$10.5 billion (or 46%) of the total value of the transactions. These 16,787 unreconciled transactions had not been reconciled in the system for an average of 115 days as of February 12, 2021. The bank reconciliation process is performed periodically on an ongoing basis. However, no clear timetable is set and enforced on when reconciliations need to be completed, leaving some transactions unreconciled for extremely long periods of time. This item is similar to and includes some of the issues identified in Finding 1; however, this is on all bank transactions. Bank reconciliations are key to ensuring that cash receipts are properly recorded and safeguarded.

Recommendation to Supplemental Finding 1

As recommended in Finding 1, we recommend that the Treasury Division set the goal of completing bank reconciliations within 15 days of the end of each month and that revenue be recorded within 15 days of receipt.

Auditee Response to Supplemental Finding 1

Agree Disagree Partially Agree

Accounting is working diligently with Treasury to help ensure that bank reconciliations are completed as part of the monthly close process.

Supplemental Finding 2 *User Accounts of Terminated Employees Not Deactivated*

We reviewed the list of users with access to the City’s new Enterprise Resource Planning System (also referred to as ERP System and includes the City’s financial system), used by the City. We found a total of 331 user accounts belonging to terminated employees were still active in the system. Per the City’s Information Technology Division (ITD), the only way to log into the

system is through single sign on, by using a valid Active Directory account. Per ITD, upon termination, these employees accounts were disabled in the Active Directory by ITD's Security Team. Even though terminated employees were removed from the Active Directory, these employees could be re-hired and their single sign on restored, which could unintentionally grant access to systems that the re-hired employee might not need.

Recommendation to Finding 2

We recommend that user access be deactivated at the system level for all terminated employees. This additional layer of defense will prevent unauthorized access to a specific system when the single sign on of a terminated employee is restored or compromised.

Auditee Response to Finding 2

Agree Disagree Partially Agree

ITD agrees with this recommendation and, effective 5/19/2021, implemented an additional step to inactivate an employee's iCloud account and remove their iCloud permissions upon termination.

We appreciate the assistance and cooperation we received from the Treasury Division staff throughout the course of this audit.

Respectfully submitted,

Kim Taylor

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